



廣州藥業股份有限公司

Guangzhou Pharmaceutical Company Limited

(Stock code: 874)



Annual Report

2012



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1. IMPORTANT NOTICE

- I. The board of directors (the "Board"), the supervisory committee (the "Supervisory Committee") of Guangzhou Pharmaceutical Company Limited ("GPC" or the "Company") and its directors, supervisors and senior management collectively and individually accept full responsibility for the authenticity, accuracy and completeness of the information contained in this report and confirm that there are no false information, misleading statements or material omissions in this report.
- II. The directors of the Board were present at the 21st meeting of the fifth session of the Board of the Company, among whom, Mr. Qiu Hongzhong, an independent non-executive director, attended the meeting by means of telephone communication; Mr. Liu Jinxiang, independent non-executive director, was unable to attend the meeting and appointed Mr. Li Shanmin, an independent non-executive director, to attend the meeting and vote on his behalf.
- III. The financial reports of the Company and its subsidiaries (collectively the "Group"), and the Company for the year ended 31 December 2012 (the "Reporting Period" or the "Year") were prepared in accordance with the China Accounting Standards for Business Enterprises, which were audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company who issued unqualified auditors' reports thereon.
- IV. Mr. Yang Rongming (chairman of the Board), Mr. Wu Changhai (director and general manager) and Ms. Liu Fei (manager of the finance department) individually accept responsibility for ensuring the authenticity and completeness of the financial reports contained in this report.
- V. After consideration by the Board, the profit distribution plan for the Year is as follows: the consolidated net profit attributable to the shareholders of the Company for the Year 2012 was RMB395,278,360.28. Based on the Company's net profit of RMB263,666,455.43 for 2012, after

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the transfer of 10% amounting to RMB26,366,645.54 to the statutory surplus reserve fund, plus the retained earnings of RMB1,172,995,270.13 transferred from last year and after deducting the dividend of RMB81,090,000.00 distributed for 2011, the amount of retained profits available for the distribution to shareholders of the Company for 2012 amounted to RMB1,329,205,080.02.

On 21 December 2012, the Company received the “Approval of the Asset Acquisition through Issuance of Shares to Guangzhou Pharmaceutical Holdings Limited (“GPHL”) and the Absorption and Merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (“Baiyunshan”) from the China Securities Regulatory Commission (“CSRC”). Pursuant to the approval, the Company was allowed to issue 34,839,645 shares to GPHL for the acquisition of the related assets and 445,601,005 shares to swap shares with Baiyunshan. Up to now, the Company is actively promoting the implementation of major assets reorganization (“Major Assets Reorganization”).

According to the Absorption and Merger Agreement and its supplemental agreement entered into by the Company and the Baiyunshan, and the Asset Acquisition through Issuance of Shares Agreement and its supplemental agreement entered into by the Company and the GPHL, before the implementation of any Major Assets Reorganization, if the Company has any ex dividend matters such as the distribution of dividend, distribution of interests and increase in share capital by any transfer from the capital reserve, then the convertible price and the issue price of the shares will be adjusted accordingly and the number of new shares and issued shares will also change accordingly, which will again require the approval of the CSRC. In order to ensure that the Major Asset Reorganization process will not be affected by the dividend payout, the Board suggested: (1) not to distribute any 2012 annual dividend and not to increase the share capital by transfer from capital reserve; and (2) after the implementation of the Major Assets Reorganization is completed, the Company will consider distributing special dividend, and the cash dividend distribution will not be less than 10% of the net profit attributable to the shareholders of the Company of 2012.

The profit distribution plan will be submitted to the Company’s 2012 annual general meeting (“Annual General Meeting”). The independent non-executive directors have given their independent opinions on the above matters.

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

COMPANY PROFILE

- I. Legal Chinese name: 廣州藥業股份有限公司
 Chinese name abbreviation: 廣州藥業
 English name: Guangzhou Pharmaceutical Company Limited
 English name abbreviation: GPC
- II. Legal representative: Yang Rongming
- III. Secretary of the Board: Pang Jianhui
 Representative of securities affairs: Huang Xuezhen
 Address: 45 Sha Mian North Street, Liwan District, Guangzhou City,
 Guangdong Province, the People's Republic of China
 (the "PRC")
 Telephone: (8620) 8121 8119/8121 8120
 Fax: (8620) 8121 6408
 E-mail: pangjh@gpc.com.cn/huangxz@gpc.com.cn
- IV. Registered address and office: 45 Sha Mian North Street, Liwan District, Guangzhou City,
 Guangdong Province, the PRC
 Postal code: 510130
 Internet website: <http://www.gpc.com.cn>
 E-mail: sec@gpc.com.cn
 Principal place of business in
 Hong Kong: Room 2005, 20th Floor, Tower Two Lippo Center,
 89 Queensway, Hong Kong
- V. Designated newspapers for
 information disclosure: Mainland China: Shanghai Securities News,
 Securities Times
 Internet website designated by
 the China Securities Regulatory
 Commission for publishing
 this annual report: <http://www.sse.com.cn>
 Internet website designated by
 The Stock Exchange of
 Hong Kong Limited for
 publishing this annual report: <http://www.hkex.com.hk>
 Place where this annual report is
 available for inspection: The Secretariat of Guangzhou Pharmaceutical
 Company Limited
- VI. Place of listing, name and codes of
 the Company's shares: A Shares: The Shanghai Stock Exchange
 Stock Code: 600332 Stock Abbreviation: GZ Phar.
 H Shares: The Stock Exchange of Hong Kong Limited
 Stock Code: 0874 Stock Abbreviation: GZ Phar.

COMPANY PROFILE

VII. 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 change:

19 July 2011

Place of registration for
subsequent change:

45 Sha Mian North Street, Liwan District, Guangzhou City,
Guangdong Province, the PRC

Business registration number:

440101000005674

Tax registration number:

44010063320680x

Organization code:

63320680-X

Auditors:

PricewaterhouseCoopers Zhong Tian CPAs Limited Company
11/F PricewaterhouseCoopers Center 202 Hu Bin Road,
Shanghai, the PRC

Signature of Auditors:

Wang Bin, Chen Jianxiao

FINANCIAL DATA AND FINANCIAL HIGHLIGHTS

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

Principal financial data	2012	2011	Year on year increase/ decrease (%)	2010	2009	2008
	Income from operations (RMB'000)	8,229,059	5,439,612	51.28	4,486,067	3,881,938
Net profit attributable to the shareholders of the Company (RMB'000)	395,278	287,531	37.47	267,112	210,989	182,496
Net profit attributable to the shareholders of the Company after deducting non-recurring items (RMB'000)	377,425	265,742	42.03	233,168	156,584	87,698
Net cash flow from operating activities (RMB'000)	506,530	(185,040)	373.74	73,218	439,393	6,103
Total profit (RMB'000)	457,839	334,993	36.67	321,341	231,331	202,179
	As at 31 December 2012	As at 31 December 2011	Year on year increase/ (decrease) (%)	As at 31 December 2010	As at 31 December 2009	As at 31 December 2008
Shareholders' equity attributable to the shareholders of the Company (RMB'000)	4,096,589	3,781,652	8.33	3,539,369	3,304,186	3,124,842
Total assets (RMB'000)	6,235,394	4,851,266	28.53	4,477,892	4,226,137	4,130,904
Total liabilities (RMB'000)	2,011,073	956,094	110.34	836,351	824,561	905,993
Total equity per share attributable to shareholders of the Company (RMB)	5.05	4.66	8.33	4.36	4.07	3.85

FINANCIAL DATA AND FINANCIAL HIGHLIGHTS

Principal financial indicators	2012	2011	Year on year	2010	2009	2008
			increase/ decrease (%)			
Basic earnings per share (RMB)	0.487	0.355	37.47	0.329	0.260	0.225
Diluted earnings per share (RMB)	0.487	0.355	37.47	0.329	0.260	0.225
Basic earnings per share after deducting non-recurring items (RMB)	0.465	0.328	42.03	0.288	0.193	0.108
Ratio of weighted average return on net assets (%)	10.05	7.84	An increase of 2.21 percentage points	7.81	6.56	5.88
Ratio of weighted average return on net assets after deducting non-recurring items (%)	9.60	7.25	An increase of 2.35 percentage points	6.82	4.87	2.83
Return on total equity attributable to shareholders of the Company (%)	9.65	7.60	An increase of 2.05 percentage points	7.55	6.39	5.84
Ratio of total equity attributable to shareholders of the Company to total assets (%)	65.70	77.95	A decrease of 12.25 percentage points	79.04	78.18	75.65
Gearing ratio (%) (Note)	32.25	19.71	An increase of 12.54 percentage points	18.68	19.51	21.93

Note: Gearing ratio is calculated as: total liabilities/total assets x 100%

FINANCIAL DATA AND FINANCIAL HIGHLIGHTS

Notes:

- The above financial data and indicators are computed based on the consolidated financial statements.
- Items and amounts related to non-recurring items include:

Items	2012 (RMB'000)	Note	2011 (RMB'000)	2010 (RMB'000)
Gain/(loss) on disposal of non-current assets	(170)		(1,034)	3,740
Government subsidies recognized as gain/(loss)	25,069	This is the amount of government subsidies received by the Company's subsidiaries which was transferred to non-operating income in the receival period.	25,358	25,792
Capital use fees received from non-financial enterprises recognized as gain/(loss)	-		-	-
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	(252)		(3,158)	2,435
Write back of provision for impairment of accounts receivable undergoing independent impairment test	537		1,233	8,191
Loss from entrusted loans	(756)		(654)	(512)
Other non-operating income and expenses excluding the above items	(5,131)		1,743	(1,374)
Income tax effect	(535)		(805)	(2,139)
Effect on minority interest	(909)		(894)	(2,189)
Total	17,853		21,789	33,944

CHANGES IN SHAREHOLDERS' EQUITY IN 2012 (CONSOLIDATED)

Items	Share capital (RMB'000)	Capital reserve (RMB'000)	Surplus reserve (RMB'000)	Retained earnings (RMB'000)	Shareholders' equity (RMB'000)
Opening balance	810,900	1,148,017	602,896	1,219,840	3,781,652
Additions	-	1,021	26,367	395,278	422,666
Deductions	-	272	-	107,457	107,728
Closing balance	810,900	1,148,766	629,262	1,507,661	4,096,589

Reasons for the changes:

- The fluctation of capital surplus was mainly due to: (a) the increase in capital surplus of RMB902,000 due to the net changes in fair value of available-for-sale financial assets held by the Group; (b) the Company recognised the decrease in capital surplus of RMB272,000 due to the increased investment in the controlling subsidiary, Guangzhou Baiyunshan Han Fang Modern Pharmaceutical Co., Ltd. ("Guangzhou Han Fang").
- Changes in surplus reserves were due to: increase in surplus reserve for the year resulted from the statutory surplus reserve accrued by the Company based on its net profit for the year.

FINANCIAL DATA AND FINANCIAL HIGHLIGHTS

ITEMS MEASURED AT FAIR VALUE

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)
Available-for-sale financial assets	18,908	20,096	1,188	846
Financial assets held for trading	3,128	2,876	(252)	(246)
Total	22,036	22,972	936	600

Changes in Share Capital and Shareholders

I. CHANGES IN SHARE CAPITAL

1. Movement in share capital and its components

During the Reporting Period, the Company's share capital did not change.

2. Securities issuance in the past three years

The Company did not issue or list any securities in the past three years.

3. Internal staff shares

The Company did not have any internal staff shares.

II. INFORMATION ON SHAREHOLDERS

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

As at 31 December 2012, there were 51,908 shareholders in total, out of which 51,874 were holders of domestically listed Reminbi-denominated ordinary shares (A shares) and 34 were holders of overseas listed foreign capital share (H shares).

As at 21 February 2013, there were 41,077 shareholders in total, out of which 41,043 were holders of domestically listed Reminbi-denominated ordinary shares (A shares) and were 34 holders of overseas listed foreign capital share (H shares).

Changes in Share Capital and Shareholders

II. INFORMATION ON SHAREHOLDERS *(Continued)*

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

As at 31 December 2012, 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 Stock Exchange of Hong Kong Limited (the "HKEx") pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (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	Nature of shares	Long Positions		Approximate % of the total issued domestic shares (%)	Approximate % of the total issued H shares (%)	Short Positions		Approximate % of the total issued H shares (%)
		Number of shares held (share)	Capacity			Number of shares held (share)	Capacity	
GPHL	Domestic shares	390,833,391	Beneficial owner	66.13	-	-	-	-

As far as the directors are aware, as at 31 December 2012, other than those listed above, there was no other person or corporation having an interest or short position in the shares and underlying shares of the Company representing 5% or more of any class of the issued share capital of the Company.

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 2012 are set out as follows:

Shareholders	Nature of shares	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)
GPHL	Domestic shares	0	390,833,391	48.20	Nil	Nil
HKSCC Nominees Limited	H shares	(344,000)	219,455,389	27.06	Nil	Unknown
China Construction Bank Co., Ltd. – Industrial Social Responsibility Securities Investment Fund	Domestic shares	2,949,104	2,949,104	0.36	Nil	Unknown
Bank of Communications – Hai Futong Securities Investment Funds	Domestic shares	2,679,780	2,679,780	0.33	Nil	Unknown
Industrial and Commercial Bank of China – Guang Fa Growth Mixed Securities Investment Fund	Domestic shares	2,500,000	2,500,000	0.31	Nil	Unknown
Industrial and Commercial Bank of China Co., Ltd. – Hai Futong Small-cap Equity Securities Investment Fund	Domestic shares	2,204,870	2,204,870	0.27	Nil	Unknown
Agricultural Bank of China Co., Ltd. – Invesco Great Wall of Energy Infrastructure Securities Investment Fund	Domestic shares	(785,771)	2,199,990	0.27	Nil	Unknown
Chang An International Trust Co., Ltd.	Domestic shares	2,069,303	2,069,303	0.26	Nil	Unknown
China Construction Bank Co., Ltd. – Morgan Stanley Huaxin Consumer Pilot Hybrid Securities Investment Fund	Domestic shares	1,981,873	1,981,873	0.24	Nil	Unknown
China Construction Bank Co., Ltd. – Boseru Fu Shanghai and Shenzhen 300 Index Securities Investment Fund	Domestic shares	1,390,379	1,390,379	0.17	Nil	Unknown

Note: According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients.

Changes in Share Capital and Shareholders

II. INFORMATION ON SHAREHOLDERS *(Continued)*

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

Name of shareholder	Guangzhou Pharmaceutical Holdings Limited
% of shares held	48.20%
Legal representative	Yang Rongming
Date of establishment	7 August 1996
Registered capital	RMB1,252.8 million
Business scope	To invest in and manage state-owned assets, to sell and manufacture pharmaceutical intermediates, Chinese and western medicine, Chinese raw medicine, bio-tech products, medical apparatus, pharmaceutical machineries, 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 RMB42.815 billion and net profit (unaudited) of 1.326 billion in 2012.
Financial position	As at 31 December 2012, the unaudited total assets was RMB23.393 billion and net assets was RMB9.031 billion.
Cash flow and future development strategy	With the guidance of the concept of scientific development and the adoption of "scientific management", "risk control" and "innovation and development" as the main lines, reform and innovate, revitalize the "Southern pharmaceutical industry", develop "health industry", promote "commerce and trading industry" and create "emerging industries of strategic enterprises."
During the Reporting Period, holding of other domestic and overseas listed companies	Currently, GPLH holds 35.58% equity in Baiyunshan.

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



Changes in Share Capital and Shareholders

II. INFORMATION ON SHAREHOLDERS *(Continued)*

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 purchased, sold or redeemed any of the Company's shares during the Reporting Period.

7. During the Reporting Period, there was no change in the controlling shareholder of the Company.

III. PUBLIC FLOAT

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

IV. PRE-EMPTIVE RIGHTS

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

Directors, Supervisors, Senior Management and Staff

I. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Executive directors

Mr. Yang Rongming, aged 59, chairman of the Company, 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 since 1 November 2004. He is also a national labour model, the representative of Guangzhou party congress and a committee member of Guangzhou Political Consultative Conference, director of Guangzhou Pharmaceuticals Corporation (“GP Corp.”), director of Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd. (“Xing Qun”), Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. (“Zhong Yi”), Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. (“Jing Xiu Tang”), Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (“Ming Xing”) and Polian Development Co., Ltd. (“Polian Company”), and a member of Management Committee of Guangzhou Baiyunshan Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Hejigong Pharmaceutical Factory. Mr. Yang has extensive experience in business management and sales and marketing.

Mr. Li Chuyuan, aged 47, vice chairman of the Company, holds a bachelor degree and master degree in Executive Business Administration, and is a senior economist. Mr. Li started his career since July 1988 and had been deputy director of operation department of Guangzhou Baiyunshan Pharmaceutical General Factory, assistant to general manager and deputy general manager of Baiyunshan. Mr. Li has served as director of the Company since June 2010 and is also a national labour model, enjoys special government allowances, is one of the Ten Innovative People in Guangdong Province, 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, general manager, vice chairman, deputy secretary of the Party Committee of GPL since June 2010, chairman of Baiyunshan, general manager of Guangzhou Hutchison Whampoa Chinese Medicine Co., Ltd., vice chairman of GP Corp., director of Zhong Yi, Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (“Pan Gao Shou”), Xing Qun, Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd (“Chen Li Ji”), Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (“Cai Zhi Lin”), Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. (“WLJ Great Health”), Guangzhou Pharmaceutical Import & Export Co., Ltd. (“Pharmaceutical Import & Export Co., Ltd.”), Ming Xing and Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd., a member of Management Committee of Guangzhou Baiyunshan Pharmaceutical General Factory, Guangzhou Baiyunshan Chemical of Pharmaceutical Factory, Baiyunshan, Guangzhou Baiyunshan Hejigong Pharmaceutical Factory and convenor of the board of directors of Polian Company. Mr. Li has extensive experience in the fields of corporate management and marketing.

Directors, Supervisors, Senior Management and Staff

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

1. Executive directors *(Continued)*

Ms. Cheng Ning, aged 47, has served as the director of the Company since 19 September 2012, tertiary education, certified public accountant and 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* (廣州白雲山寶得藥廠), and a chief of the finance section of Guangzhou Baiyunshan Veterinary Medicines Factory* (廣州白雲山獸藥廠), a chief of the settlement section of the operation department, a chief of the 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* (廣州白雲山企業集團有限公司) and a deputy manager of finance department of GPLH. Ms. Cheng is currently a vice general manager of GPLH since July 2012, a financial controller and manager of the finance department of GPLH since May 2010.

Mr. Wu Changhai, aged 47, has served as director of the Company since June 2010, bachelor of engineering, economist, 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. He served as assistant to the supply section chief, assistant chief of the supply section, assistant manager of the supply and marketing manager department of Guangzhou Zhong Sheng Pharmaceutical Factory; regional sales manager of the supply and marketing department and manager of the central marketing center, assistant manager of the marketing department and manager of the marketing center of Zhong Yi; deputy general manager of Guangxi Ying Kang Pharmaceutical Co., Ltd. ("Guangxi Ying Kang"); deputy general manager, general manager, acting general manager and chairman of Zhong Yi. Mr. Wu is currently a member of Guangzhou Municipal People's Congress, chairman of Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. ("Qi Xing") and 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 since 21 May 2010, and has extensive experience in operational management, marketing and scientific research.

Directors, Supervisors, Senior Management and Staff

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

2. Independent non-executive directors

Mr. Liu Jinxiang, aged 72, has served as an independent non-executive director of the Company since 15 June 2007. 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 50, has served as an independent non-executive director of the Company since 15 June 2007. 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.

Mr. Zhang Yonghua, aged 54, has served as an independent non-executive director since 15 June 2007. 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.

Directors, Supervisors, Senior Management and Staff

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

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

Prof. Wong Lung Tak, Patrick, B.B.S., J.P., aged 65, is an independent non-executive director of the Company. Prof. Wong is a Hong Kong Practising Certified Public Accountant, a Chartered Secretary and a Hong Kong Certified Tax Adviser. He is the executive director of Patrick Wong C.P.A. Limited and 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. Prof. Wong has also been appointed Adjunct Professor of the School of Accounting and Finance of the Hong Kong Polytechnic University since 2002. Prof. Wong involves in many other community services, holding posts in various organizations, government committees and voluntary agencies. Prof. Wong is currently an independent non-executive director of China Precious Metal Resources Holdings Co., Ltd., CC Land Holdings Limited, Galaxy Entertainment Group Limited, Water Oasis Group Limited, Real Nutraceutical Group Limited, Sino Oil and Gas Holdings Limited, National Arts Holdings Limited and Winox Holdings Limited, all are listed on HKEx.

Mr. Qiu Hongzhong, aged 56, a master degree postgraduate and professor, has served as independent non-executive director of the Company 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 in Sun Yat-sen University and completed courses of strategic management training class in Party School of the Central Committee of C.P.C. Mr. Qiu had been the head of the Medical Department in DongJiang Hospital of Eighth Engineering Bureau, ministry of Water Conservancy, deputy director of Department of Society Science in 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 in 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 in 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, an expert of Health Economics Institute of Guangdong Academy of Medical Sciences and 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)*

3. Supervisors

Ms. Yang Xiuwei, aged 54, Assistant Engineer, senior political engineer, has served as chairlady of the Supervisory Committee of the Company since 15 June 2007. 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 GPLH since September 2004 to November 2012, deputy secretary of the Party Committee of GPLH 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. Wu Quan, aged 56, is an undergraduate, senior political engineer, and has served as Supervisor of the Company since 15 June 2007. Mr. Wu started his career in February 1976 and graduated from the Guangzhou Institute of Education with his major in Chinese in July 1988. 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) since 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 Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.

Mr. Zhong Yugan, aged 57, has served as Supervisor of the Company since March 2004. 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 契里爾•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)*

4. Senior management

Mr. Su Guangfeng, aged 48, 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 since June 2005. 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 ("Ying Bang Branch"), 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. Chen Binghua, aged 47, the financial controller and senior manager of the Finance Department of the Company, an accountant with a Master degree in Business Administration, has served as the senior manager of the finance department since 2002 and the financial controller of the Company since December 2005 but resigned as financial controller on 15 January 2013 due to his personal reasons. Mr. Chen was general manager of Shanghai Pudong Xidi Co., Ltd., general manager of finance department of China Foreign Trade Development Company and financial chief of O-NET Communications Ltd., director of Chen Li Ji, Cai Zhi Lin, Pharmaceutical Import & Export Co., Ltd., Guangzhou Baiyunshan Bai Di Biotechnology Co., Ltd. ("Guangzhou Bai Di") and Guangxi Ying Kang, supervisor of GP Corp. and supervisor of Guangzhou Han Fang and convenor of Supervisory Committee of Guangzhou Nuo Cheng Bio-tech Co., Ltd. ("Nuo Cheng"). Mr. Chen has extensive experience in accounting and financial management.

Mr. Pang Jianhui, aged 40, joint company secretary and secretary of the Board of the Company, a senior engineer with a bachelor of Science degree in Pharmaceutical Science. Mr. Pang joined GPHL in July 1996, and served as the business head of Investment Department of GPHL, officer of Pharmaceutical Import & Export Co. Ltd., department manager of the business department of Hong Kong subsidiary of GPHL and deputy director of investment department of GPHL 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 has been the secretary of the Board of the Company since July 2008, has been a joint company secretary since 29 September 2010. 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	Shares held	Reason for change
		as at the beginning of the Reporting Period (share)	as at the end of the Reporting Period (share)	
Yang Rongming	Chairman	Nil	Nil	–
Li Chuyuan	Vice chairman	Nil	Nil	–
Cheng Ning	Executive director (appointed at 19 September 2012)	Nil	Nil	–
Wu Changhai	Executive director, general manager	Nil	Nil	–
Shi Shaobin	Executive director (resigned on 18 June 2012)	Nil	Nil	–
Liu Jinxiang	Independent non-executive director	Nil	Nil	–
Li Shanmin	Independent non-executive director	Nil	Nil	–
Zhang Yonghua	Independent non-executive director	Nil	Nil	–
Wong Lung Tak Patrick	Independent non-executive director	Nil	Nil	–
Qiu Hongzhong	Independent non-executive director	Nil	Nil	–
Yang Xiuwei	Chairlady of the Supervisory Committee	Nil	Nil	–
Wu Quan	Supervisor	Nil	Nil	–
Zhong Yugan	Supervisor	Nil	Nil	–
Su Guangfeng	Deputy general manager	Nil	Nil	–
Chen Binghua	Financial controller (resigned on 15 January 2013)	6,240	6,240	–
Pang Jianhui	Secretary to the Board	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 2012, the interests or short positions of the directors, supervisors and senior management in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were 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 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 recorded in the register referred therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (“Model Code”) of the Rules Governing the Listing of Securities on HKEx (the “Listing Rules”) to be notified to the Company and the HKEx were as follows:

Senior management

Name	Type of interest	Company	Number of shares (share)
Chen Binghua	Personal	A shares of the Company	6,240

- Save as disclosed above, as at 31 December 2012, none of the directors, supervisors, senior management and their associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which were required, pursuant to the Model Code of the Listing Rules, to be notified to the Company and the HKEx.

Directors, Supervisors, Senior Management and Staff

IV. EMOLUMENTS FOR THE YEAR

1. Policy on determining 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 was authorized to determine the amount of emoluments and method of payment for services of the Company's directors and supervisors. The amount of emoluments and payment method for the senior management were determined by the Board after taking into account of the Company's operating results and individual performance.

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 RMB7,100,000, details of which are set out as follows:

Name	Whether emoluments were received from the Group	Emoluments received from the Group	Whether emoluments were received from the Company's shareholder or connected parties	Emoluments received from the Company's shareholder or connected parties
		Total emoluments for the Year (RMB'000)	Whether emoluments were received from the Company's shareholder or connected parties	Total emoluments for the Year (RMB'000)
Directors				
Yang Rongming	No	–	Yes	1,014
Li Chuyuan	No	–	Yes	1,142
Cheng Ning	No	–	Yes	658
Wu Changhai	Yes	662	No	–
Shi Shaobin (resigned on 18 June 2012)	Yes	12	Yes	607
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	800
Wu Quan	Yes	232	No	–
Zhong Yugan	Yes	30	No	–
Senior management				
Su Guangfeng	Yes	571	No	–
Chen Binghua (resigned on 15 January 2013)	Yes	473	No	–
Pang Jianhui	Yes	499	No	–
Total	–	2,879	–	4,221

Directors, Supervisors, Senior Management and Staff

IV. EMOLUMENTS FOR THE YEAR *(Continued)*

2. Emoluments for the Year *(Continued)*

Notes:

- ① The emoluments of Mr. Yang Rongming, Mr. Li Chuyuan, Ms. Cheng Ning and Ms. Yang Xiuwei for the Year were the emoluments they received from the Company's shareholder.
- ② The emoluments of Mr. Wu Changhai and Mr. Su Guangfeng for the Year were the emoluments they received from the Company and a subsidiary of the Company.
- ③ The emoluments of Mr. Liu Jinxiang, Mr. Li Shanmin, Mr. Zhang Yonghua, Mr. Zhong Yugan, Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong, Mr. Chen Binghua and Mr. Pang Jianhui for the Year were the emoluments they received from the Company.
- ④ The emoluments of Mr. Shi Shaobin for the Year were the emoluments he received from the Company and the Company's shareholder for the period from January 2012 to June 2012 (The emoluments included outstanding emoluments from last year paid during the Year).

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

1. The Board resolved to approved Mr. Shi Shaobin's resignation as director of the Company because of the job transfers in the fifth session of the Board of the Company on 18 June 2012, and Mr. Shi Shaobin's resignation became effective on the same date.
2. At the first extraordinary general meeting in 2012 held on 19 September 2012, Ms. Cheng Ning was elected as an executive director of the fifth session of the Board of the Company. She shall have a term of office commencing from the date of her appointment to the date when members of the new session of the Board are elected.
3. The Board resolved to approved Mr. Chen Binghua's resignation as financial controller of the Company because of his personal reason in the fifth session of the Board of the Company on 15 January 2013, and Mr. Chen Binghua's resignation became effective on the same date.

VI. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the present directors and supervisors 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 except for Ms. Cheng Ning, a director of the Company.

Ms. Cheng Ning's, a director of the Company, contract term commenced from 19 September 2012 up to the date of election of the sixth 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 election of new sessions of the Board and the Supervisory Committee. The term of each session of the Board or the Supervisory Committee shall be approximately three years. All directors and supervisors are eligible to offer themselves for re-election.

The above-mentioned service contracts with the directors and supervisors do not contain any provisions for compensation for early termination of contract, nor for failure in being re-elected after expiration of their term of office.

Directors, Supervisors, Senior Management and Staff

VII. INTERESTS IN CONTRACTS OF DIRECTORS AND SUPERVISORS

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

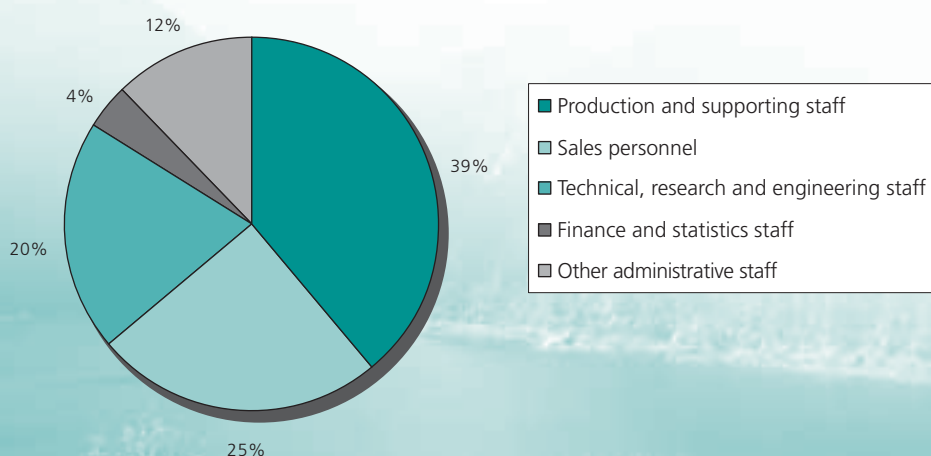
The Company adopted Appendix 10 of the Listing Rules titled “Model Code for Securities Transactions by Directors of Listed Issuers” and “Measures for the Administration of Trading Shares of the Company by directors, supervisors and senior management” as stipulated by the Company as the code and criteria for securities transactions by directors and supervisors of the Company. After making specific inquiry of all the directors and supervisors, the Company confirmed that its directors and supervisors had fully complied with the standards relating to directors’ and supervisors’ dealing in securities as set out in the above code and criteria during the Reporting Period.

IX. EMPLOYEES OF THE GROUP

As at 31 December 2012, the number of employees on the payroll register of the Group was 6,035, including:

Production and supporting staff	2,366
Sales personnel	1,500
Technical, research and engineering staff	1,234
Finance and statistics staff	224
Other administrative staff	711

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

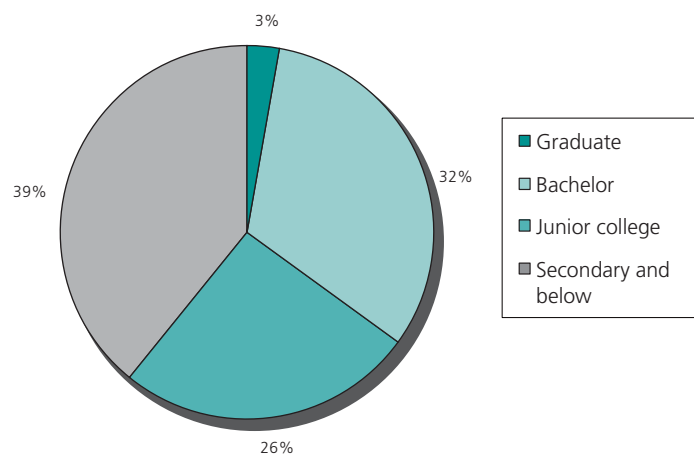


Directors, Supervisors, Senior Management and Staff

IX. EMPLOYEES OF THE GROUP *(Continued)*

154 of the employees were holders of a master degree and 1,934 were holders of a bachelor degree. The number of retirees was 5,447. The total salary payment for the Year was approximately RMB501 million.

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



The remuneration of the employees of the Group included salaries, bonuses and other fringe benefits. The Group, in compliance with the relevant PRC rules 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 2012, 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.

Directors, Supervisors, Senior Management and Staff

IX. EMPLOYEES OF THE GROUP *(Continued)*

The training plan of the Group for 2013 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.

1. Strengthening quality training for all employees. Through various methods, we will organise trainings for all employees in safety awareness and in areas of professional knowledge, laws and regulations, including those relating to Drug Administration Law, Measures for the Supervision and Administration of Circulation of Pharmaceuticals, GSP, GMP and the management of special drugs, in order to raise employees' quality awareness and understanding of the relevant laws and regulations and safety production awareness.
2. Inviting domestic and overseas scholars and experts as lecturers to provide trainings with topics on biological medicine innovation, drugs supervision and administration and drug production technology etc. A series of pharmacy continuing professional education will be held to develop through understanding of the development trend and characteristics of domestic and overseas pharmaceutical industry, and the extensiveness and depth of the trainings will also be increased.
3. Providing continuing education and training. We will actively explore innovative management models of continuing education that suit the new era and enhance the teaching standard, so as to provide a sound platform for educating pharmaceutical technicians.
4. Enhancing education and training for the management. The Group will arrange specific managers to participate in all sorts of trainings and professional development programs relating to areas such as marketing, management, procurement, logistics, human resources management, execution, team management, negotiation skills in order to improve the management ability and professional quality of the staff.
5. Providing proper training for employees in various functionalities, and focusing on improving job skills, standardising work flow, solving operation problems in order to improve the overall quality of employees in a wide range of discipline.
6. Maintain internal resources for training, and encouraging employees to use their own experience and ability to support and participate in trainings of the Group.

Corporate Governance

I. CORPORATE GOVERNANCE

The Company has been strictly complying with the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, related laws and regulations of the CSRC and the Listing Rules of The Shanghai Stock Exchange (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.

On 1 April 2012, the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules ("Former CG Code") was amended and renamed as Corporate Governance Code and Corporate Governance Report ("New CG Code"). The Company has adopted the code provisions as set out in the New CG Code as the code of the Company in substitution for and to the exclusion of the Former CG Code with effect from 1 April 2012.

For the Reporting Period ended 31 December 2012, the Company complied with the code provisions of the Former CG Code and New CG Code except that (i) independent non-executive directors, namely Mr. Liu Jingxiang and Mr. Qiu Hongzhong, were unable to attend the Annual General Meeting, the extraordinary general meeting and class meeting due to other important matters which constituted a deviation from code provision A.6.7 and (ii) independent non-executive directors, namely Mr. Li Shanming and Mr. Zhang Yonghua were unable to attend the Annual General Meeting due to other important matters which constituted a deviation from code provision A.6.7.

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

The Group is committed to: (1) the research and development, manufacturing and sales of pharmaceutical products and great health products; and (2) wholesale, retail, import and export of Western and Chinese pharmaceutical products and medical apparatus, and 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 2012 is set out in the section headed "Management discussion and analysis" in the annual report.

1. 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.

Corporate Governance

I. CORPORATE GOVERNANCE *(Continued)*

1. Shareholders and General Meetings of Shareholders *(Continued)*

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

- (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, participation and decision on material matters as stipulated by law, administrative regulation and the Articles of Association.
- (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 the investment 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 the investment 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.

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 at the meetings.

Corporate Governance

I. CORPORATE GOVERNANCE *(Continued)*

2. Relationship between the Controlling Shareholder and the Company

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

3. Board of directors

(1) Composition

The Board is the core decision-making body entrusted by general meeting of the shareholders to be in charge of the operation and management of the Company's assets. The Board is accountable to the shareholders. The management is responsible for the Company's daily operations and daily administration management works.

The present Board is the fifth session since the establishment of the Company. It consists of nine members, of which four are executive directors and five are independent non-executive directors. Each director has a term of office commencing from 28 June 2010 to the date of election of a new session of the Board except for Ms. Cheng Ning. The term of director of Ms. Cheng Ning commenced on 19 September 2012 and will end on the date of election of a 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;

Corporate Governance

I. CORPORATE GOVERNANCE *(Continued)*

3. Board of directors *(Continued)*

(1) Composition *(Continued)*

- (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 managers of the Company; based on nomination, employ or dismiss the assistant managers, financial controller, other senior management personnel and secretary to the Board of the Company; and decide on their remuneration;
- (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 more than 10% (or 10%) of the net assets in the consolidated financial statements of the most recent fiscal year of the Company;
- (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.

Corporate Governance

I. CORPORATE GOVERNANCE *(Continued)*

3. Board of directors *(Continued)*

(1) Composition *(Continued)*

The role of chairman and general manager of the Company are performed by separate persons with clear division of responsibilities. The Board is presided over by the chairman, who is in charge of the routines of the Board and the examination of the implementation of the resolutions passed at Board meetings. The general manager works under the leadership of the Board. The principal responsibilities of the general manager include management of the Company's daily operations and implementation of the resolutions passed at the Board. The chairman of the Board is Mr. Yang Rongming and the general manager is Mr. Wu Changhai.

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

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

All the directors of the Company can obtain from the secretary to the Board and the secretariat of the Board of the Company 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.

Corporate Governance

I. CORPORATE GOVERNANCE (Continued)

3. Board of directors (Continued)

(2) Board Meetings

In 2012, eleven Board meetings were convened (of which eight were in physical meeting and three were by 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 shareholders' meetings		
	Whether is the independent directors	Required meeting attendance for the Year	Frequencies of meetings attended in person	Frequencies of meetings attended by phone	Frequencies of meetings attended by proxy	Absence	Whether is unable to attend two consecutive meetings in person	Notes	Required meeting attendance for the Year	The independent directors of the Company relating to the proposed description is adopted
Yang Rongming	No	11	11	0	0	0	No	—	4	—
Li Chuyuan	No	11	11	0	0	0	No	—	4	—
Cheng Ning	No	1	1	0	0	0	No	—	3	—
Wu Changhai	No	11	11	0	0	0	No	—	4	—
Shi Shaobin	No	9	7	0	2	0	No	①	1	—
Liu Jingxiang	Yes	11	10	1	0	0	No	—	0	—
Li Shanmin	Yes	11	9	2	0	0	No	—	3	—
Zhang Yonghua	Yes	11	10	0	1	0	No	②	3	—
Wong Lung Tak Patrick	Yes	11	8	2	1	0	No	③	4	—
Qiu Hongzhong	Yes	11	9	0	2	0	No	④	0	—

Notes:

- ① Mr. Shi Shaobin was unable to attend the twelfth meeting of the fifth session of the Board and the seventeenth meeting of the fifth session of the Board due to business commitment and appointed Mr. Wu Changhai to attend the meeting and vote on his behalf.
- ② Mr. Zhang Yonghua was unable to attend the eighteenth meeting of the fifth session of the Board due to business commitment and appointed Mr. Liu Jingxiang to attend the meeting and vote on his behalf.
- ③ Mr. Wong Lung Tak Patrick was unable to attend the twelfth meeting of the fifth session of the Board due to business commitment and appointed Mr. Liu Jingxiang to attend the meeting and vote on his behalf.
- ④ Mr. Qiu Hongzhong was unable to attend the twelfth meeting of the fifth session of the Board and the seventeenth meeting of the fifth session of the Board due to business commitment and appointed Mr. Zhang Yonghua to attend the meeting and vote on his behalf.

Corporate Governance

I. CORPORATE GOVERNANCE *(Continued)*

3. Board of directors *(Continued)*

(3) Independent non-executive directors

Currently, the Company has 5 independent non-executive directors, representing more than 1/2 of the total members of the Board. All the independent non-executive directors of the Company are familiar with the rights and obligations of directors and independent non-executive directors of listed companies. During the Reporting Period, the independent non-executive directors strictly complied with the provisions in the Company's Articles of Association, "rules of 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 5 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 ([2012] No.22) issued by CSRC on 19 September 2012, the Notice ([2012] No. 42) issued by CSRC on 31 December 2012 and the "Notice on How to Successfully Prepare the 2012 Annual Report by Listed Companies" issued by SSE on 31 December 2012, 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 a framework for the preparation of 2012 annual report, arranged auditing work and relevant information. After the issuance of audit recommendations by the domestic and international auditors of the Company, the independent non-executive directors communicated with the auditors regarding problems related to the auditing process.

(4) Loan or guarantee for loan granted to the directors

During the Reporting Period, the Group had not made any loan or provided any guarantee for any loan, directly or indirectly, to the directors, supervisors and senior management of the Company, the Company's controlling shareholder or their respective connected persons.

Corporate Governance

I. CORPORATE GOVERNANCE *(Continued)*

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 comprises Mr. Wong Lung Tak Patrick (head of the Audit Committee), Mr. Liu Jinxiang, Mr. Li Shanmin, Mr. Zhang Yonghua and Mr. Qiu Hongzhong. All five of them are independent non-executive directors of the Company and are 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. During the year, the Audit Committee held two meetings, which were chaired by Mr. Wong Lung Tak Patrick. All of the committee members attended the meetings (For details please refer to the report of the fulfillment of responsibilities of the Audit Committee of Report of the Board of Directors of this annual report).

(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 comprises Mr. Yang Rongming (head of the committee), Mr. Li Chuyuan and Mr. Shi Shaobin (resigned on 18 June 2012), as well as Mr. Liu Jinxiang and Mr. Li Shanmin, 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. During the Year, the strategic development and investment committee held three meetings. All of the committee members attended the meetings.

Corporate Governance

I. CORPORATE GOVERNANCE *(Continued)*

4. Committees of the Board *(Continued)*

(3) Nomination and Remuneration Committee

In February 2002, the Company established the Remuneration & Evaluation Committee, which was renamed as Nomination and Remuneration Committee as approved at the fourth Board meeting of the fourth session of the Board. Its principal responsibilities are to study and examine the remuneration policies and proposals of directors and senior management, to research on the selection standards and procedures of directors, general managers and other senior management and to issue recommendations, and to extensively look for qualified persons to be directors and senior management, to conduct examination on them and to issue recommendations, audit the remuneration of directors and senior management and make recommendation to the Board.

The Nomination and Remuneration Committee of the fifth session of the Board comprises Mr. Li Chuyuan and Mr. Wu Changhai, executive directors, and Mr. Li Shanmin (head 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. During the Reporting Period, the Committee held one meeting, at which the Company's remuneration proposals of directors, supervisors and senior management for 2012 were considered. All of the committee members attended the meeting (For details please refer to the report of the fulfillment of responsibilities of the Nomination and Remuneration of Report of the Board of Directors of this annual report).

(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 the respective implementation.

The Budget Committee of the fifth session of the Board comprises Mr. Shi Shaobin and Mr. Wu Changhai, executive directors, and Mr. Liu Jinxiang (head 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 election of the new session of the Board. During the Reporting Period, the Committee held one meeting, considered the company's 2012 business objectives and the 2012 budget work. All of the committee members attended the meeting (For details please refer to the report of the fulfillment of responsibilities of the Budget Committee of Report of the Board of Directors of this annual report).

Corporate Governance

I. CORPORATE GOVERNANCE *(Continued)*

5. **The special committees established by the Board have not raised any important comments or suggestions during the Reporting Period.**

6. **The Supervisory Committee**

The Supervisory Committee exercises their supervision power legally to safeguard the lawful interests of the shareholders, the Company and employees. The number and composition of the Supervisory Committee of the Company comply with the relevant laws and regulations. During the Reporting Period, eight meetings were held by the Supervisory Committee. All members of the Supervisory Committee attended all the meetings to monitor the Company's financial conditions and the legitimacy of performance of the Company's directors and senior management on behalf of the shareholders. They also attended all the meetings of the Board and discharged their duties seriously.

The Supervisory Committee has no expressed no dissent to the supervisory matters advised during the Reporting Period.

7. **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 concerned about environmental protection, public welfare and other issues in the economic exchanges so as to mutually promote the sustainable and sound development of the Company.

8. **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 and Securities Times 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 a pre-disclosure confidentiality. The Company also ensures that all shareholders have fair and equitable access to information relating to the Company.

Corporate Governance

II. 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 independency in areas of staffing, personnel and payroll management. The general manager, deputy general manager, company secretary, financial controller, and other 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 majority of the trademarks used by the Group belongs to GPLH, the controlling shareholder of the Company. There are currently 36 trademarks used by the Group. The Company has entered into the Trademark Licensing Agreement and Supplemental Trademark Licensing Agreement with GPLH in relation to the use of trademarks at a consideration. In addition, the Company owns 5 registered trademarks, the registrations of which are still valid.
4. Organization: The Company has its own independent and comprehensive organizational structure. The Board, the Supervisory Committee and other departments operate independently and autonomously. Further, they possess independent decision-making mechanisms and integrated production units. No supervisory or reporting relationships exist in the functional departments of 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

III. THE ESTABLISHMENT AND ENHANCEMENT OF THE 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 of our operation characteristics and management needs, we have 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. During the Reporting Period, the Company formulated a number of systems such as “The Working Rules for Financial Controller of Guangzhou Pharmaceutical Company Limited” (《廣州藥業股份有限公司財務總監工作細則》), “Management System on the Guarantees of Guangzhou Pharmaceutical Company Limited” (《廣州藥業股份有限公司擔保管理制度》), “Management System on the External Investments of Guangzhou Pharmaceutical Company Limited” (《廣州藥業股份有限公司對外投資管理制度》) and “Management System on Loan Facilities of Guangzhou Pharmaceutical Company Limited” (《廣州藥業股份有限公司債務融資管理制度》).

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, we 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.

Corporate Governance

III. THE ESTABLISHMENT AND ENHANCEMENT OF THE INTERNAL CONTROL SYSTEMS (Continued)

2. The Work Related to the Corporate Governance by the Company during the Reporting Period:

- (1) The Company performed review on its internal control and fulfillment of social obligations for the year 2011 pursuant to the requirements of the “Notice on How to Successfully Prepare the 2011 Annual Report by Listed Companies” and “No. 1 Memorandum on the Preparation and Review of the Internal Control Report and Social Responsibility Report for 2011 Annual Reports of Listed Companies” issued by the SSE. Accordingly, the Company prepared the “Self-assessment Report on Internal Control for 2011” from the Board of the Company and the “Report on Fulfillment of Social Responsibilities for 2011”, both of which were disclosed after being considered and duly passed at the Board meeting of the Company on 16 February 2012.
- (2) In order to further optimize its relevant internal systems, the Company formulated “The Working Rules for Financial Controller of Guangzhou Pharmaceutical Company Limited” (《廣州藥業股份有限公司財務總監工作細則》), “Management System on the Authorization of Guangzhou Pharmaceutical Company Limited” (《廣州藥業股份有限公司權限管理制度》), “Management System on the Guarantees of Guangzhou Pharmaceutical Company Limited” (《廣州藥業股份有限公司擔保管理制度》), “Management System on the External Investments of Guangzhou Pharmaceutical Company Limited” (《廣州藥業股份有限公司對外投資管理制度》), “Strategic Management System of Guangzhou Pharmaceutical Company Limited” (《廣州藥業股份有限公司戰略管理制度》), “Management on the Evaluation of Internal Control of Guangzhou Pharmaceutical Company Limited” (《廣州藥業股份有限公司內部控制評價管理辦法》) and “Management System on Loan Facilities of Guangzhou Pharmaceutical Company Limited” (《廣州藥業股份有限公司債務融資管理制度》), and revised the “Management System on Comprehensive Budgeting of Guangzhou Pharmaceutical Company Limited” (《廣州藥業股份有限公司全面預算管理制度》). The aforesaid systems were passed by a written resolution of the fifth session of the Board of the Company on 19 January 2012.
- (3) According to the amendments to Code of Corporate Governance and the Main Board rules made by the HKEx, amendments were made to relevant clauses in The Code of Practice Of The Audit Committee Of The Guangzhou Pharmaceutical Company Limited Of The Board Of Directors (《廣州藥業董事會審核委員會實施細則》) and Guangzhou Pharmaceutical Company Limited Implementing Regulations For the Nomination And Remuneration Committee Of The Board Of Directors (《廣州藥業董事會提名與薪酬委員會實施細則》). The procedure of nomination of directors candidates by the shareholders of Guangzhou Pharmaceutical Company Limited (《廣州藥業股份有限公司股東提名人選參選董事的程序》) and shareholder’s communication policy of Guangzhou Pharmaceutical Company Limited (《廣州藥業股份有限公司股東通訊政策》) were formulated at the same time. The aforesaid systems were considered and approved at the Board meeting of the Company held on 26 March 2012.

Corporate Governance

III. THE ESTABLISHMENT AND ENHANCEMENT OF THE INTERNAL CONTROL SYSTEMS (Continued)

2. The Work Related to the Corporate Governance by the Company during the Reporting Period: (Continued)

- (4) Pursuant to the “Notice on Commencing Special Inspection of the Implementation Of Working System For The Secretary To The Board Of Listed Companies” (《關於開展上市公司董事會秘書工作制度落實情況專項檢查的通知》) (Guangdong Zheng Jian [2012] No. 80) issued by the Guangdong Bureau of the China Securities Regulatory Commission (“GDSRC”), amendment was made to the relevant clauses of the Working Rules For The Secretary To The Board Of Guangzhou Pharmaceutical Company Limited (《廣州藥業股份有限公司董事會秘書工作細則》). The aforesaid rules were considered and approved at the Board meeting of the Company held on 14 May 2012.
- (5) To optimize and improve the scientific, continuous and stable bonus mechanism and monitoring mechanism of the Company, further enhance the transparency of the profit distribution policy and effectively protect the legal rights and interests of all shareholders, amendments to the relevant provisions of the Articles of Association were made in accordance with the related requirements of “Notice of Further Implementation of Relevant Matters on Cash Dividends by Listed Companies” (《關於進一步落實上市公司現金分紅有關事項的通知》) issued by the CSRC and “Notice of Further Implementation of Relevant Provisions on Dividends by Listed Companies” issued by GDSRC (Guangdong Zhengjian [2012] No. 91). Relevant proposal amendments to the Articles of Association were considered and approved at the Board meeting of the Company held on 15 June 2012 and approved at the first 2012 extraordinary general meeting of the Company held on 19 September 2012. For details of the amendments, please refer to the Circular dated 4 September 2012.

3. The Establishment of Department for Internal Control, Inspection and Supervision

The Audit Committee under the Board is responsible for the review of internal control of the Company and supervision of the related effective control measures. The audit department, which is established under the Audit Committee, performs inspection and supervision on the Company’s internal control in terms of its soundness and effectiveness.

Corporate Governance

III. THE ESTABLISHMENT AND ENHANCEMENT OF THE INTERNAL CONTROL SYSTEMS (Continued)

4. The Progress for Self-assessment on Internal Supervision and Internal Control

The Company uniformly conducted self-assessment according to the requirements of the “Basic Norms of Corporate Internal Control” and “Assessment Guideline for Corporate Internal Control”. The Company formulated the “2012 Evaluation Work Plan for Internal Control” and arranged the carrying out of internal control evaluation of 2012 according to the work plan. Internal control evaluation on key control points of the Company and subordinated enterprises was carried out through means such as controlled tests and questionnaires, and rectification plan for the deficiencies identified in the internal control evaluation was formulated, according to which implementation is underway.

During the Reporting Period, auditing departments at all levels of the Company carried out independent audit covering areas such as expenses, procurement management, scientific research project management and contract execution, which further ensured full implementation of the Company’s rules and regulations, reduced operational risks, strengthened internal control, optimized resource allocation and improved operation and management.

The Company formulated specific requirements for the reporting, investigation, handling and accountability of breaches of laws and regulations by employees. The implementation of such requirements are organised by the discipline inspection and supervision department or discipline inspection team to ensure timely handling of any breaches by employees and strictly pursuing the responsibility of the persons concerned.

5. The Board’s Arrangement on the Work Regarding Internal Control

The Board reviews the assessment report of internal control and makes recommendations annually. Through the subordinate Audit Committee, the Board discusses with external and/or internal auditing units on the enforcement situation and the existing problems of the Group’s internal control and makes recommendations annually. The Audit Committee organizes with the audit department for the inspection and review on the enforcement of the Group’s internal control system regularly.

Corporate Governance

III. THE ESTABLISHMENT AND ENHANCEMENT OF THE INTERNAL CONTROL SYSTEMS (Continued)

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

The Board of the Company 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 ([2012] No. 22) issued by CSRC on 19 September 2012, the Notice ([2012] No. 42) issued by CSRC on 31 December 2012 and the "Notice on How to Successfully Prepare the 2012 Annual Report by Listed Companies" issued by SSE on 31 December 2012. Upon self-assessment made, no significant shortcoming in the design of internal control or its execution was found in the Company as at the end of the Reporting Period.

The recommendation from the audit firm: PricewaterhouseCoopers Zhong Tian CPAs Limited Company considered that as at 31 December 2012, the Group has maintained effective internal control in its financial reporting in all material aspect, pursuant to "Guidelines for Internal Control Standards" and relevant regulations.

7. The Company has appointed PricewaterhouseCoopers Zhong Tian CPAs Limited Company to review and assess on the Group's internal control for the Year (full version is available on the website of the SSE).

IV. THE COMPANY PREPARED THE SOCIAL RESPONSIBILITY REPORT OF 2012 (FULL VERSION IS AVAILABLE ON THE WEBSITE OF THE SSE) IN ACCORDANCE WITH THE REQUIREMENTS OF "NOTICE ON HOW TO SUCCESSFULLY PREPARE THE 2012 ANNUAL REPORT BY LISTED COMPANY" ISSUED BY THE SSE.

V. THE ESTABLISHMENT OF THE COMPANY'S ACCOUNTABILITY SYSTEM FOR MATERIAL MISTAKES IN THE INFORMATION DISCLOSURE OF ANNUAL REPORTS

Any person, who is involved in information disclosure and causes any fault in the Company's information disclosure or any material impact or loss on the Company due to his or her breach of duty or breach of the system's requirements, would be held liable, where the breach is fully investigated, to the extent of the seriousness of breach in accordance with the requirements of the Company's "Information Disclosure Management Policy".

1. During the Reporting Period, there were no material mistakes in the information disclosure of annual report.
2. There were no material missing and additional information during the Reporting Period.
3. There were no notice of amendment of any performance forecast during the Reporting Period.

Summary of Shareholders' Meetings

During the Reporting Period, details of the general meeting convened by the Company are set out as follows:

Session and number of meeting	Meeting date	Newspapers for publication of the resolutions	Disclosure date
2011 annual general meeting	12 April 2012		13 April 2012
The first extraordinary general meeting in 2012	19 September 2012		20 September 2012
The first class meeting of holders of domestic shares in 2012	19 September 2012	Shanghai Securities News, Securities Times	20 September 2012
The first class meeting of holders of overseas listed foreign capital shares in 2012	19 September 2012		20 September 2012

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS

I. Business Scope and Analysis

1. Business Scope

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

2. Analysis of Operating Results

(1) The profit statement and statement of cash flow statement of changes in relevant subjects:

Item	2012 (RMB'000) (Audited)	2011 (RMB'000) (Audited)	Increase/ (Decrease) (%)
Revenue	8,229,059	5,439,612	51.28
Include: income from principal operations	8,128,653	5,345,158	52.08
Cost of sales	5,954,944	4,042,752	47.30
Include: cost from principal operations	5,934,258	4,026,308	47.39
Selling distribution expenses	1,359,454	710,833	91.25
General and administrative expenses	593,484	480,532	23.51
Finance expenses	4,717	1,853	154.56
The profit before tax	457,839	334,993	36.67
Net profit attributable to shareholders of the Company	395,278	287,531	37.47
Net cash flow from operating activities	506,530	(185,040)	373.74
Net cash flow from investing activities	11,430	(215,540)	105.30
Net cash flow from financing activities	(151,553)	60,259	(351.50)
Research and development expenses	86,574	99,445	(12.94)

(2) Revenue

During 2012, the Group pursued its operation targets, firstly, firmly promoted work on marketing, production, quality, technology and the Major Assets Reorganization, strengthened market development and properly handled channel distribution and external merger and acquisition; secondly, proactively adapted to the changes of medical reform policies, devoted great effort in the biddings, strengthened costs control to mitigate the impact of the drop in drug prices and increasing costs in order to ensure the steady growth of principal operations and earnings; and thirdly, established WLJ Great Health and operated the red-canned and red-bottled Wang Lao Ji herbal tea business in an unconventional way.

During the Reporting Period, the Group recorded an income from principal operation of approximately RMB8,128,653,000 with a growth of 52.08% as compared with last year.

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

I. Business Scope and Analysis (Continued)

2. Analysis of Operating Results (Continued)

(2) Revenue (Continued)

A breakdown of the operational results of the overall and principal operations of the Group for 2012 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 last year (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of last year (%)	Profit margin of principal operations (%)	Increase/ (Decrease) over the same period of last year (Percentage point)
Overall operations	8,128,653	52.08	5,934,258	47.39	27.00	An increase of 2.33 percentage points
Include: Manufacturing	4,585,260	80.90	2,599,712	85.32	43.30	A decrease of 1.36 percentage points
Trading	3,543,393	26.08	3,334,546	27.10	5.89	A decrease of 0.76 percentage point

Gross profit margin = (Income from principal operations-cost of principal operations) / Income from principal operations

Geographical analysis of sales arising from the manufacturing operations and trading operations of the Group for 2012 is set out as follows:

Region	Income from principal operations (RMB'000)	Increase/ (Decrease) over the corresponding period of last year (%)
Southern China	5,266,787	40.01
Eastern China	1,039,296	90.88
Northern China	646,657	78.08
North-Eastern China	148,757	42.95
South-Western China	484,056	101.68
North-Western China	194,027	83.78
Exports	349,073	54.25
Total	8,128,653	52.08

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

I. Business Scope and Analysis (Continued)

2. Analysis of Operating Results (Continued)

(2) Revenue (Continued)

The manufacturing operations

During the Reporting Period, firstly, the manufacturing operations proactively adapted to new medical reform policies of the state and continued to carry out works such as supplementing basic medicine catalog and medicine bidding works. Secondly, the Group vigorously organized marketing campaigns for brand building and marketing activities in the cultural and academic fields in order to enhance its market development ability and accelerate the transformation and transcendence of marketing. During the Year, eight subsidiaries of the Company and their products were authorized and licensed for the use of the “Baiyunshan” tradename and trademark in order to enhance the sales volume of the products in markets outside the Guangdong Province and to leverage on the market awareness and reputation of “Baiyunshan” throughout the nation. The Group also promoted the popularization of traditional Chinese medicines and enhanced the Group’s visibility and image in the nation through a series of activities such as “Chinese Medicine in China” (中醫中藥行), “CCTV’s the most beautiful countryside doctor election” (CCTV最美鄉村醫生評選活動), “The First Healthy China 2020 Summit” (首屆健康中國2020高峰論壇) and centennial celebration of subsidiaries. Promotion effort for key products Xiao Ke Wan and a series of second-line products were increased steadily to promote the international trade of products such as Hua Tuo Zai Zao Wan. The sales were effectively increased to achieve the final sales target through various marketing campaigns, academic promotion and customer training activities. At the same time, through various charitable activities, subsidiaries contributed to society and demonstrated corporate social responsibility. Thirdly, to accelerate the development of the great health industry, we set up WLJ Great Health during the first half of 2012 and established strategic cooperation relationships with national renowned food manufacturers and raw material and packaging material suppliers such as Uni-President (統一) and Yinlu (銀鷺) to increase production capacity and we established our own sales team and customer base, and quickly developed the distribution and marketing channels of the red-canned and red-bottled WLJ herbal tea throughout the nation and achieved satisfactory results. We strengthened the development of new products and have launched new products such as has no sugar, low sugar, instantly drinkable and solid WLJ herbal tea beverages. Fourthly, the Group accelerated the adjustment of product structure and product transformation, focused on the increase in the market share of high value-added products with high gross margins in order to enhance the integrated gross profit margin. Fifthly, the Group accelerated the development of GMP authentication of its subsidiaries. Currently, Pan Gao Shou, a subsidiary of the Company, has passed the new GMP authentication for its entire plant, while the Chinese medicine preprocessing workshop of Zhong Yi and the medicine preprocessing and extraction (oral treatment) workshop and raw drug materials of Guangzhou Han Fang have also passed the new GMP authentication. Sixthly, in order to achieve rapid growth through new sales channel, the Group pushed on the sales promotion of key products and major species and rapidly increased our market shares among e-commerce retailers of medicine through the operation of e-commerce platform. Seventhly, the Group strictly controlled costs and expenses, and strived to reduce the operating costs.

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

I. Business Scope and Analysis (Continued)

2. Analysis of Operating Results (Continued)

(2) Revenue (Continued)

During the Reporting Period, the gross profit margin of the manufacturing operations was 43.30%, representing a decrease of 1.36 percentage points as compared with last year.

In 2012, products such as herbal tea, An Gong Niu Huang Wan (安宮牛黃丸), Zi Shen Yu Tai Wan (滋腎育胎丸), Shu Jin Jian Yao Wan (舒筋健腰丸), An Shen Bu Lao Ye (安神補腦液) and Xin Xue Dan Series (新雪丹系列) recorded greater increase in sales revenue.

An analysis of sales of major products for the manufacturing operations in 2012 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 last year (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of last year (%)	Profit margin of principal operations (%)	Increase/ Decrease over the same period of last year (Percentage point)
Heat clearing and anti-toxic medicine	368,721	10.00	201,852	1.76	45.26	An increase of 4.43 percentage points
Diabetes medicine	542,558	4.69	208,634	(5.76)	61.55	An increase of 4.27 percentage points
Cough and phlegm clearing medicine	390,449	11.97	200,736	10.10	48.59	An increase of 0.87 percentage point
Arthritis medicine	445,298	25.38	215,006	14.43	51.72	An increase of 4.62 percentage points
Gastric medicine	90,530	(8.58)	50,183	1.12	44.57	A decrease of 5.32 percentage points
Other products	2,747,704	212.81	1,723,301	205.96	37.28	An increase of 1.40 percentage points

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

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

I. Business Scope and Analysis *(Continued)*

2. Analysis of Operating Results *(Continued)*

(2) Revenue *(Continued)*

The trading operations

The trading operations were enhanced with a series of measures taken during the Reporting Period. Firstly, the trading operations further strengthened the coordination and communication with distributors and manufacturers, proactively expanded the sale channels and network, explored the new ways of cooperation with the commerce and hygiene sectors, and at the same time, accelerated the construction of logistics warehouses across the country and strengthened terminal distribution to foster steady growth of the principal operations. The Group also continued to expand the scale of sales. Secondly, the Group kept on improving the cooperation with the production enterprises on matters such as basic medicine catalog and bidding, strengthened the introduction of product and promotion to hospitals. Thirdly, the Group further enjoyed the advantage of the resources integration platform of trading enterprises. Cai Zhi Lin, a subsidiary of the Company, exerted its unique advantage of centralized procurement of Chinese herbal medicine, implemented centralized management of screening of procurement species, properly analyzed and forecasted the market trend and prices of Chinese medicine, obtained the market information timely and accurately and adjusted the procurement strategy quickly in order to implement quality and quantity assurance and procurement at lower cost. Pharmaceutical Import & Export accelerated the development of the operation platform of raw materials and featured pharmaceutical products distribution and achieved a stable growth in operations. Fourthly, the Group actively pushed on foreign investment and acquisition inside and outside the province and the establishment of Chinese medicine base, reinforced the cooperation with various raw material planting bases for Chinese medicine across the country in order to control key products and bulk medicine from the origin. As at the end of the Reporting Period, the Group has established procurement platforms of Chinese medicine and GAP planting base companies in regions such as Tibet, Shandong, Inner Mongolia, Guizhou Chongqing, Jingyu of Jilin and Heilongjiang.

During the Reporting Period, the gross profit margin of the trading operations was 5.89%, representing a decrease of 0.76 percentage point as compared with last year.

As at 31 December 2012, the Group had 47 retail chain pharmacy outlets, including 46 "Cai Zhi Lin" which specialized in traditional Chinese medicines, and one pharmacy named Ying Bang.

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

I. Business Scope and Analysis (Continued)

2. Analysis of Operating Results (Continued)

3. Cost

Operation cost	Items of constitute	2012		2011		
		Amount (RMB'000)	Percentage of the proportion of operation costs (%)	Amount (RMB'000)	Percentage of the proportion of operation costs (%)	Percentage of Changes in the proportion (%)
Manufacturing	Raw materials	929,397	35.75	578,389	41.23	60.69
	Fuel	30,937	1.19	27,215	1.94	13.67
	Labor costs	139,865	5.38	104,932	7.48	33.29
	Other	1,499,513	57.68	692,300	49.35	116.60
Trading	Procurement Costs	3,334,546	100.00	2,623,470	100.00	27.10

4. Expense

During the Reporting Period, the Group's selling expense was approximately RMB1,359,454,000, with a growth of 91.25% as compared with last year, mainly due to the Group's active marketing efforts to increase sales revenue in the Year. The Group, especially WLJ Great Health, increased advertising efforts and sales associated expenses such as marketing personnel expenses and transportation expenses.

During the Reporting Period, the Group's financial expense was approximately RMB4,717,000, representing a growth of 154.56% as compared with last year, mainly due to the increase in interest expense arising from a corresponding increase in the Group's bank borrowings during the Year as compared to last year.

During the Reporting Period, the Group's income tax expense was approximately RMB49,509,000, with a growth of 41.47% as compared with last year, mainly due to the increase in profit of the Company's subsidiaries.

5. Research and development expenses

Current cost of research and development expenses (RMB'000)	86,574
Current capitalization of research and development expenses (RMB'000)	—
Total research and development expenses (RMB'000)	86,574
Total research and development expenses accounted for the proportion of net assets (%)	2.05
research and development expenses to total operating income ratio (%)	1.05
Including: Percentage of research and development expenses over revenue from main operations of pharmaceutical manufacturing(%)	3.08

During the Reporting Period, the Group's research and development expenses did not exceed 30% as compared with the same period of last year.

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

I. Business Scope and Analysis *(Continued)*

2. Analysis of Operating Results *(Continued)*

5. Research and development expenses *(Continued)*

During the Reporting Period, the Group applied for 21 invention patents and obtained 17 approvals in China. In addition, the “National Engineering Research Center of Chinese Medicine Modernization of Extraction and Separation Process” of Guangzhou Han Fang was awarded “National Engineering Research Center with Excellent Achievement” by the National Development and Reform Commission, while Zhong Yi, Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. (“Wang Lao Ji”), Jing Xiu Tang, Pan Gao Shou and Qi Xing were named “Guangzhou Demonstration Enterprise for the Transformation and Upgrading of Traditional Manufacturing Industry with Advantages” by Guangzhou Economic and Trade Commission. Jing Xiu Tang was recognised as “Guangzhou Municipal Engineering and Technology Research & Development Center”, and Zhong Yi and Pan Gao Shou were recognised as “Guangzhou Municipal Enterprise Technology Center”. The composite prescription patent Wei Nai An (胃乃安) of Zhong Yi received the Excellence Award of the First Guangzhou Patent Awards. The “Research of the material basis for the effect and quality standard of Qing Re Xiao Yan Ning and its application” of Jing Xiu Tang passed the scientific and technological achievement appraisal of Guangdong Science and Technology Department. Moreover, “The study and industrialization of key technologies of quality control in the course of production of Chinese medicine pills (Xiao Ke Wan)” (消渴丸製藥過程質量控制高技術產業化示範工程) was listed into the “Second Batch Industrial Technology Research and Development Funding on the Investment Plans in High-tech Industry Development Projects of 2012” (2012年第二批產業技術研究與開發資金高技術產業發展項目投資計劃) of China and had obtained RMB5 million from the Central Industrial Technology Research and Development Grant (中央產業技術研發資金補助). Pan Gao Shou and Guangzhou Han Fang were recognized as the “Second Batch of Innovative Trial Enterprise in Guangzhou”(廣州市第二排創新型試點企業). Chen Li Ji was awarded the “2011 Technology Contribution Award by Chinese Association of Integrative Medicine” (2011中國中西醫結合學會科技貢獻獎). In the first half of 2012, Dr. Murad and Qi Xing entered into a cooperation framework agreement for the purpose of using his Nobel Prize winning theory of nitric oxide technology in the research of “Hua Tuo Zai Zao Wan”(華佗再造丸) so as to foster the establishment of modern academic theory mechanism with Hua Tuo Zai Zao Wan and integration into advanced international pharmaceutical sciences research. The project of “Critical technical research on the quality control of Wei C Yin Qiao Pian and granule” (維C銀翹片、顆粒控制質量的關鍵技術研究) undertaken by Guangxi Ying Kang passed the technical verification and reached the leading standard of similar products in China. Based on the result of the “Functional substances research and food and medicine development of mulberry” project (桑樹資源功能物質研究與食藥用開發) jointly undertaken by Cai Zhi Lin, the Sericulture & Farm Produce Processing Research Institute of Guangdong Academy of Agricultural Sciences and Guangdong Bao Sang Yuan Health Food Research and Development Centre (廣東寶桑園健康食品研究發展中心), new thinking and method for breeding mulberry for food and medicine use were proposed, which has filled the gap in China and was awarded the Guangdong First Class Prize in Technological Advancement.

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

I. Business Scope and Analysis (Continued)

2. Analysis of Operating Results (Continued)

5. Research and development expenses: (Continued)

The progress of the clinical research of the therapeutic dual – plasmid HBV DNA vaccine (治療性雙質粒HBV DNA疫苗) has been carried out smoothly. Currently, 219 participants have attended re-interviews as scheduled and 168 participants have completed clinical tests. It is expected that all participants will complete re-interview by the first quarter of 2013.

3. Cash flow

Items	The Reporting Period (RMB'000)	The Reporting Period of the project last year over the same period (RMB'000)	Change (%)	Reason
Net cash flow from operating activities	506,530	(185,040)	373.74	Increase was mainly due to the increase in the Group's sales revenue, improved capital return and the increase in advances from customers during the Year.
Net cash flow from investing activities	11,430	(215,540)	105.30	Increase was mainly due to the decrease in external investment projects of the Group and maturity of redemption of short-term borrowings placed by trading subsidiaries during the Year.
Net cash flow from financing activities	(151,553)	60,259	(351.50)	Decrease was mainly due to the higher annual dividends for 2011 paid by the Company as compared to last year and the repayment of partial bank borrowings by the internal capital of the Group for financing purpose during the Year.

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

I. Business Scope and Analysis (Continued)

4. Investment situation

(1) Foreign equity investment in the overall analysis

At the end of the Reporting Period, the foreign equity investment of the Company amounted to RMB1,413,300,000, with a growth of RMB157,130,000 as compared with last year, mainly due to the increase in the long-term equity investment by investment revenue calculated using the joint venture equity method as adopted by the Company, and no significant change occurred.

Invested units	Principal business	of the investment units of equity ratio (%)
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
Hangzhou Zhe Da Han Fang Chinese Medicine Information Engineering Company Limited	Development of technology and technology service	44.00
Golden Eagle Fund Management Co. Ltd	Fund management	20.00
Guangzhou Goldsum Pharmaceutical technology Co., Ltd	Research and development; NHPs, Chinese medicine and food	38.25
Shanghai Jiu HeTang 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 Bei Jing 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	5.56

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

I. Business Scope and Analysis (Continued)

4. Investment situation (Continued)

(1) Foreign equity investment in the overall analysis (Continued)

Stock Investments

Number	Type of Stock	Stock Code	Stock name abbreviation	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 Shanghai market	600038	Hafei	1,806	57,810	1,088	37.83	87
2	A Share of Shanghai market	600664	Harbin.	3,705	222,546	1,788	62.17	(333)
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		2,876	100.00	(246)

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

Stock Code	Stock name	The initial investment amount (RMB'000)	% 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
601328	Bank of Communications	439	-	1,643	41	134	Available-for-sale financial assets	Acquisition
601818	Everbright Bank	10,725	approximate 0.02	18,453	805	771	Available-for-sale financial assets	Acquisition

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

I. Business Scope and Analysis (Continued)

4. Investment situation (Continued)

(1) Foreign equity investment in the overall analysis (Continued)

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

Name	The initial Investment amount (RMB'000)	Number of share held (share)	% of shareholding (%)	Book value as at the end of the Reporting Period (RMB'000)	Gain/(Loss) during the Reporting Period (RMB'000)	Changes in equity during the Reporting Period (RMB'000)	Accounting item	Sources of shares
Golden Eagle Fund Management Co. Ltd	50,000	—	20.00	36,298	(1,112)	—	Long-term equity investment	Acquisition

(2) During the Reporting Period, the Group has not entrusted any investment activities.

(3) During the Reporting Period, the information on the Company's entrusted loans.

Borrower name	Entrusted loan amount (RMB'000)	Term of the loan	Lending rates	Whether overdue	Whether the connect transactions	Relationship with the Company
Pharmaceutical Import & Export Cai Zhi Lin	40,000	one year	5.20%	No	No	Wholly owned subsidiary
Cai Zhi Lin	105,000	one year	5.90%	No	No	Wholly owned subsidiary
Cai Zhi Lin	173,000	one year	5.40%	No	No	Wholly owned subsidiary
Total	318,000					

As at 31 December 2012, the Company provide its subsidiaries the entrusted loan a total of RMB318,000,000.

(4) Use of Proceeds from the issue of A shares

Proceeds from the issuance of A shares of the company have been used up by 31 December 2007.

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

I. Business Scope and Analysis (Continued)

4. Investment situation (Continued)

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

Name of enterprises	Business nature	Major products or services	Registered capital (RMB'000)	Shares equity directly held by the Company (RMB'000)	Total assets (RMB'000)	Net assets (RMB'000)	Net profit (RMB'000)
(1) Subsidiaries							
Zhong Yi ^(note a)	Manufacturing	Producing Chinese patent medicine	217,410	100.00	848,138	619,382	52,998
Chen Li Ji ^(note a)	Manufacturing	Producing Chinese patent medicine	112,850	100.00	350,092	270,001	30,924
Qi Xing ^(note a)	Manufacturing	Producing Chinese patent medicine	100,000	75.00	336,278	161,849	27,547
Pan Gao Shou ^(note a)	Manufacturing	Producing Chinese patent medicine	65,440	87.77	266,144	218,080	24,325
Guangzhou Bai Di ^(note a)	Manufacturing	Research and development of medicine	131,600	98.48	127,616	72,432	25,908
Guangzhou Han Fang ^(note a)	Manufacturing	Research and development of medicine and health products	246,060	97.97	215,052	134,887	5,476
Cai Zhi Lin	Trading	Sales of Chinese patent medicine and Chinese herbal medicine	32,220	100.00	1,003,868	60,514	8,732
Pharmaceutical Import & Export	Trading	Medicine import and export	24,000	100.00	440,890	33,178	7,069
WLJ Great Health ^(note b)	Manufacturing	Production and sales of prepackaging food, dairy products, etc	10,000	100.00	844,623	40,962	30,962
(2) Joint ventures							
Wang Lao Ji ^(note c)	Manufacturing	Manufacturing, processing and sales of Chinese patent medicine; food and medicine homologous drink and candy	204,760	48.05	1,419,887	872,093	149,345
GP Corp. ^(note d)	Trading	Sales of western pharmaceutical products and medical apparatus	700,000	50.00	7,782,704	1,910,415	169,235
Nuo Cheng ^(note e)	Manufacturing	Production of Rabies bacterin; goods export, technology import and export	84,000	50.00	283,442	172,591	84,360

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

I. Business Scope and Analysis (Continued)

4. Investment situation (Continued)

(5) Details of the main subsidiaries and joint ventures of the Company (Continued)

Notes:

- (a) During the Reporting Period, the subsidiaries of the former Guangzhou Xing Qun Pharmaceutical Co., Ltd., Guangzhou Zhong Yi Pharmaceutical Co., Ltd., Guangzhou Chen Li Ji Factory Co., Ltd., Guangzhou Qi Xing Pharmaceutical Co., Ltd., Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd., and Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. were granted the use of the trade name of "Baiyunshan". Their company names were respectively changed to Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Chen Li Ji Factory Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd." and "Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd." between May 2012 and June 2012. Furthermore, during the year, the Company's former Guangzhou Han Fang Contemporary Chinese Medicine Research and Development Co., Ltd. and Guangzhou Bai Di Bio-technology Co., Ltd. were authorized and licensed for the use of the trade name and trade mark of "Baiyunshan", and they changed their names into "Guangzhou Baiyunshan Han Fang Contemporary Pharmaceutical Co., Ltd.* (廣州白雲山漢方現代藥業有限公司) and Guangzhou Baiyunshan Bai Di Bio-technology Co., Ltd.* (廣州白雲山拜迪生物醫藥有限公司) respectively in October 2012.
- (b) WLJ Great Health, a wholly-owned subsidiary of the Company, was officially registered on 28 February 2012, whose principal business is the production and sales of prepackaging food, dairy products etc.
- (c) The results of Wang Lao Ji were stated in full amount in the above table.

Wang Lao Ji is principally engaged in manufacturing, processing and sales of Chinese patent medicine, food and medicine homologous drink and candy.

During the Reporting Period, Wang Lao Ji put more efforts in product promotion and marketing, broadened product width and vigorously expanded the national market. It also strictly controlled the cost, strengthened the foundational management and speeded up cash turnaround and the repay of accounts receivables.

In 2012, Wang Lao Ji achieved an income from principal operations of RMB2,319,369,000, representing an increase of 20.15% as compared with last year. Its total profit amounted to RMB172,140,000, representing an increase of 0.75% as compared with last year and its net profit was RMB149,345,000, representing an increase of 4.92% as compared with last year. Sales of WLJ herbal tea, WLJ Run Hou Tang* (王老吉潤喉糖), Xiao Er Qi Xing Cha Ke Li* (小兒七星茶顆粒) and Bao Ji Kou Fu Ye enjoyed great increases as compared with last year, representing increases of 22.40%, 49.05%, 0.38% and 20.69% as compared with last year respectively.

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

I. Business Scope and Analysis *(Continued)*

4. Investment situation *(Continued)*

(5) Details of the main subsidiaries and joint ventures of the Company *(Continued)*

- (d) The results of GP Corp. were stated in full amount in the above table.

GP Corp. is principally engaged in the wholesale and retail of Western pharmaceutical products and medical apparatus. During 2012, GP Corp. strengthened channel distribution and bidding works, accelerated the establishment of logistics system, actively developed terminal network and personalized services to facilitate the transformation and upgrade of services. It also continued to steadily push on foreign investment and mergers and acquisitions inside and outside the province as well as expanding the scale of enterprises to boost external growth.

In 2012, income from principal operations of GP Corp. amounted to RMB19,323,023,000, representing an increase of 22.31% as compared with last year, its total profit was RMB230,825,000, representing an increase of 14.09% as compared with last year and its net profit was RMB169,235,000, representing an increase of 18.40% as compared with last year.

- (e) The results of Nuo Cheng were stated in full amount in the above table.

Currently, Nuo Cheng is mainly engaged in the production of Rabies bacterin, and the rabies vaccine has become a species with a value of over RMB100 million. In 2012, Nuo Cheng further optimized the marketing mode to satisfy market demand and to ensure a steady growth in the business of rabies vaccine production. Meanwhile, it continued to carry out new GMP reconstruction work for the existing Rabies vaccine workshop and the complete reconstruction of the preparation section of such workshop, and completed the relevant verification and examination works.

In 2012, income from principal operations of Nuo Cheng amounted to RMB232,175,000, representing an increase of 36.92% as compared with last year, its total profit was RMB98,342,000, representing an increase of 143.69% as compared with last year and its net profit was RMB84,360,000, representing an increase of 143.10% as compared with last year.

Except the above mentioned joint ventures, namely Wang Lao Ji, GP Corp. and Nuo Cheng, the Company did not derive any investment income from any single investee company amounting to 10% or more of the net profit of the Company.

During the Reporting Period, the Company has no other activities that have significant impact on the net profit.

5. Major customers and suppliers

During the Year, purchases of goods and services from the 5 largest suppliers amounted to RMB946,084,000 representing approximately 15.36% of the total purchases. The purchases from the largest supplier amounted to RMB248,645,000 representing 4.04% of the total purchases. Goods and services sold to the 5 largest customers amounted to RMB1,256,198,000 representing 15.46% of the total sales. Sales to the largest customer amounted to RMB359,237,000 representing 4.42% of the total sales of the Group.

To the best knowledge of the Board, 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 noted above.

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

II. After carrying out new accounting standards for enterprises, there was no changes in accounting policies and accounting estimates of the Group.

III. Analysis of Financial Conditions

1. Liquidity

As at 31 December 2012, the current ratio of the Group was 1.85 (31 December 2011:2.65), and its quick ratio was 1.18 (31 December 2011:1.67). Accounts receivable turnover rate was 18.49 times, representing an increase of 21.94% as compared with 2011. Inventory turnover rate was 5.52 times, representing an increase of 11.61% as compared with 2011.

2. Financial resources

As at 31 December 2012, cash and cash equivalents of the Group amounted to RMB722,303,000 out of which approximately 99.38% and 0.62% were denominated in Renminbi and foreign currencies, like Hong Kong dollars, respectively.

As at 31 December 2012, the Group had bank borrowings of RMB82,468,000 in total, all of which were short-term borrowings (31 December 2011: RMB144,929,000).

3. Capital structure

As at 31 December 2012, the Group's current liabilities amounted to RMB1,915,390,000 (31 December 2011: RMB871,341,000), representing an increase of 119.82% as compared with 2011, and its long-term liabilities was RMB95,683,000 (31 December 2011: RMB84,753,000), with an increase of 12.90% as compared with 2011. The shareholders' equity attributable to the shareholders of the Company amounted to RMB4,096,589,000 (31 December 2011: RMB3,781,652,000), with an increase of 8.33% as compared with 2011.

4. Capital expenditure

The Group expects the capital expenditure for 2013 to be approximately RMB175 million (2012: RMB62 million), which will be mainly applied in the construction of factories and infrastructure, purchases of machines, equipment, etc. The Group has sufficient financial resources to meet the capital expenditure and daily working capital requirements.

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

III. Analysis of Financial Conditions (Continued)

5. Assets and liabilities

Items	As at 31 December 2012 (RMB'000)	Proportion of total assets (%)	As at 31 December 2011 (RMB'000)	Proportion of total assets (%)	Proportion of change in the amount at the end of the Year as compared to last year (%)	Reason for change
Cash at bank and on hand	729,534	11.70	384,136	7.92	89.92	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 Reporting Period.
Advance to suppliers	415,610	6.67	132,518	2.73	213.63	The increase was mainly due to the increased prepayments by the Company's subsidiaries for the purchase of pharmaceutical raw materials and packagings during the Reporting Period.
Other receivables	89,198	1.43	54,057	1.11	65.01	As at 31 December 2012, the increase was mainly due to increase in security deposits and the export tax refund receivable of the Group's export business.
Inventories	1,276,406	20.47	859,006	17.71	48.59	In order to seize the market size, the Group substantially increased the production stocks and raw materials in order to go in line with the strategies during the Year.
Other current assets	1,599	0.03	2,342	0.05	(31.75)	As at 31 December 2012, the Group's deductible input tax decreased.
Construction in progress	27,897	0.45	20,370	0.42	36.95	Increase was mainly due to the increased investments in technical renovation projects by the Group during the Reporting Period.

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

III. Analysis of Financial Conditions (Continued)

5. Assets and liabilities (Continued)

Items	As at 31 December 2012 (RMB'000)	Proportion of total assets (%)	As at 31 December 2011 (RMB'000)	Proportion of total assets (%)	Proportion of change in the amount at the end of the Year as compared to last year (%)	Reason for change
Deferred tax assets	79,144	1.27	38,542	0.79	105.34	Increase was mainly due to the increase in the temporary differences of employee benefits payable and other payables during the Reporting Period.
Short-term borrowings	82,468	1.32	144,929	2.99	(43.10)	The Company's trading subsidiaries repaid bank loans in advance during the Reporting Period.
Notes payable	38,937	0.62	5,432	0.11	616.80	The Company trading subsidiaries adopted a bankers' acceptances settlement method for short-term fund facilities to reduce finance costs during the Reporting Period.
Accounts payable	736,216	11.81	350,250	7.22	110.20	Increase was mainly due to the longer credit term granted by suppliers to the Company's subsidiaries in the Reporting Period.
Advance from customers	336,924	5.40	146,932	3.03	129.31	During the Reporting Period, the Company established a wholly owned subsidiary – namely WLJ Great Health, which had received a large amount of advance from its dealers.
Employee benefits payable	131,740	2.11	64,167	1.32	105.31	As at 31 December 2012, increase was mainly due to the increased payable but unpaid year-end salary.

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

III. Analysis of Financial Conditions (Continued)

5. Assets and liabilities (Continued)

Items	As at 31 December 2012 (RMB'000)	Proportion of total assets (%)	As at 31 December 2011 (RMB'000)	Proportion of total assets (%)	Proportion of change in the amount at the end of the Year as compared to last year (%)	Reason for change
Taxes payable	110,113	1.77	37,951	0.78	190.14	As at 31 December 2012, increase was mainly due to the increase in value-added tax and corporate income tax which had not been paid by the Group.
Other payables	478,854	7.68	121,544	2.51	293.98	As at 31 December 2012, increase in other payables was mainly due to increase in the Group's accrued advertising costs, transportation costs and sales rebate.

6. Exposure to fluctuations in exchange rates

As majority of the revenue, expenses, assets and liabilities of the Group were 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 2012, cash and cash equivalents of the Group amounted to RMB722,303,000 with an increase of RMB366,555,000 as compared with the beginning of 2012. The net cash inflow derived from operating activities amounted to RMB506,530,000, with an increase of RMB691,569,000 as compared with 2011, mainly due to the increase in the Group's sales, improved capital return and increase in advances from customers during the Reporting Period.

8. Contingent liabilities

As at 31 December 2012, the Group had no significant contingent liabilities.

9. Charge on the Group's assets

As at 31 December 2012, the Group had no charge on its assets.

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

IV. Changes in Operating Environment and National Macro Economic Policy and their Impact on the Company

With more competition and continuous changing situation in the market, particularly the continuous increase in the centralization of production and circulation of pharmaceutical products, stronger price control of pharmaceutical products by the government, transformation of channels and end market to respond to the new medical reform, increase in operational costs, and implementation of the new GMP standard, etc will pose challenges to the development of the Group in the future.

V. The 2012 financial report of the Group has been audited by PricewaterhouseCoopers Zhong Tian CAPs Limited Company and signed by Certified Public Accountants, who have both issued unqualified auditors' reports thereon.

VI. Prospects and Plans for 2013

2013 will be a critical year for the Group in the implementation of the "Twelfth Five-Year Plan" to inherit from the past and forge ahead into the future, which will be full of challenges and opportunities. In 2013, with China's stable economic growth, progress in the new medical reform, increasing domestic emphasis on the importance of Chinese medicine and biomedicine and internationalization of pharmaceutical economy, the aging population and increase in people's health awareness, the Group's initiatives to build up the "Southern pharmaceutical industry", "health industry" and "commerce and trading industry" will bring in more development opportunities. However, the intensifying competition in the market, stronger price control of pharmaceutical products by the government, continual increase in the prices of some raw materials and operational costs, and implementation of the new GMP standard will pose challenges to the development of the Group in the future.

2013 is the Group's "Resource Benefit Year". During the year, the Group's targets includes:

1. To further speed up the implementation of the Major Assets Reorganization and push on the "integration works" in an all-round manner, and strive to complete the absorption and merger of Baiyunshan and the acquisition of assets through issue of shares by the first half of 2013. The Group will also push ahead the integration of new staff and other resource platforms of the listed company after the reorganisation to achieve integrated operation and synergy effect.
2. To continue reinforcing its works on government affairs, proactively respond to the bidding policy of basic medicine, explore the new cooperation mode between commerce and hygiene, and vigorously promote the sales growth of basic medicine in medical institutions.
3. To promote the comprehensive development in great health industry through further utilizing the "Wang Lao Ji" brand resources, increasing new product development efforts, expanding production capacity, implementing stricter cost control and strengthening brand promotion, increasing advertisement, management of marketing network and end market.

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

VI. Prospects and Plans for 2013 *(Continued)*

4. To continue to strengthen marketing innovation and sales team building, accelerate the progress of pillar varieties with value over RMB100 million, foster product sales growth, potential items and product groups with high sales growth and market share, and cultivate “new cash cow” products and items.
5. To speed up the establishment of the quality and technological innovation system and the overall progress of new GMP application, continue to improve the risk prevention system for product quality accidents and to promote the IIb clinical research and related work of the therapeutic dual-plasmid HBV DNA vaccine and other related projects.
6. To promote the transformation of the industrial chain from single to multi-dimensional supply and demand, reinforce the construction of a whole industry chain and push on the development of the industry.
7. To strengthen scientific management, refine the management in areas such as risk control, costs and production safety, consolidate the result from implementing the internal control system and lower the operational risk of the Company.
8. To continue to speed up the investment, merger and acquisition and joint ventures of the Company and its subsidiaries.

The Group will strive to achieve a revenue from main operations of not less than RMB10.8 billion in the year of 2013.

REPORT OF THE BOARD OF DIRECTORS

DAILY OPERATIONS OF THE BOARD OF DIRECTORS

I. Board Meetings

Meetings	Date of meeting	Resolutions	Newspapers on which the information was published	Publication dates
Written resolution of the fifth session of the Board	19 January 2012	<p>"The Working Rules for Financial Controller of Guangzhou Pharmaceutical Company Limited"* (《廣州藥業股份有限公司財務總監工作細則》),</p> <p>"Management System on the Authorization of Guangzhou Pharmaceutical Company Limited"* (《廣州藥業股份有限公司權限管理制度》),</p> <p>"Management System on the Guarantees of Guangzhou Pharmaceutical Company Limited"* (《廣州藥業股份有限公司擔保管理制度》),</p> <p>"Management System on the External Investments of Guangzhou Pharmaceutical Company Limited"* (《廣州藥業股份有限公司對外投資管理制度》),</p> <p>"Strategic Management System of Guangzhou Pharmaceutical Company Limited"* (《廣州藥業股份有限公司戰略管理制度》), "Management on the Evaluation of Internal Control of Guangzhou Pharmaceutical Company Limited"* (《廣州藥業股份有限公司內部控制評價管理辦法》) and "Management System on Loan Facilities of Guangzhou Pharmaceutical Company Limited"* (《廣州藥業股份有限公司債務融資管理制度》), and revised the "Management System on Comprehensive Budgeting of Guangzhou Pharmaceutical Company Limited"* (《廣州藥業股份有限公司全面預算管理制度》)</p>	/	/

REPORT OF THE BOARD OF DIRECTORS

DAILY OPERATIONS OF THE BOARD OF DIRECTORS (Continued)

I. Board Meetings (Continued)

Meetings	Date of meeting	Resolutions	Newspapers on which the information was published	Publication dates
12 th meeting of the fifth session of the Board	16 February 2012	Report of the Board of the Company for the year 2011; Financial reports of the Company for the year 2011; Auditors' reports of the Company for the year 2011; Proposal for profit distribution and dividend payment of the Company for the year 2011; Financial budget report of the Company for the year 2012; Social responsibility report of the Company for the year 2011; Self-evaluation report on the internal control of the Company for the year 2011; Resolution regarding the total service emoluments to be paid to the directors of the Company for the year 2012; Resolution regarding the total service emoluments to be paid to the supervisors of the Company for the year 2012; Resolution regarding the provision of guarantees by the Company to secure bank loans for its subsidiaries; Resolution regarding the provision of guarantees by Guangzhou Bai Di, a subsidiary of the Company, to secure bank loans for Nuo Cheng; Agreement on the application by the Company for banking facilities of no more than RMB300 million, for a term of 1 year; Re-appointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company as auditors of the Company for the year 2012, and the proposal to the general meeting to authorize the Board to determine its remuneration; Re-appointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company as auditors for the internal control of the Company for the year 2012, and the proposal to the general meeting to authorize the Board to determine its remuneration; Resolution in relation to the establishment of Guangzhou Wang Lao Ji Great Health Industry Company Limited; The resolution regarding converting the borrowings of Guangzhou Han Fang into capital; Proposal for convening the 2011 Annual General Meeting.	Shanghai Securities News; Securities Times	17 February 2012

REPORT OF THE BOARD OF DIRECTORS

DAILY OPERATIONS OF THE BOARD OF DIRECTORS *(Continued)*

I. Board Meetings *(Continued)*

Meetings	Date of meeting	Resolutions	Newspapers on which the information was published	Publication dates
13 th meeting of the fifth session of the Board	29 February 2012	<p>To consider and approve the resolution on the Eligibility for Major Assets Reorganization of Guangzhou Pharmaceutical Company Limited;</p> <p>To consider and approve the resolution on the Absorption and Merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. through Share Swap of additional A shares and the Asset Acquisition through Issuance of Shares to Guangzhou Pharmaceutical Holdings Limited Concurrently by Guangzhou Pharmaceutical Company Limited;</p> <p>To consider and approve the resolution on the Proposal for the Absorption and Merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. by Guangzhou Pharmaceutical Company Limited through Share Swap of Additional A Shares; to consider and approve the resolution on the Entering into and Implementation of the Absorption and Merger Agreement with Guangzhou Baiyunshan Pharmaceutical Co., Ltd; to consider and approve the resolution on the proposal for Asset Acquisition through Issuance of A Shares to Guangzhou Pharmaceutical Holdings Limited on an item-by-item basis; to consider and approve the resolution on the Entering into and Implementation of the Asset Acquisition Through Issuance of Shares Agreement with Guangzhou Pharmaceutical Holdings Limited; to consider and approve the resolution on the Proposal for Absorption and Merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. through Share Swap, Asset Acquisition through Issuance of Shares and Connected Transactions of Guangzhou Pharmaceutical Company Limited; to consider and approve on the resolution on the Constitution of Connected Transactions by Absorption and Merger through Share Swap and Asset Acquisition through Issuance of Shares of Guangzhou Pharmaceutical Company Limited.</p>	Shanghai Securities News; Securities Times	28 March 2012

REPORT OF THE BOARD OF DIRECTORS

DAILY OPERATIONS OF THE BOARD OF DIRECTORS (Continued)

I. Board Meetings (Continued)

Meetings	Date of meeting	Resolutions	Newspapers on which the information was published	Publication dates
		To consider and approve the resolution on the Major Assets Reorganization in Compliance with Article 4 of the Provisions on Certain Issues Concerning the Regulation of Major Assets Reorganizations by Listed Companies; to consider and approve the resolution on Authorization by General Meeting to the Board for Handling Matters at its Discretion regarding the Absorption and Merger through Share Swap and the Asset Acquisition through Issuance of Shares; to consider and approve the resolution on the Entering into and Implementation of the Trademark Custody Agreement with Guangzhou Pharmaceutical Holdings Limited; to consider and approve the resolution on Withholding the Extraordinary General Meeting and Class Meetings.		
Written resolution of the fifth session of the Board	26 March 2012	To agree on the resolution on amendments to the relevant terms of the code of practice of the Audit Committee of the Board of Guangzhou Pharmaceutical Company Limited; to agree on the resolution on amendments to the relevant terms of the implementing regulations for the nomination and remuneration committee of the Board of Guangzhou Pharmaceutical Company Limited; to consider and approve the resolution on the procedures for shareholders to propose a person for election as a director of the Guangzhou Pharmaceutical Company Limited; to consider and approve the resolution on shareholders' communications policy of Guangzhou Pharmaceutical Company Limited; to consider and approve the resolution on the Board is responsible for performing the corporate governance functions of the Company in accordance with the terms of reference of corporate governance functions of the Board as set out in the Corporate Governance Code and Corporate Governance Report contained in the Appendix 14 to the Rules Governing the Listing of Securities on the HKEx, to agree to adopt the code provisions as set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Rules Governing the Listing of Securities on the HKEx and to approve to take necessary actions in compliance with the said code provisions.	Shanghai Securities News; Securities Times	28 March 2012

REPORT OF THE BOARD OF DIRECTORS

DAILY OPERATIONS OF THE BOARD OF DIRECTORS *(Continued)*

I. Board Meetings *(Continued)*

Meetings	Date of meeting	Resolutions	Newspapers on which the information was published	Publication dates
14 th meeting of the fifth session	26 April 2012	2012 First Quarterly Report of the Company; Resolution regarding the approval of the entrusted loan business between the Company and its subsidiaries.		27 April 2012
15 th meeting of the fifth session	14 May 2012	Resolution on the Entering into the Trade Name License Agreements of "Baiyunshan" between Guangzhou Baiyunshan Pharmaceutical Co., Ltd. and certain subordinate manufacturing enterprises of the Company; Resolution on the amendment to The Working Procedures of the Secretary to the Board of the Guangzhou Pharmaceutical Company Limited.		15 May 2012
16 th meeting of the fifth session	25 May 2012	Resolution on the Entering into the Trade Name License Agreements between GPLH and WLJ Great Health.		28 May 2012

REPORT OF THE BOARD OF DIRECTORS

DAILY OPERATIONS OF THE BOARD OF DIRECTORS *(Continued)*

I. Board Meetings *(Continued)*

Meetings	Date of meeting	Resolutions	Newspapers on which the information was published	Publication dates
17 th meeting of the fifth session of the Board	15 June 2012	To consider and approve the Resolution on the concurrent implementation of the Absorption and Merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. through Share Swap of additional A Shares and the Asset Acquisition through Issuance of A Shares to Guangzhou Pharmaceutical Holdings Limited by Guangzhou Pharmaceutical Company Limited; to consider and approve the Resolution on the Proposal for Asset Acquisition through Issuance of A Shares to Guangzhou Pharmaceutical Holdings Limited on an item-by-item basis; to consider and approve the Resolution on the Entering into and Implementation of the Supplemental Agreement to the Agreement on Asset Acquisition through Issuance of Shares with Guangzhou Pharmaceutical Holdings Limited; to consider and approve the Resolution on the Entering into and Implementation of the Agreement for the Compensation of the Difference between Actual Earning and Net Earning Forecast of the Assets Proposed to be Acquired with Guangzhou Pharmaceutical Holdings Limited; to consider and approve the Resolution on Report (draft) on the Absorption and Merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. through Share Swap, Asset Acquisition through Issuance of Shares and Connected Transactions of Guangzhou Pharmaceutical Company Limited published by the Company; to consider and approve the Resolution on the statement on the issues related to the asset valuation to consider and approve the resolution on the entering into and implementation of the supplemental agreement to the trademark custody agreement with Guangzhou Pharmaceutical Holdings Limited; resolution on the approval of audit report, valuation report and profit forecast report.	Shanghai Securities News; Securities Times	19 June 2012

REPORT OF THE BOARD OF DIRECTORS

DAILY OPERATIONS OF THE BOARD OF DIRECTORS *(Continued)*

I. Board Meetings *(Continued)*

Meetings	Date of meeting	Resolutions	Newspapers on which the information was published	Publication dates
		To consider and approve the resolution on the engagement of intermediaries for the Major Assets Reorganization; to consider and approve the Resolution on the Proposed Amendments to the Articles of Association of the Company; to consider and approve the resolution on convene the Extraordinary General Meeting and Class Meetings.		
Written resolution of the fifth session of the Board	13 July 2012	The resolution regarding the recommendation of Ms. Cheng Ning as a candidate of director of the Company	Shanghai Securities News; Securities Times	17 July 2012
18 th meeting of the fifth session of the Board	24 August 2012	The resolution on the company's 2012 half-year report; 2012 half-yearly financial report; 2012 half-year of the Company Auditors' Report; the approval of the major asset restructuring matters related domestic rules require the preparation of the audit report and earnings forecast.		27 August 2012
19 th meeting of the fifth session of the Board	29 October 2012	The resolution on 2012 Third Quarterly Report of the Company; the remuneration of the external supervisors and independent non-executive directors for the year 2012.		30 October 2012

II. THE DIVIDEND POLICY FORMULATION AND IMPLEMENTATION DURING THE REPORTING PERIOD

During the Reporting Period, the Company proposed to make amendments to Articles of Association in accordance with the related requirements of "Notice of Further Implementation of Relevant Matters on Cash Dividends by Listed Companies" (《關於進一步落實上市公司現金分紅有關事項的通知》) issued by CSRC and "Notice of Further Implementation of Relevant Provisions on Dividends by Listed Companies" issued by GDSRC (Guangdong Zhengjian [2012] No. 91), taking into account the condition of the Company the details were as follows:

REPORT OF THE BOARD OF DIRECTORS

DAILY OPERATIONS OF THE BOARD OF DIRECTORS *(Continued)*

II. THE DIVIDEND POLICY FORMULATION AND IMPLEMENTATION DURING THE REPORTING PERIOD *(Continued)*

The proposed amendments are as follows:

Article 211 the profit distribution of the Company is made according to the proportion of the shares held by the shareholders, emphasizing on bringing reasonable investment returns to the investors. The profit distribution policy strives to maintain continuity and stability.

(I) The Company's profit distribution policy is as follows:

1. Principle of profit distribution:

The Company implements a stable policy of profit distribution. On making a profit distribution, the Company will comply with the statutory requirement to make the distribution in order and will take into account the provision of reasonable and stable returns on investment to the shareholders and the long-term and sustainable growth of the Company.

2. Method of profit distribution

The Company may pay dividends in the form of cash, bonus shares or a combination of both, or other forms of dividends payment which are permitted by laws and regulations. Subject to the approval of the shareholders, the Board may be authorized to declare interim cash dividends;

3. Conditions of profit distribution and minimum dividend proportion:

The Company shall pay the dividends and the amount of cash dividends so paid shall not be less than 10% of the net profit attributable to shareholders of the Company for the year, provided that the working capital requirement for the Company's normal production and operation is met and the long-term and sustainable growth of the Company is maintained, and that there is no material investment plan or material cash expense. In the event that the Company has maintained growth in the profits for the past three years, the Company may increase the proportion for cash dividends to provide more returns to the investors.

Material investment plan or material cash expense represents the proposed external investment, acquisition or purchase of assets by the Company in the coming twelve months with accumulated expenses amounting to or exceeding 10% of the latest audited net assets of the Company.

4. In the event of misappropriation of the Company's funds by a shareholder, the Company can deduct the funds misappropriated from the cash dividends to be allocated to that shareholder as repayment.

REPORT OF THE BOARD OF DIRECTORS

DAILY OPERATIONS OF THE BOARD OF DIRECTORS *(Continued)*

II. THE DIVIDEND POLICY FORMULATION AND IMPLEMENTATION DURING THE REPORTING PERIOD *(Continued)*

(II) Procedures for Decision Making on Profit Distribution by the Company:

The proposal for profit distribution of the Company is formulated by the Board after taking into account the Company's specific conditions such as profitability, capital needs and growth of the Company and, upon consideration and approval by the Board, shall be proposed at the general meeting for approval. Independent directors shall express their independent opinions on the reasonableness of the profit distribution proposal for the year before the same is considered by the Board.

- (III) In the event that the Company revises its profit distribution policy in response to the external business environment or its own state of operation, the Company shall first consider the protection of the shareholders' interests, make thorough consideration and state the reasons thereof. The revised profit distribution policy shall not be contrary to the relevant requirements of CSRC and stock exchanges in the PRC and Hong Kong. The proposal for the revision of the profit distribution policy shall first be approved by the independent directors of the Company and they shall express independent opinions, and thereafter shall be proposed to the Board for consideration before being submitted to the general meeting for consideration and approval by a special resolution thereat.

If the Company records profits for a year but the Board fails to make any proposal for cash profit distribution, the Board shall state the reasons thereof in details and the planned application and use of such retained funds that would have been otherwise available for distribution in the annual report for the year, and the independent directors shall express independent opinions in such regard and shall be disclosed accordingly.

The proposed amendments were passed at the Board meeting held on 15 June 2012 and the first extraordinary general meeting in 2012 held on 19 September 2012.

III. The Progress of Execution by the Directors in respect of the Resolutions Passed at General Shareholders' Meetings

1. Distribution of 2011 final dividend

Pursuant to the resolutions on financial accounts approval and dividend declaration passed at the 2011 annual general meeting held on 12 April 2012, 2011 final dividend of RMB1.00 (including tax) for every 10 shares held was approved and paid, in cash, to all shareholders of the Company, based on the total share capital of 810,900,000 shares at the end of 2011.

The final dividend of RMB0.10 (including tax) per share for 2011 was paid to the Company's H-share shareholders on 11 June 2012 whose names appeared on the register of the Company as at 2 May 2012.

REPORT OF THE BOARD OF DIRECTORS

DAILY OPERATIONS OF THE BOARD OF DIRECTORS *(Continued)*

III. The Progress of Execution by the Directors in respect of the Resolutions Passed at General Shareholders' Meetings *(Continued)*

1. Distribution of 2011 final dividend *(Continued)*

According to the announcement for 2011 final dividend published in Shanghai Securities News and Securities Times in the PRC on 14 May 2012, the registration date for A shares was 17 May 2012, the ex-dividend date was 18 May 2012 and the dividend payment date was 11 June 2012.

2. Proposed scheme of profit distribution and increase in share capital by transfer from capital reserve

As audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company, the consolidated net profit attributable to the shareholders of the Company for the Year 2012 was RMB395,278,360.28. Based on the Company's net profit of RMB263,666,455.43 for 2012, after the transfer of 10% amounting to RMB26,366,645.54 to the statutory surplus reserve fund, plus the retained earnings of RMB1,172,995,270.13 transferred from last year and after deducting the dividend of RMB81,090,000.00 distributed for 2011, the amount of retained profits available for the distribution to shareholders of the Company for 2012 amounted to RMB1,329,205,080.02.

On 21 December 2012, the Company received the "Approval of the Asset Acquisition through Issuance of Shares to GPLH and the Absorption and Merger of Baiyunshan" from the CSRC. Pursuant to the approval, the Company was allowed to issue 34,839,645 shares to GPLH for the acquisition of the related assets and 445,601,005 shares to swap shares with Baiyunshan. Up to now, the Company is actively promoting the implementation of Major Assets Reorganization. According to the Absorption and Merger Agreement and its supplemental agreement entered into by the Company and Baiyunshan, and Asset Acquisition through Issuance of Shares Agreement and its supplemental agreement entered into by the Company and the GPLH, before the implementation of any Major Assets Reorganization, if the Company has any ex dividend matters such as the distribution of dividend distribution of interests and increase in share capital by any transfer from capital reserve, then the convertible price and the issue price of the shares will be adjusted accordingly, the number of new shares and the issued shares will also change accordingly and which will again require the approval of the CSRC. In order to ensure that the Major Assets Reorganization process will not be affected by the dividend payout, the Board suggested: (1) not to distribute any 2012 annual dividend and not to increase the share capital by transfer from capital reserve; and (2) after the implementation of the Major Assets Reorganization is completed, the Company will consider distributing special dividend, and the cash dividend distribution will not be less than 10% of the net profit attributable to the shareholders of the Company of 2012.

The profit distribution plan will be submitted to the Company's 2012 Annual General Meeting. The independent non-executive directors have given their independent opinions on the above matters.

REPORT OF THE BOARD OF DIRECTORS

DAILY OPERATIONS OF THE BOARD OF DIRECTORS *(Continued)*

III. The Progress of Execution by the Directors in respect of the Resolutions Passed at General Shareholders' Meetings *(Continued)*

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

Bonus Year	Amount of profit distribution in cash (including tax) (RMB'000)	Consolidated net profit attributable to the shareholders of the listed Company of the bonus year (RMB'000)	Payout ratio (%)
2011	81,090	287,531	28.20
2010	40,545	267,112	15.18
2009	40,545	210,989	19.22
Total	162,180	765,632	21.18

IV. Report of the Fulfillment of Responsibilities of the Audit Committee

During the Reporting Period, the Audit Committee worked diligently and discharged their duties seriously in accordance with relevant rules, regulations and the relevant regulations set out in the Articles of Association and the Code of Practice of the Audit Committee of the Company. Besides, the Audit Committee actively worked in line with the requirements set out in the Notice ([2012] No.22) issued by CSRC on 19 September 2012 and "Notice on How to Successfully Prepare the 2012 Annual Report by Listed Companies" issued by SSE on 31 December 2012 to oversee the auditing work for 2012 and the preparation of the annual report.

1. Major tasks accomplished by the Audit Committee in 2012 including:
 - (1) convening two meetings in 2012 to review the 2011 Annual Report and 2012 Interim Report of the Group as well as the recommendations on management issued by external auditors and the respective response by the Company's management. Each of the members of the committee attended all the meetings;
 - (2) evaluating the accounting policies adopted by the Group and the relevant issues regarding accounting practice;

REPORT OF THE BOARD OF DIRECTORS

DAILY OPERATIONS OF THE BOARD OF DIRECTORS *(Continued)*

IV. Report of the Fulfillment of Responsibilities of the Audit Committee *(Continued)*

- (3) proposing to the Board for re-appointing or newly appointing accountant of the Company for the Year;
- (4) issuing recommendations with respect to major events of the Company or reminding the management of relevant risks.

2. Annual audit for 2012 and relevant jobs regarding the preparation of the Annual Report

After the Notice ([2012] No.22) issued by CSRC on 19 September 2012 and “Notice on How to Successfully Prepare the 2012 Annual Report by Listed Companies” issued by SSE on 31 December 2012, 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 2012 and preparatory work for the annual report of the Company, which included the following:

- (1) The Committee negotiated with the domestic and international auditors of the Company and the Company’s Finance Department regarding the time for audit and the relevant arrangements and set out the “Framework for the Preparation of 2012 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 6 February 2013 and issued written recommendations thereon.
- (3) After 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 believes the 2012 Financial Reports of the Company reflected the state of affairs of the Company truly, accurately and completely, and agreed to submit the reports to the Board for approval.
- (4) On 28 February 2013, the Audit Committee convened the first meeting for 2013 and considered and passed the 2012 Annual Report of the Company and the Company’s 2012 Financial Statements. 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 issued fair and unbiased management recommendations to the management of the Company, and completed the audit work with satisfactory performance.

REPORT OF THE BOARD OF DIRECTORS

DAILY OPERATIONS OF THE BOARD OF DIRECTORS *(Continued)*

V. Report of the Discharge of Duties of the Nomination and Remuneration Committee

During the Reporting Period, the Nomination and Remuneration Committee worked diligently and discharged their duties seriously in accordance with relevant rules, regulations and the relevant regulations set out in the Articles of Association and the Code of Practice of the Committee.

On 28 February 2013, the Nomination and Remuneration Committee convened the first meeting for 2013 and each of the committee members attended the meeting. Examinations and approvals were made during the meeting regarding the disclosure of emoluments of the directors, supervisors and senior management in the 2012 Annual Report. The Committee believes 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.

VI. Report of the Discharge of Duties of Responsibilities of the Budget Committee

During the Reporting Period, the Budget Committee worked diligently and discharged their duties seriously in accordance with relevant rules, regulations and the relevant regulations set out in the Articles of Association and the Code of Practice of the Committee.

On 28 February 2013, the Budget Committee convened the first meeting for 2013 and the 2013 operation targets and budget bill, 2013 budgeting plan were examined and passed during the meeting.

VII. THE 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.

REPORT OF THE BOARD OF DIRECTORS

DAILY OPERATIONS OF THE BOARD OF DIRECTORS *(Continued)*

VIII. 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, assets are secured, financial reports and related information are true and complete so as to enhance the operation efficiency and efficacy, and promote the launching of development strategies of the Company. The Board is responsible for the establishment, improvement and effective implementation of internal control. 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 Norms of Corporate Internal Control” 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.

IX. IMPLEMENTATION OF INSIDER INFORMATION MANAGEMENT SYSTEM

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.

OTHER MATTERS

I. Accounts

The results of the Group for the Year are set out in the consolidated income statement.

The financial conditions of the Group as at 31 December 2012 are set out in the consolidated balance sheet.

The cash flows of the Group for the Year are set out in the consolidated cash flow statement.

The cash flows of the Company for the Year are set out in the cash flow statement.

REPORT OF THE BOARD OF DIRECTORS

OTHER MATTERS (Continued)

II. Financial Summary

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

III. Reserves

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

IV. Distributable Reserves

The distributable reserves of the Group as at 31 December 2012 amounted to RMB1,329,205,000 calculated in accordance with the PRC Accounting Standards.

V. Fixed Assets

Details of the movements of fixed assets for the Year are set out in this annual report.

VI. Connected Transactions

Details of Connected Transactions were set out in Major Events 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

The Company complied with the code provisions of the Former CG Code and New CG Code except that independent non-executive directors, namely, Mr. Liu Jingxiang, Mr. Qiu Hongzhong, Mr. Li Shanmin and Mr. Zhang Yonghua, were unable to attend the Annual General Meeting or the extraordinary general meeting and class meeting due to other important matters which constituted a deviation from code provision 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.

REPORT OF THE BOARD OF DIRECTORS

OTHER MATTERS (Continued)

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 in this annual report respectively.

XI. Projects under Development and for Sale

During the Reporting Period, contributions from the investment properties of the Group accounted for more than 5% of the Group's operating profit before tax. Particulars of the more significant properties are listed as follows:

The lessor	Rental property	Amount involved of the rental property	Commencing date of leasing	Closing date of leasing	Gain from leasing (RMB'000)	Reference of determination of gains from leasing	Impact of gains from leasing on the Company	Whether the connected transaction	Connected relationship
Chen Li Ji	Yin Zuo Plaza	The net amount of investment property as at 31 December 2012 was RMB3,994,000	1 January 2009	31 December 2013	19,547	Contract	4.27% of profit of the Group	No	-----

XII. Bank Loans, Overdrafts and Other Loans

Details of the bank loans, overdrafts, and other liabilities of the Group as at 31 December 2012 are set out in this annual report. In comparison to 2011, there have been no material adverse changes in respect of the amounts of bank loans, short-term borrowings and total liabilities as of 31 December 2012.

XIII. Auditors

PricewaterhouseCoopers Zhong Tian CPAs limited company is appointed as the auditor of the Company for the Year, as approved at the 2011 Annual General Meeting.

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

During the Reporting Period, there was no change in the newspapers designated by Company for information disclosure.

On behalf of the Board
Yang Rongming
 Chairman

Report of the Supervisory Committee

To all shareholders:

On behalf of the Supervisory Committee, I hereby report to you the duties performed by the Supervisory Committee during the year ended 31 December 2012 in accordance with the Company's Articles of Association.

I. MEETINGS OF THE SUPERVISORY COMMITTEE HELD DURING THE YEAR

During the Reporting Period, eight meetings were held.

Session and number of meeting	Date of meeting	Resolutions	Newspapers for publication of information	Dates for publication
8 th meeting of the fifth session of the Supervisory Committee	16 February 2012	Report of the Supervisory Committee of the Company for the year 2011; Financial reports of the Company for the year 2011; Resolution regarding the provision of guarantees by Guangzhou Bai Di, a subsidiary of the Company, to secure bank loans for Nuo Cheng; The written opinions of the Supervisory Committee upon reviewing the 2011 annual report of the Company; The opinions of the Supervisory Committee upon reviewing the 2011 self-evaluation report on the internal control of the Company.	Shanghai Securities News; Securities Times	17 February 2012

Report of the Supervisory Committee

I. MEETINGS OF THE SUPERVISORY COMMITTEE HELD DURING THE YEAR *(Continued)*

Session and number of meeting	Date of meeting	Resolutions	Newspapers for publication of information	Dates for publication
9 th meeting of the fifth session of the Supervisory Committee	29 February 2012	To consider and approve the resolution on the Proposal for the Absorption and Merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. by Guangzhou Pharmaceutical Company Limited through Share Swap of Additional A Shares; to consider and approve the resolution on the Entering into and Implementation of the Absorption and Merger Agreement with Guangzhou Baiyunshan Pharmaceutical Co., Ltd; to consider and approve the resolution on the proposal for Asset Acquisition through Issuance of A Shares to Guangzhou Pharmaceutical Holdings Limited on an item-by-item basis; to consider and approve the resolution on the Entering into and Implementation of the Asset Acquisition Through Issuance of Shares Agreement with Guangzhou Pharmaceutical Holdings Limited, the resolution on Absorption and Merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. through share swap, asset acquisition through issuance of shares and connected transaction of Guangzhou Pharmaceutical Company Limited (draft published by the Company), to consider and approve the resolution on the Entering into and Implementation of the Trademark Custody Agreement with Guangzhou Pharmaceutical Holdings Limited	Shanghai Securities News; Securities Times	28 March 2012

Report of the Supervisory Committee

I. MEETINGS OF THE SUPERVISORY COMMITTEE HELD DURING THE YEAR *(Continued)*

Session and number of meeting	Date of meeting	Resolutions	Newspapers for publication of information	Dates for publication
10 th meeting of the fifth session of the Supervisory Committee	26 April 2012	First quarterly report of the Company for the year 2012	/	/
11 th meeting of the fifth session of the Supervisory Committee	14 May 2012	Resolution on the Entering into the Trade Name License Agreements of "Baiyunshan" between Guangzhou Baiyunshan Pharmaceutical Co., Ltd. and certain manufacturing subsidiaries of the Company.	Shanghai Securities News; Securities Times	15 May 2012
12 th meeting of the fifth session of the Supervisory Committee	25 May 2012	Resolution on the Entering into the Trade Name License Agreements between GPLH and WLJ Great Health.	Shanghai Securities News; Securities Times	28 May 2012

Report of the Supervisory Committee

I. MEETINGS OF THE SUPERVISORY COMMITTEE HELD DURING THE YEAR *(Continued)*

Session and number of meeting	Date of meeting	Resolutions	Newspapers for publication of information	Dates for publication
13 th meeting of the fifth session of the Supervisory Committee	15 June 2012	To consider and approve the Resolution on the concurrent implementation of the Absorption and Merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. through Share Swap of additional A Shares and the Asset Acquisition through Issuance of A Shares to Guangzhou Pharmaceutical Holdings Limited by Guangzhou Pharmaceutical Company Limited; to consider and approve the Resolution on the Proposal for Asset Acquisition through Issuance of A Shares to Guangzhou Pharmaceutical Holdings Limited; to consider and approve the Resolution on the Entering into and Implementation of the Supplemental Agreement to the Agreement on Asset Acquisition through Issuance of Shares with Guangzhou Pharmaceutical Holdings Limited; to consider and approve the Resolution on the Entering into and Implementation of the Agreement for the Compensation of the Difference between Actual Earning and Net Earning Forecast of the Assets Proposed to be Acquired with Guangzhou Pharmaceutical Holdings Limited;	Shanghai Securities News; Securities Times	19 June 2012

Report of the Supervisory Committee

I. MEETINGS OF THE SUPERVISORY COMMITTEE HELD DURING THE YEAR *(Continued)*

Session and number of meeting	Date of meeting	Resolutions	Newspapers for publication of information	Dates for publication
		to consider and approve the Resolution on Report (draft) on the Absorption and Merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. through Share Swap, Asset Acquisition through Issuance of Shares and Connected Transactions of Guangzhou Pharmaceutical Company Limited published by the Company; to consider and approve the resolution on the entering into and implementation of the supplemental agreement to the trademark custody agreement with Guangzhou Pharmaceutical Holding Limited		
14 th meeting of the fifth session of the Supervisory Committee	24 August 2012	The company's 2012 half-year report; 2012 interim financial report; the written audit opinion on the 2012 interim report of the Company.	Shanghai Securities News; Securities Times	27 August 2012
15 th meeting of the fifth session of the Supervisory Committee	29 October 2012	Third quarterly report of the Company for the year 2012	/	/

Report of the Supervisory Committee

II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S OPERATIONS

1. The Company's operations during the Reporting Period

During the Reporting Period, the Supervisory Committee has 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.

Report of the Supervisory Committee

II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S OPERATIONS *(Continued)*

2. The supervision of the Company's financial conditions

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, and the auditing and financial management were in line with the relevant regulations. The auditor issued their standard and unqualified auditor's reports upon auditing the accounts of the Group and the Company for the year ended 31 December 2012, which reflect an objective, true and fair view of the financial status of the Company as at 31 December 2012 and the operations results of the Group for the year then ended.

3. Use of proceeds raised from the issue of A shares

Proceeds from the issuance of A shares of the Company have been used up by 31 December 2007.

4. Purchases and sales of assets of the Company

During the Reporting Period, the considerations for purchases and sales of assets were reasonable and arrived at on an arm's length basis. There has been no insider dealings which would harm the interests of certain shareholders or cause loss of the Company's assets.

Report of the Supervisory Committee

II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S OPERATIONS *(Continued)*

5. Connected transactions

During the Reporting Period, the Company's connected transactions including:

- (1) Provision of guarantees by Guangzhou Bai Di, a subsidiary of the Company, to secure bank loans for Nuo Cheng;
- (2) The Resolution on the Proposal for the Absorption and Merger of Baiyunshan by GPC;
- (3) The Resolution on the Entering into and Implementation for the Absorption and Merger Agreement with Baiyunshan;
- (4) The Resolution on the Proposal for Asset Absorption through Issuance to GPLH;
- (5) The conditions precedent on the Entering into and Implementation of Asset Absorption Agreement through Issuance of Shares and the supplemental agreement to the Agreement on Asset Absorption through Issuance of Shares with GPLH;
- (6) The plan on the Proposal for the Absorption and Merger of Baiyunshan and the Proposal for Asset Absorption through Issuance of Shares to GPLH and connected transactions;
- (7) The conditions precedent on the Entering into and Implementation of the Trademark Custody Agreement and the Trademark Custody supplemental agreement with GPLH;
- (8) The manufacturing subsidiaries of the Company entered into the Baiyunshan Tradename License Agreements with Baiyunshan;
- (9) WLJ Great Health, a wholly-owned subsidiary of the Company, entered into the Tradename License Agreements with GPLH;
- (10) The Resolution on Entering into and Implementation of the Agreement for the Compensation of the Difference between Actual Earning and Net Earning Forecast of the Assets Proposed to be Acquired with GPLH.

The continuing connected transactions and connected transactions including the acquisition and sales connected transactions with GPLH and its subsidiaries, the trademark license, leasing of the premise and the provision of the accommodation services with GPLH above were arrived at on fair and just commercial principles and do not involve any actions which may adversely affect the interests of the Company and its shareholders.

Report of the Supervisory Committee

II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S OPERATIONS *(Continued)*

6. Review of self-assessment report on internal control of the Company

The Supervisory Committee had reviewed the relevant materials regarding the self-assessment report on internal control pursuant to the requirements of the Notice ([2012] No.22) issued by CSRC on 19 September 2012 and “Notice on How to Successfully Prepare the 2012 Annual Report by Listed Companies”, and expressed no dissenting views on the self-assessment report on internal control of the Board of the Company.

On behalf of the Supervisory Committee

Yang Xiuwei

Chairlady

Guangzhou, the PRC, 28 February 2013

Major Events

I. SIGNIFICANT LITIGATION OR ARBITRATION

WLJ Great Health, the wholly-owned subsidiary of the Company, had received a notice calling for responses to civil legal proceedings [(2012) – Zhongminchuzi No. 8778] ((2012) – 中民初字第8778號) (the “Responses Notice”) from the Beijing No.1 Intermediate People’s Court* (北京市第一中級人民法院). According to the Responses Notice, the Beijing No.1 Intermediate People’s Court has accepted the submission made by the plaintiff, Guangdong Jia Duo Bao Beverage and Food Company Limited* (廣東加多寶飲料食品有限公司) to proceed with the case in relation to the allegation of unauthorized use of the specific name, packaging and decoration of the well-known products by WLJ Great Health.

Please refer to the details of the announcement published in the Shanghai Securities News, the Securities Times and the website of the SSE on 15 August 2012, and the contents of which have also been reproduced and published as overseas regulatory announcement on the website of HKEx on 14 August 2012.

The Group had no significant litigation or arbitration during the Reporting Period except above.

II. DURING THE REPORTING PERIOD AND AFTER THE REPORTING PERIOD, THE COMPANY’S PURCHASE AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION AND OTHER TRANSACTIONS

1. On 14 May 2012, the six manufacturing subsidiaries of the Company entered into the Baiyunshan Tradename License Agreements with Baiyunshan on connected transaction in the ordinary and usual course of business of the Group. The transactions contemplated under the Baiyunshan Tradename License Agreements were considered and passed by the Board.

Please refer to the details for the announcements which were published in Shanghai Securities News, the Securities Times and the website of the SSE (www.sse.com.cn) on 15 May 2012 and on the website of the HKEx (www.hkex.com.hk) on 14 May 2012.

2. On 25 May 2012, WLJ Great Health, the Company’s wholly-owned subsidiary, entered into the Trademark License Agreement with GPLH on connected transactions in the ordinary and usual course of business of the Group. The transactions contemplated under the Trademark License Agreement were considered and passed by the Board.

Please refer to the details for the announcements which were published in Shanghai Securities News, the Securities Times and the website of the SSE and on the website of the HKEx on 28 May 2012.

Major Events

II. DURING THE REPORTING PERIOD AND AFTER THE REPORTING PERIOD, THE COMPANY'S PURCHASE AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION AND OTHER TRANSACTIONS *(Continued)*

3. It was approved by the Strategic Development and Investment Committee of the Company at its first meeting for 2012 of the Company, Pan Gao Shou and Cai Zhi Lin, subsidiaries of the Company, jointly invested RMB2,400,000 to set up a joint venture named Chongqing Guang Yao Development Co., Ltd.* (重慶廣藥中藥材開發有限公司) with Cheng Kou Xian Xin He Agricultural Development Co., Ltd.* (城口縣新合農業開發有限公司). The registered capital of the newly established company is RMB3,000,000, in which Pan Gao Shou and Cai Zhi Lin hold 39% and 41% of its interests respectively. At present, the formalities in relation to the setting up of the joint venture is underway.
4. It was approved by the Strategic Development and Investment Committee of the Company at its first meeting for 2012 that Pan Gao Shou acquired 10% equity interest in Guangzhou Pan Gao Shou Natural Care Products Co., Ltd. held by Guangzhou Panyu Shi Qiao Asset Management Co., Ltd.* (廣州市番禺區市橋鎮資產管理有限公司) at a consideration of RMB4,500,000. The said acquisition was completed in early January 2013.
5. It was approved by the Strategic Development and Investment Committee of the Company at its second meeting for 2012 that the Company, the Company invested RMB6,600,000, together with Guangdong Gong Chuang Economic Development Co., Ltd. * (廣東共創經濟發展有限公司) and Guangdong Hao Hong Investment Co., Ltd. * (廣東皓泓投資有限公司) to set up a joint venture named Guangzhou Guang Yao Yi Gan.* (廣州廣藥益甘生物製品股份有限公司). The registered capital of the newly established company is RMB11,000,000, in which the Company holds 60% of its interests. The above transactions have been completed as at the end of November 2012.
6. It was approved by the Strategic Development and Investment Committee of the Company at its third meeting for 2012 that the Company, the subsidiaries of the Company named Han Fang and Bai Di entered into the "Baiyunshan" Tradename License Agreements with Baiyunshan.
7. It was approved by the Strategic Development and Investment Committee of the Company at its third meeting for 2012 that the Company, Zhong Yi, Qi Xing and Cai Zhi Lin, subsidiaries of the Company, jointly invested to set up a joint venture named Ji Lin Jin Yu Guang Yao Development Co., Ltd.* (吉林靖宇廣藥中藥材開發有限公司) with Ji Lin Jin Yu Xian Kang Da Forestry Ecological Development Co., Ltd.* (吉林省靖宇縣康達林業生態開發有限公司) and Shandong Dong-E E-Jiao Co., Ltd.* (山東東阿阿膠股份有限公司). The registered capital of the newly established company is RMB3,000,000, in which Zhong Yi, Qi Xing and Cai Zhi Lin hold 10%, 10% and 41% of its interests respectively. The above transactions was completed in late December 2012.

Major Events

II. DURING THE REPORTING PERIOD AND AFTER THE REPORTING PERIOD, THE COMPANY'S PURCHASE AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION AND OTHER TRANSACTIONS (Continued)

8. 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
Baiyunshan	Fellow ultimate holding company	Purchase of products	Medicine or Pharmaceutical products	Market price	103,390	1.68	cash
Ming Xing	Others	Purchase of products	Medicine or Pharmaceutical products	Market price	486	0.01	cash
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Others	Purchase of products	Medicine or Pharmaceutical products	Market price	105	0.00	cash
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Others	Purchase of products	Medicine or Pharmaceutical products	Market price	26,419	0.43	cash
Polian	Fellow parent company	Purchase of products	Medicine or Pharmaceutical products	Market price	85,202	1.38	cash
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	Others	Purchase of products	Medicine or Pharmaceutical products	Market price	1,809	0.03	cash
GP Corp.	Joint venture	Purchase of products	Medicine or Pharmaceutical products	Market price	120,236	1.95	cash
Wang Lao Ji	Joint venture	Purchase of products	Medicine or Pharmaceutical products	Market price	19,498	0.32	cash
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Others	Purchase of products	Medicine or Pharmaceutical products	Market price	106,596	1.73	cash
Nanyang Baiyunshan Hutchinson Whampoa Guanbao Pharmaceutical Co., Ltd	Others	Purchase of products	Medicine or Pharmaceutical products	Market price	1,872	0.03	cash
Fuyang Baiyunshan Hutchinson Whampoa Chinese Medicine technology Co., Ltd	Others	Purchase of products	Medicine or Pharmaceutical products	Market price	7,017	0.11	cash
Dajing Baiyunshan Hutchinson Whampoa Isatis Root technology Co., Ltd	Others	Purchase of products	Medicine or Pharmaceutical products	Market price	3,094	0.05	cash
Sub-total					475,724	7.72	

Major Events

II. DURING THE REPORTING PERIOD AND AFTER THE REPORTING PERIOD, THE COMPANY'S PURCHASE AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION AND OTHER TRANSACTIONS (Continued)

8. 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	242	0.00	cash
Baiyunshan	Fellow ultimate holding company	Sales of products	Medicine or Pharmaceutical products	Market price	35,861	0.44	cash
Ming Xing	Others	Sales of products	Medicine or Pharmaceutical products	Market price	75,375	0.93	cash
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or Pharmaceutical products	Market price	2,330	0.03	cash
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd	Others	Sales of products	Medicine or Pharmaceutical products	Market price	108,163	1.33	cash
Polian	Fellow parent company	Sales of products	Medicine or Pharmaceutical products	Market price	6,930	0.09	cash
Guangzhou Pharmaceutical Research General Institute	Fellow parent company	Sales of products	Medicine or Pharmaceutical products	Market price	633	0.01	cash
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	Others	Sales of products	Medicine or Pharmaceutical products	Market price	43,662	0.54	cash
GP Corp.	Joint venture	Sales of products	Medicine or Pharmaceutical products	Market price	359,237	4.42	cash
Wang Lao Ji	Joint venture	Sales of products	Medicine or Pharmaceutical products	Market price	112,847	1.39	cash
Nuo Cheng	Joint venture	Sales of products	Medicine or Pharmaceutical products	Market price	35	0.00	cash
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd	Others	Sales of products	Medicine or Pharmaceutical products	Market price	16,138	0.20	cash

Major Events

II. DURING THE REPORTING PERIOD AND AFTER THE REPORTING PERIOD, THE COMPANY'S PURCHASE AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION AND OTHER TRANSACTIONS (Continued)

8. 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
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or Pharmaceutical products	Market price	86	0.00	cash
Nanyang Baiyunshan Hutchinson Whampoa Guanbao Pharmaceutical Co., Ltd	Others	Sales of products	Medicine or Pharmaceutical products	Market price	37,423	0.46	cash
Fuyang Baiyunshan Hutchinson Whampoa Chinese Medicine technology Co., Ltd	Others	Sales of products	Medicine or Pharmaceutical products	Market price	74	0.00	cash
Sub-total					799,036	9.84	
GPHL	Parent company	Acceptance of Patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	26,093	100.00	cash
Baiyunshan	Fellow ultimate holding company	Others	Rights to use trademarks	Agreement price	8,052	100.00	cash
Wang Lao Ji	Joint venture	Provision of patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	20,952	100.00	cash
GPHL	Parent company	Others	Rental assets	Agreement price	2,228	8.97	cash
GPHL	Parent company	Others	Accommodation fees of employees	Agreement price	353	100.00	cash
Guangzhou Pharmaceutical Research General Institute	Fellow parent company	Transfer of research and development projects	Research and development fees	Agreement price	55	0.06	cash
Total					1,332,493		

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

Major Events

II. DURING THE REPORTING PERIOD, THE COMPANY'S PURCHASE AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION AND OTHER TRANSACTIONS *(Continued)*

8. Daily connected transactions *(Continued)*

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

	2012
	(RMB'000)
Ultimate holding company	
License fee expenses of 38 trademarks of GPHL	7,057
License fee expenses of Wang Lao Ji trademark	19,036
Service fee expenses	353
Rental expense	2,228
Ultimate Holding Company and its subsidiaries	
Sales of finished goods and raw materials	326,916
Purchases of finished goods and raw materials	335,990
License fee expenses of Baiyunshan trade name	8,052

In addition, other transactions with jointly controlled entities and associated companies which pursuant to the Listing Rules of HKEx, do not constitute connected transactions, have been disclosed in notes to the financial reports.

The directors believe that the above-mentioned connected transactions have been conducted in full compliance with the relevant clauses in agreements and contracts governing such transactions. The directors confirm that the annual caps for Baiyunshan trademark license agreement announced on 14 May 2012 are RMB10,000,000 and RMB6,000,000 for year 2012 and 2013, respectively; the directors confirm that the annual caps for Wang Lao Ji trademark license agreement announced on 25 May 2012 are RMB38,955,000 and RMB27,825,000 for year 2012 and 2013, respectively (calculated based on the net fee paid to GPHL).

The independent non-executive directors have each reviewed the connected transactions and confirmed all the transactions as being carried out within the Company's ordinary operations and under ordinary 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. In addition, the aggregate amount of the daily connected transactions such as sales and purchases has not exceeded the annual caps as stated in the agreement in relation to the sales and purchase connected transactions entered into between the Company and GPHL, and the aggregate amount of licence fee of Wanglaoji trademark and licence fee of Baiyunshan trade name have not exceed the annual cap disclosed in the Company's annual report dated 28 February 2013.

Major Events

II. DURING THE REPORTING PERIOD AND AFTER THE REPORTING PERIOD, THE COMPANY'S PURCHASE AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION AND OTHER TRANSACTIONS *(Continued)*

8. Daily connected transactions *(Continued)*

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 Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his findings and conclusions in respect of the sales and purchases of finished goods and raw materials, the licence fee of Wang Lao Ji and the trademark royalty of "Baiyunshan" as disclosed in the continuing connected transactions above in accordance with Main Board Listing Rule 14A.38.

Other than those disclosed above, details of material acquisitions or disposals of the Group were set out in (XII) Trading Assets and Merger and Acquisition under the session of Major Events of this annual report (for details of the above transactions, please refer to the announcements of the Company dated 27 August 2010, 28 October 2010, 14 May 2012 and 25 May 2012).

III. DURING THE REPORTING PERIOD, THE GROUP HAD NO NON-OPERATIONAL DEBTS TO/ FROM CONNECTED PARTIES.

IV. DURING THE REPORTING PERIOD, THE COMPANY DID NOT HAVE ANY SPECIAL TRANSACTION WITH ITS CONNECTED PARTIES INCLUDING DIRECT DONATIONS IN CASH OR REAL ASSETS, DIRECT EXEMPTION OR REPAYMENT, ETC.

V. MATERIAL CONTRACTS AND THEIR PERFORMANCE

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

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

Major Events

VI. GUARANTEES

Guarantees provided to parties other than the Group's subsidiaries

Guaranteed	Date of signing of agreements	Amount involved (RMB'000)	Type of guarantees	Term of guarantees	Executed or not	Guarantees for connected parties
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)						59,088
Balance of guarantees as at the end of the Reporting Period (RMB'000)						59,088

The Company's guarantees provided to its holding subsidiaries

Accumulated amount of guarantees provided to the Company's holding subsidiaries during the Reporting Period (RMB'000)	210,000
Balance of guarantees provided to the Company's holding subsidiaries as at the end of the Reporting Period (RMB'000)	210,000

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

Total amount of guarantees provided (RMB'000)	269,088
% of the net assets of the Group's (%)	6.37
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)	200,000
Amount of guarantees provided which exceeds 50% of the total net assets of the Company (RMB'000)	—
Total (RMB'000)	200,000

Major Events

VII. PERFORMANCE OF UNDERTAKINGS

1. Independence of listed company

Item	Content
Undertaking entity	Controlling shareholder
Type of undertakings	Undertakings related to Major Assets Reorganization
Undertakings	<ol style="list-style-type: none"> After completion of the Major Assets Reorganization, GPL, the controlling shareholder of the Company, will comply with requirements of relevant laws and regulations, regulatory documents and the Articles of Association of Guangzhou Pharmaceutical Company Limited, and exercise shareholder's right according to laws and will not affect the independence of GPC by exerting its influence as a controlling shareholder and will maintain the integrity and independence of GPC in respect of assets, employees, finance, organisation and business. The undertaking letter will remain effective so long as GPC legally and validly exists and GPL owns controlling interest in GPC.
Time and period of undertaking	Long-term
Any period for performance	----
Whether timely and strictly performed	----
Solution	----
Remark	Relevant undertakings were disclosed in the Preliminary Proposal of the Reorganization. The prerequisite for the performance of the undertaking letter is the approval of the Major Assets Reorganization by CSRC.

Major Events

VII. PERFORMANCE OF UNDERTAKINGS *(Continued)*

2. Avoiding Horizontal Competition

Item	Content
Undertaking entity	Controlling shareholder
Type of undertakings	Undertakings related to Major Assets Reorganization
Undertakings	<ol style="list-style-type: none"> After completion of the Major Assets Reorganization, GPLH and its controlling subsidiaries (“subsidiaries”, excluding GPC and its subsidiaries) should avoid engaging in business and operations which substantially compete with those of the subsisting GPC after completion of the Major Assets Reorganization (“new GPC”), and avoid increasing investment in companies and enterprises, other than new GPC and its subsidiaries, which engages in business and operations which substantially compete with those of new GPC. GPLH will not and will procure its subsidiaries not to engage in the same or similar business of new GPC to avoid direct or indirect competition with the operation and business of new GPC. In addition, GPLH will voluntarily and will vigorously procure its subsidiaries to give up competing with new GPC if GPLH and its subsidiaries will bring unfair impact on new GPC in respect of market shares, business opportunities and allocation of resources. GPLH is willing to bear the economic losses and/or additional costs directly and/or indirectly suffered or incurred by new GPC due to any breach of the above undertakings. The undertaking letter will remain effective so long as GPC legally and validly exists and GPLH owns controlling interest in GPC.
Time and period of undertaking	Long-term
Any period for performance	Performance not started yet
Whether timely and strictly performed	-----
Solution	-----
Remark	Relevant undertakings were disclosed in the Preliminary Proposal of the Reorganization. The prerequisite for the performance of the undertaking letter is the approval of the Major Assets Reorganization by CSRC.

Major Events

VII. PERFORMANCE OF UNDERTAKINGS (Continued)

2. Avoiding Horizontal Competition (Continued)

Item	Content
Undertaking entity	Controlling shareholder
Type of undertakings	Undertakings related to Major Assets Reorganization
Undertakings	For resolving potential competition completely, GPHL undertakes that it will transfer 100% equity interest of Guangzhou Pharmaceutical Research Institute* (廣州醫藥研究總院) (the limited company) to GPC within two years from the date Guangzhou Pharmaceutical Research Institute completed the ownership reform* (公司改制) and its shares became transferable in accordance with requirements of the laws and regulations then in force.
Time and period of undertaking	Long-term
Any period for performance	----
Whether timely and strictly performed	----
Solution	----
Remark	Relevant undertakings were disclosed in the Preliminary Proposal of the Reorganization. The prerequisite for the performance of the undertaking letter is the approval of the Major Assets Reorganization by CSRC.

Major Events

VII. PERFORMANCE OF UNDERTAKINGS *(Continued)*

3. Regulating related party transactions

Item	Content
Undertaking entity	Controlling shareholder
Type of undertakings	Undertakings related to Major Assets Reorganization
Undertakings	<ol style="list-style-type: none"> After completion of the Major Assets Reorganization, GPLH and its controlling subsidiaries (“subsidiaries”, excluding GPC and its subsidiaries) should minimize and regulate connected transactions with new GPC. If there is any unavoidable connected transaction, GPLH and its controlling subsidiaries will sign an agreement with new GPC in accordance with laws and perform legal procedures. They will also fulfill the information disclosure obligations and pursue the reporting and approval procedures according to the requirements of relevant laws and regulations, the 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 GPC after completion of the Major Assets Reorganization (“new GPC”) and its other shareholders. The undertaking letter will remain effective so long as GPC legally and validly exists and GPLH owns controlling interest in GPC.
Time and period of undertaking	Long-term
Any period for performance	-----
Whether timely and strictly performed	-----
Solution	-----
Remark	Relevant undertakings were disclosed in the Preliminary Proposal of the Reorganization. The prerequisite for the performance of the undertaking letter is the approval of the Major Assets Reorganization by CSRC.

Major Events

VII. PERFORMANCE OF UNDERTAKINGS *(Continued)*

4. Restricting the sale of shares

Item	Content
Undertaking entity	Controlling shareholder
Type of undertakings	Undertakings related to Major Assets Reorganization
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 GPC's acquisition of assets from GPLH through issue of shares. After such period, any transfer of the shares will be made according to relevant requirements of CSRC and SSE.
Time and period of undertaking	36 months from the registration date of the shares
Any period for performance	----
Whether timely and strictly performed	----
Solution	----
Remark	Relevant undertakings were disclosed in the Preliminary Proposal of the Reorganization. The prerequisite for the performance of the undertaking letter is the approval of the Major Assets Reorganization by CSRC.

Major Events

VII. PERFORMANCE OF UNDERTAKINGS *(Continued)*

5. Undertakings related to trademarks

Item	Content
Undertaking entity	Controlling shareholder
Type of undertakings	Undertakings related to Major Assets Reorganization
Undertakings	<p>GPHL undertakes that, within two years from the date of satisfying any conditions set out below, it will legally transfer the trademarks in WangLaoji series (25 in total) and 4 other trademarks (comprising trademarks with registration numbers of 125321, 214168, 538308 and 5466324) to GPC according to requirements of laws and regulations then in force:</p> <ol style="list-style-type: none"> 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 2. Hung To (Holdings) Company Limited* (鴻道(集團)有限公司) legally ceases to own the right of pre-emption over the WangLaoji trademarks under the license agreement.
Time and period of undertaking	Long-term
Any period for performance	-----
Whether timely and strictly performed	-----
Solution	-----
Remark	Relevant undertakings were disclosed in the Preliminary Proposal of the Reorganization. The prerequisite for the performance of the undertaking letter is the approval of the Major Assets Reorganization by CSRC.

Major Events

VII. PERFORMANCE OF UNDERTAKINGS *(Continued)*

5. Undertakings related to trademarks *(Continued)*

Item	Content
Undertaking entity	Controlling shareholder and GPC
Type of undertakings	Undertakings related to Major Assets Reorganization
Undertakings	<p>GPHL and GPC 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> <p>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 WangLaoji trademarks in custody under the Agreement, with the specific arrangement for new/renewal trademark license to be negotiated by the parties separately. Both parties also agreed that the Supplemental Agreement shall (i) embody the requirement for GPHL to pay GPC 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 GPC and the remaining 80% will be retained by GPHL.</p> <p>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.).</p>
Time and period of undertaking	Long-term
Any period for performance	----
Whether timely and strictly performed	----
Solution	----
Remark	Relevant undertakings were disclosed in the Preliminary Proposal of the Reorganization. The prerequisite for the performance of the undertaking letter is the approval of the Major Assets Reorganization by CSRC.

Major Events

VII. PERFORMANCE OF UNDERTAKINGS *(Continued)*

5. Undertakings related to trademarks *(Continued)*

Item	Content
Undertaking entity	Controlling shareholder
Type of undertakings	Undertakings related to Major Assets Reorganization
Undertakings	<p>In addition to the original undertaking letter, GPLH further undertakes as follows:</p> <p>After completing all relevant reporting and approval procedures, GPLH will transfer the 29 WangLaoJi series trademarks, other WangLaoJi related trademarks legally acquired and owned by GPLH after the signing date (including that date) of the Supplemental Agreement to the Trademark Custody Agreement and the 4 trademarks to GPC according to the laws and regulations then in force, within two years from the date on which all the legal disputes relating to the WangLaoJi trademarks have been resolved. GPC may acquire them in cash or by means of acquisition of assets through issue of shares, and the transfer price will be determined in accordance with laws based on the appraised value ascertained in the asset appraisal report issued by a valuation institution having securities services qualification and approved by state-owned assets authorities.</p>
Time and period of undertaking	Long-term
Any period for performance	-----
Whether timely and strictly performed	-----
Solution	-----
Remark	Relevant undertakings were disclosed in the Reorganization Report (draft). The prerequisite for the performance of the undertaking letter is the approval of the Major Assets Reorganization by CSRC.

Major Events

VII. PERFORMANCE OF UNDERTAKINGS (Continued)

6. Undertakings related to properties with legal defects

Item	Content
Undertaking entity	Controlling shareholder
Type of undertakings	Undertakings related to Major Assets Reorganization
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 which have 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 GPC within 2 months from the date of incurring of the actual losses (not including the tax normally incurred in respect of changing the registration name and transfer in relation to the properties and the land premium in relation to the changes from non-granted land-use rights to granted land-use rights) in case there are any penalties imposed on or losses incurred by GPC due to the legal defects in the building ownership or land use rights of the Baiyunshan properties to be acquired by GPC, and such losses including but not limited to all economic losses in connection with any civil, administration and criminal liabilities, to ensure that GPC and minority investors will not suffer any damage thereunder.
Time and period of undertaking	Long-term
Any period for performance	----
Whether timely and strictly performed	----
Solution	----
Remark	Relevant undertakings were disclosed in the Reorganization Report (draft). The prerequisite for the performance of the undertaking letter is the approval of the Major Assets Reorganization by CSRC.

Major Events

VII. PERFORMANCE OF UNDERTAKINGS *(Continued)*

6. Undertakings related to properties with legal defects *(Continued)*

Item	Content
Undertaking entity	Controlling shareholder
Type of undertakings	Undertakings related to Major Assets Reorganization
Undertakings	For the unauthorized constructions under the Real Estate Title Certificates of GPLH, GPLH undertakes to bear all relevant costs incurred due to such unauthorized constructions (including but not limited to costs incurred for demolishing the unauthorized constructions as required by relevant government authorities).
Time and period of undertaking	Long-term
Any period for performance	-----
Whether timely and strictly performed	-----
Solution	-----
Remark	Relevant undertakings were disclosed in the Reorganization Report (draft). The prerequisite for the performance of the undertaking letter is the approval of the Major Assets Reorganization by CSRC.

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

VIII. AS AT 31 DECEMBER 2012, THE CONSTRUCTION AND EQUIPMENT COMMITMENTS THAT WERE CONTRACTED BY THE GROUP BUT NOT PROVIDED FOR WAS RMB21,740,000. THE LEASE COMMITMENTS WHICH WERE CONTRACTED BUT NOT PROVIDED FOR AMOUNTED TO RMB62,217,000.

IX. DURING THE REPORTING PERIOD, THE GROUP HAS PAID AUDITOR'S REMUNERATION OF RMB1,430,000 TO PRICEWATERHOUSECOOPERS ZHONG TIAN CO. LTD., THE AUDITOR HAS PROVIDED AUDIT SERVICES TO THE COMPANY FOR 14 YEARS.

DURING THE REPORTING PERIOD, THE GROUP HAS PAID AUDITOR'S REMUNERATION OF RMB700,000 TO PRICEWATERHOUSECOOPERS ZHONG TIAN CO., LTD. FOR THE 2012 INTERIM AUDIT.

X. DURING THE REPORTING PERIOD, NO INVESTIGATION, ADMINISTRATIVE PUNISHMENT OR PUBLIC REPRIMAND BY THE CSRC AND NO PUNISHMENT BY HKEX OR SSE WERE MADE AGAINST OR IMPOSED ON THE COMPANY, THE BOARD OR THE DIRECTORS.

Major Events

XI. DURING THE REPORTING PERIOD, THE COMPANY WAS NOT IN THE SERIOUS CONTAMINATION COMPANY LIST PUBLISHED BY THE ENVIRONMENTAL PROTECTION AUTHORITIES.

XII. TRADING ASSETS, AND MERGER AND ACQUISITION

The Company had applied for suspension of trading in the A shares on the SSE and the H shares on the HKEx with effect from 7 November 2011, as GPLH, the controlling shareholder of the Company, planned for the Major Assets Reorganization involving the Company. During such period of suspension, the Company continued to fulfill its disclosure obligations in respect of the progress of the Major Assets Reorganization on a timely basis and made further announcements regarding the progress of the Major Assets Reorganization every five trading days.

The 13th meeting of the fifth session of the Board was held on 29 February 2012 and the Board approved the transactions, including the absorption and merger of Baiyunshan by the Company through share swap of additional A shares, and the asset acquisition by the Company through issuance of A shares to GPLH. The announcements in relation to the Major Assets Reorganization were published in Shanghai Securities News, the Securities Times and the website of the SSE (www.sse.com.cn) on 28 March 2012 and on the website of the HKEx (www.hkex.com.hk) on 27 March 2012. Trading in the A shares and H shares of the Company resumed on 28 March 2012.

The 17th meeting of the fifth session of the Board was held on 15 June 2012 and the Board approved the transactions, including the absorption and merger of Baiyunshan by the Company through share swap of additional A shares, and the asset acquisition by the Company through issuance of A shares to GPLH. The announcements in relation to the Major Assets Reorganization were published in Shanghai Securities News, the Securities Times and the website of the SSE (www.sse.com.cn) on 19 June 2012 and on the website of the HKEx (www.hkex.com.hk) on 18 June 2012.

The first extraordinary general meeting in 2012, the first class meeting of holders of domestic shares in 2012 and the first class meeting of holders of overseas listed foreign capital shares in 2012 (hereinafter as “the general meetings”) were held on 19 September 2012 and the relevant Shareholders approved matters, including the absorption and merger of Baiyunshan by the Company through share swap using additional A shares, and the asset acquisition by the Company through issuance of A shares to GPLH. The announcements in relation to the resolutions passed at the general meetings and the Major Assets Reorganization were published in Shanghai Securities News, the Securities Times and the website of the SSE (www.sse.com.cn) on 20 September 2012 and on the website of the HKEx (www.hkex.com.hk) on 19 September 2012 and 20 September 2012 respectively.

The Company received the CSRC’s Acceptance Notice of the Application for Administrative Permission (No. 121723)* (中國證監會行政許可申請受理通知書 (No.121723) from the CSRC on 15 October 2012, the Application for Administrative Permission submitted by the Company has been accepted by CSRC. The relevant progress announcements had been published on Shanghai Securities News, Securities Times and the website of the SSE (www.sse.com.cn) on 17 October 2012 and the website of HKEx (www.hkex.com.hk) on 16 October 2012.

Major Events

XII. TRADING ASSETS, AND MERGER AND ACQUISITION *(Continued)*

On 30 November 2012, the Company was notified by CSRC that the Major Assets Reorganization was approved unconditionally by the Merger and Reorganization Audit Committee of Listed Companies of CSRC at its thirty-third meeting in 2012. The relevant progress announcements had been published on Shanghai Securities News, Securities Times and the website of the SSE (www.sse.com.cn) on 1 December 2012 and the website of HKEx (www.hkex.com.hk) on 30 November 2012.

On 21 December 2012, the Company received the “Approval of the Asset Acquisition through Issuance of Shares to GPLH and the Absorption and Merger of Baiyunshan by the Company” (the “Approval”) (Zhengjianxuke[2012] No.1695)* (證監許可[2012]1695號) from the CSRC. The relevant progress announcements had been published on Shanghai Securities News, Securities Times and the website of the SSE (www.sse.com.cn) on 22 December 2012 and the website of HKEx (www.hkex.com.hk) on 21 December 2012.

The Company and the related parties are currently carrying out various works required for implementing the Major Assets Reorganization.

XIII. INDEX TO THE INFORMATION DISCLOSED

Disclosed information	Newspaper	Date	Website and the link
Announcement of significant progress in asset restructuring and Overseas regulatory announcement	Page 20 of Shanghai Securities News; Page B12 of Securities Times	4 January 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of significant progress in asset restructuring and Overseas regulatory announcement	Page 20 of Shanghai Securities News; Page C8 of Securities Times	9 January 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of significant progress in asset restructuring and Overseas regulatory announcement	Page 20 of Shanghai Securities News; Page C4 of Securities Times	16 January 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of significant progress in asset restructuring and Overseas regulatory announcement	Page 36 of Shanghai Securities News; Page B20 of Securities Times	30 January 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Date of Board Meeting	/	1 February 2012	http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of significant progress in asset restructuring and Overseas regulatory announcement	Page 28 of Shanghai Securities News; Page A5 of Securities Times	6 February 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of significant progress in asset restructuring and Overseas regulatory announcement	Page 20 of Shanghai Securities News; Page D17 of Securities Times	13 February 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/

Major Events

XIII. INDEX TO THE INFORMATION DISCLOSED (Continued)

Disclosed information	Newspaper	Date	Website and the link
Summary of 2011 annual report, Announcement of resolution passed at the 12 th meeting of the fifth session of the Board, Announcement of resolution passed at the 8 th meeting of the fifth session of the Supervisory Committee and Notice of the 2011 annual general meeting of the Company	Page B28 of Shanghai Securities News; Page D17 of Securities Times	17 February 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of significant progress in asset restructuring and Overseas regulatory announcement	Page 24 of Shanghai Securities News; Page C6 of Securities Times	20 February 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
List of directors and their role and function	/	24 February 2012	http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of significant progress in asset restructuring and Overseas regulatory announcement	Page 20 of Shanghai Securities News; Page C8 of Securities Times	27 February 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of significant progress in asset restructuring and Overseas regulatory announcement	Page 20 of Shanghai Securities News; Page C12 of Securities Times	5 March 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of significant progress in asset restructuring and Overseas regulatory announcement	Page 20 of Shanghai Securities News; Page C20 of Securities Times	12 March 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of significant progress in asset restructuring and Overseas regulatory announcement	Page 34 of Shanghai Securities News; Page C21 of Securities Times	19 March 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of significant progress in asset restructuring and Overseas regulatory announcement	Page 226 of Shanghai Securities News; Page B4 of Securities Times	26 March 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Absorption and Merger of Guangzhou Baiyunshan Pharmaceutical Co.,Ltd. and Acquisition of assets from Guangzhou Pharmaceutical Holding Limited, Announcement of resolution passed at the 13 th meeting of the fifth session of the Board, Announcement of resolution passed at the 9 th meeting of the fifth session of the Supervisory Committee, Announcement of written resolution passed at the meeting of the fifth session of the Board and Overseas regulatory announcement	Page B246-248 of Shanghai Securities News; Page D13-15 of Securities Times	28 March 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/

Major Events

XIII. INDEX TO THE INFORMATION DISCLOSED (Continued)

Disclosed information	Newspaper	Date	Website and the link
Date of Board Meeting	/	11 April 2012	http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of the resolutions passed at the 2011 annual general meeting	Page B6 of Shanghai Securities News; Page D33 of Securities Times	13 April 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
2012 first quarterly report and Announcement of resolution passed at the 14 th meeting of the fifth session of the Board	Page B48 of Shanghai Securities News; Page D73 of Securities Times	27 April 2011	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of payment of 2011 dividend for A shares and Unusual fluctuations in trading of A shares	Page 28 of Shanghai Securities News; Page C13 of Securities Times	14 May 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of resolution passed at the 15 th meeting of the fifth session of the Board, Announcement of resolution passed at the 11 th meeting of the fifth session of the Supervisory Committee and Continuing connected transaction	Page B40 of Shanghai Securities News; Page D4 of Securities Times	15 May 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of resolution passed at the 16 th meeting of the fifth session of the Board, Announcement of resolution passed at the 12 th meeting of the fifth session of the Supervisory Committee and Continuing connected transaction	Page 21 of Shanghai Securities News; Securities Times	28 May 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Summary of the report (draft) on the merger and acquisition of Guangzhou Baiyunshan Pharmaceutical Co., Ltd, and the issuance of shares for the acquisition of assets and related transactions, Announcement of resolution passed at the 17 th meeting of the fifth session of the Board, Announcement of resolution passed at the 13 th meeting of the fifth session of the Supervisory Committee, Announcement of written resolution passed at the meeting of the fifth session of the Board and announcement of resignation of director	Page B25-30 of Shanghai Securities News; Page D29-34 of Securities Times	19 June 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement	Page B11 of Shanghai Securities News; Page D33 of Securities Times	28 June 2011	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/

Major Events

XIII. INDEX TO THE INFORMATION DISCLOSED (Continued)

Disclosed information	Newspaper	Date	Website and the link
Announcement	Page 20 of Shanghai Securities News; Page D5 of Securities Times	16 July 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of written resolution passed at the meeting of the fifth session of the Board	Page A17 of Shanghai Securities News; Page D12 of Securities Times	17 July 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement	Page A25 of Shanghai Securities News; Page D4 of Securities Times	23 July 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Notice of the first extraordinary general meeting in 2012, the notice of the first class meeting of holders of domestic shares in 2012 and the notice of the first class meeting of holders of overseas listed foreign capital shares in 2012	Page A48 of Shanghai Securities News; Page D33 of Securities Times	3 August 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
The Supplement notice of the first class meeting of holders of domestic shares in 2012 and Overseas regulatory announcement	Page 19 of Shanghai Securities News; Page B25 of Securities Times	4 August 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement	Page A72 of Shanghai Securities News; Page D81 of Securities Times	6 August 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Date of Board Meeting	/	10 August 2012	http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement on litigation of GPC	Page A136 of Shanghai Securities News; Page D4 of Securities Times	14 August 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Supplementary announcement	/	15 August 2012	http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Indicative Announcement on the notice of the first extraordinary general meeting in 2012 and Overseas regulatory announcement	Page 16 of Shanghai Securities News; Page D16 of Securities Times	20 August 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Very substantial Acquisitions and connected transactions involving major assets reorganization – profit forecasts in relation to the Major Assets Reorganization prepared under the PRC Accounting Standards for the Year ending 31 December 2013 and Overseas regulatory announcement	/	24 August 2012	http://www.hkex.com.hk http://www.equitynet.com.hk/0874/

Major Events

XIII. INDEX TO THE INFORMATION DISCLOSED (Continued)

Disclosed information	Newspaper	Date	Website and the link
Summary of 2012 Interim Report, announcement of resolutions passed at the 18 th meeting of the fifth session of the Board	Page 40 of Shanghai Securities News; D42 and D44 of Securities Times	27 August 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Indicative notice of the first class meeting of holders of the overseas listed foreign capital shares in 2012 and second indicative notice of the first extraordinary general meeting in 2012	Page 22 of Shanghai Securities News; Page B16 of Securities Times	1 September 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Further announcements very substantial acquisition and connected transaction involving major asset restructuring matters	/	17 September 2012	http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
List of directors and their roles and functions, further announcement very substantial acquisition and connected transaction involving a major asset restructuring matters progress update	/	19 September 2012	http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Resolution on the first extraordinary general meeting in 2012, Resolution the first class meeting of holders of domestic shares in 2012 and the notice of the first class meeting, Resolution of holders of overseas listed foreign capital shares in 2012, Guangzhou Baiyunshan Pharmaceutical Co., Ltd. convertible merger announcement to creditors, Anti-Monopoly Service and SASAC approved the restructuring plan by the Ministry of Commerce and the assets to be purchased assessment was the SASAC approved/filing announcement and Overseas regulatory announcement	Page A24 of Shanghai Securities News; Page C12 of Securities Times	20 September 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
The second prompt Bulletin of the creditors of Guangzhou Pharmaceutical convertible merger Guangzhou Baiyunshan Pharmaceutical Co., Ltd. and Overseas Regulatory Announcement	Page A24 of Shanghai Securities News; Page D20 of Securities Times	10 October 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Date of Board Meeting	/	12 October 2012	http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of significant progress in asset restructuring	Page A32 of Shanghai Securities News; Page D17 of Securities Times	17 October 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/

Major Events

XIII. INDEX TO THE INFORMATION DISCLOSED (Continued)

Disclosed information	Newspaper	Date	Website and the link
The third prompt Bulletin of the creditors of the Company's convertible merger Guangzhou Baiyunshan Pharmaceutical Co., Ltd. and Overseas regulatory announcement	Page A43 of Shanghai Securities News; Page D17 of Securities Times	18 October 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
2012 third quarterly report and Announcement of resolution passed at the 19 th meeting of the fifth session of the Board, The announcement of the shareholders of the Company and related parties and the Company has not yet fulfilled the promise and Overseas regulatory announcement	Page A49 of Shanghai Securities News; Page D93 of Securities Times	30 October 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement on the change of the right to request repurchase of the H shares dissenting shareholders. Further announcements on very substantial acquisition and connected transaction involving the Major Asset Reorganization	Page A32 of Shanghai Securities News; Page D1 of Securities Times	8 November 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement in relation to the Major Assets Reorganization and suspension of trading	Page A47 of Shanghai Securities News; Page C8 of Securities Times	23 November 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement on the approval from the Merger and Reorganization Examination Committee of China Securities Regulatory Commission in relation to the Major Assets Reorganization and resumption of trading	Page 32 of Shanghai Securities News; Page B1 of Securities Times	1 December 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement on the Major Assets Reorganization approved by the China Securities Regulatory Commission, further announcement in relation to the Major Assets Reorganization, Guangzhou Pharmaceutical Company Limited's Convertible absorption merger, the issue of shares to buy assets cum amendment to the related party transactions report and Overseas regulatory announcement	Page 24 of Shanghai Securities News; Page B20 of Securities Times	22 December 2012	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/

Independent auditor's report



普华永道

[English Translation for Reference Only]

Auditor's Report

PwC ZT Shen Zi (2013) No. 10029
(Page 1 of 2)

To the Shareholders of Guangzhou Pharmaceutical Company Limited,

We have audited the accompanying financial statements of Guangzhou Pharmaceutical Company Limited (hereinafter "the Company"), which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated and company income statements, the consolidated and company cash flow statements and the consolidated and company statements of changes in shareholders' equity for the year then ended, and the notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent auditor's report



普华永道

PwC ZT Shen Zi (2013) No. 10029
(Page 2 of 2)

OPINION

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of the Company as at 31 December 2012, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai, the People's Republic of China

28 February 2013

Consolidated Balance Sheet

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

ASSETS	Note	31 December 2012	31 December 2011
Current assets			
Cash at bank and on hand	5(1)	729,534,429.40	384,135,738.08
Financial assets held for trading	5(2)	2,875,920.00	3,127,692.50
Notes receivable	5(3)	482,012,872.73	430,388,075.25
Accounts receivable	5(4)	550,052,455.36	446,596,366.96
Advances to suppliers	5(6)	415,610,318.50	132,518,184.98
Interest receivable		-	-
Dividends receivable		-	-
Other receivables	5(5)	89,197,788.97	54,056,817.63
Inventories	5(7)	1,276,405,502.48	859,005,842.50
Current portion of non-current assets		-	-
Other current assets	5(8)	1,598,620.43	2,342,210.36
Total current assets		3,547,287,907.87	2,312,170,928.26
Non-current assets			
Available-for-sale financial assets	5(9)	20,095,830.52	18,907,856.64
Held-to-maturity investments		-	-
Long-term receivables		-	-
Long-term equity investments	5(11)	1,412,218,693.41	1,255,088,628.89
Investment properties	5(12)	96,320,091.40	102,290,186.93
Fixed assets	5(13)	952,239,309.32	1,000,021,241.01
Construction in progress	5(14)	27,897,312.69	20,369,955.46
Construction materials		-	-
Fixed assets pending for disposal		-	-
Intangible assets	5(15)	92,449,396.92	95,138,045.81
Development costs	5(16)	792,251.69	792,251.69
Goodwill		-	-
Long-term prepaid expenses	5(17)	6,948,817.51	7,944,670.09
Deferred tax assets	5(18)	79,144,106.56	38,542,083.57
Other non-current assets		-	-
Total non-current assets		2,688,105,810.02	2,539,094,920.09
TOTAL ASSETS		6,235,393,717.89	4,851,265,848.35

Consolidated Balance Sheet

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31 December 2012	31 December 2011
Current liabilities			
Short-term borrowings	5(20)	82,467,807.78	144,928,849.42
Financial liabilities held for trading		-	-
Notes payable	5(21)	38,936,645.00	5,432,012.71
Accounts payable	5(22)	736,216,314.15	350,249,598.28
Advances from customers	5(23)	336,924,384.28	146,931,794.49
Employee benefits payable	5(24)	131,740,297.59	64,167,157.18
Taxes payable	5(25)	110,112,508.64	37,951,281.66
Interest payable		-	-
Dividends payable	5(26)	138,728.30	136,440.45
Other payables	5(27)	478,853,800.97	121,543,593.12
Current portion of non-current liabilities		-	-
Other current liabilities		-	-
Total current liabilities		1,915,390,486.71	871,340,727.31
Non-current liabilities			
Long-term borrowings		-	-
Debentures payable		-	-
Long-term payables	5(28)	4,423,405.56	4,423,405.56
Payables for specific projects		-	-
Provisions		-	-
Deferred tax liabilities	5(18)	3,863,493.22	3,802,712.90
Other non-current liabilities	5(29)	87,395,999.11	76,526,985.01
Total non-current liabilities		95,682,897.89	84,753,103.47
Total liabilities		2,011,073,384.60	956,093,830.78

Consolidated Balance Sheet

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31 December 2012	31 December 2011
Shareholders' equity			
Share capital	5(30)	810,900,000.00	810,900,000.00
Capital surplus	5(31)	1,148,765,832.02	1,148,016,718.97
Less: Treasury share		-	-
Surplus reserve	5(32)	629,262,321.00	602,895,675.46
Undistributed profits	5(33)	1,507,661,282.20	1,219,839,567.46
Difference on translation of foreign currency financial statements		-	-
Total equity attributable to shareholders of the Company		4,096,589,435.22	3,781,651,961.89
Minority interest	5(34)	127,730,898.07	113,520,055.68
Total shareholders' equity		4,224,320,333.29	3,895,172,017.57
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		6,235,393,717.89	4,851,265,848.35

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

Legal
representative:

Person in charge of
accounting function:

Person in charge of
accounting department:

Consolidated Income Statement

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

ITEMS	Note	Year ended 31 December	
		2012	2011
1. Revenue	5(35)	8,229,058,538.06	5,439,611,618.46
Less: Cost of sales	5(35)	5,954,943,771.78	4,042,751,834.94
Taxes and surcharges	5(36)	67,151,562.49	44,042,757.85
Selling and distribution expenses	5(37)	1,359,453,560.67	710,833,473.66
General and administrative expenses	5(38)	593,483,713.27	480,531,999.72
Financial expenses	5(39)	4,717,261.21	1,853,078.95
Asset impairment losses	5(40)	6,298,149.96	916,864.96
Add: Profit arising from changes in fair value	5(41)	(251,772.50)	(3,541,599.52)
Investment income	5(42)	195,312,735.34	153,785,668.56
Including: Share of profit of associates and jointly controlled entities		195,216,249.12	153,343,410.54
2. Operating profit		438,071,481.52	308,925,677.42
Add: Non-operating income	5(43)	30,209,317.92	33,370,701.19
Less: Non-operating expenses	5(44)	10,441,602.88	7,303,369.86
Including: Losses on disposal of non-current assets		261,017.34	1,333,448.86
3. Total profit		457,839,196.56	334,993,008.75
Less: Income tax expenses	5(45)	49,508,515.42	34,996,150.14
4. Net profit		408,330,681.14	299,996,858.61
– Attributable to shareholders of the Company		395,278,360.28	287,530,980.07
– Minority interest		13,052,320.86	12,465,878.54
5. Earnings per share			
– Basic earnings per share	5(46)	0.487	0.355
– Diluted earnings per share	5(46)	0.487	0.355
6. Other comprehensive income	5(47)	911,852.51	(5,206,746.38)
7. Total comprehensive income		409,242,533.65	294,790,112.23
– Attributable to shareholders of the Company		396,186,984.21	282,327,760.64
– Minority interest		13,055,549.44	12,462,351.59

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

Legal representative:

Person in charge of accounting function:

Person in charge of accounting department:

Consolidated Cash Flow Statement

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

ITEMS	Note	Year ended 31 December	
		2012	2011
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		7,965,083,048.42	4,561,122,277.24
Refund of taxes and surcharges		31,258,742.57	31,845,310.05
Cash received relating to other operating activities	5(48)(a)	155,483,462.84	116,722,037.36
Sub-total of cash inflows		8,151,825,253.83	4,709,689,624.65
Cash paid for goods and services		5,344,104,391.29	3,202,022,924.29
Cash paid to and on behalf of employees		958,381,746.34	820,408,562.80
Payments of taxes and surcharges		588,201,311.06	415,494,210.77
Cash paid relating to other operating activities	5(48)(b)	754,608,072.49	456,803,448.53
Sub-total of cash outflows		7,645,295,521.18	4,894,729,146.39
Net cash flows from operating activities	5(49)(a)	506,529,732.65	(185,039,521.74)
2. Cash flows from investing activities			
Cash received from disposal of investments		–	5,000,000.00
Net cash received from disposal of subsidiaries		–	–
Cash received from returns on investments		38,484,211.13	30,609,565.40
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		123,562.70	752,598.00
Cash received relating to other investing activities	5(48)(c)	31,271,635.97	13,068,178.14
Sub-total of cash inflows		69,879,409.80	49,430,341.54
Cash paid to acquire fixed assets, intangible assets and other long-term assets		52,608,472.26	53,875,807.67
Cash paid to acquire investments		–	180,000,000.00
Net cash paid to acquire subsidiaries		–	–
Cash paid relating to other investing activities	5(48)(d)	5,840,450.25	31,094,387.83
Sub-total of cash outflows		58,448,922.51	264,970,195.50
Net cash flows from investing activities		11,430,487.29	(215,539,853.96)

Consolidated Cash Flow Statement

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

ITEMS	Note	Year ended 31 December	
		2012	2011
3. Cash flows from financing activities			
Cash received from capital contributions		9,025,000.00	900,000.00
Including: Cash received from capital contributions by minority shareholders of subsidiaries		9,025,000.00	900,000.00
Cash received from borrowings		240,687,807.78	177,808,254.51
Cash received relating to other financing activities		–	–
Sub-total of cash inflows		249,712,807.78	178,708,254.51
Cash repayments of borrowings		303,148,849.42	71,747,283.92
Cash payments for interest expenses and distribution of dividends or profits		98,116,540.51	46,701,652.88
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		8,177,823.59	2,157,116.74
Cash payments relating to other financing activities		–	–
Sub-total of cash outflows		401,265,389.93	118,448,936.80
Net cash flows from financing activities		(151,552,582.15)	60,259,317.71
4. Effect of foreign exchange rate changes on cash and cash equivalents		147,193.03	(278,572.02)
5. Net increase/(decrease) in cash and cash equivalents		366,554,830.82	(340,598,630.01)
Add: Cash and cash equivalents at beginning of year	5(49)(a)	355,748,504.33	696,347,134.34
6. Cash and cash equivalent at end of year	5(49)(b)	722,303,335.15	355,748,504.33

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

Legal
representative:

Person in charge of
accounting function:

Person in charge of
accounting department:

Consolidated Statement of Changes in Equity

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

	Attributable to shareholders of the Company							Total shareholders' equity	
	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	General risk provision	Undistributed profits	Others		Minority interest
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	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2012	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
3. Movements for the year ended 31 December 2012	-	749,113.05	-	26,366,645.54	-	287,821,714.74	-	14,210,842.39	329,148,315.72
(1) Net profit	-	-	-	-	-	395,278,360.28	-	13,052,320.86	408,330,681.14
(2) Other comprehensive income	-	908,623.93	-	-	-	-	-	3,228.58	911,852.51
Subtotal of items (1) and (2)	-	908,623.93	-	-	-	395,278,360.28	-	13,055,549.44	409,242,533.65
(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	-	-	-	26,366,645.54	-	(107,456,645.54)	-	(8,178,926.37)	(89,268,926.37)
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)	-	(8,178,926.37)	(89,268,926.37)
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	810,900,000.00	1,148,765,832.02	-	629,262,321.00	-	1,507,661,282.20	-	127,730,898.07	4,224,320,333.29

Consolidated Statement of Changes in Equity

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

	Attributable to the shareholders of the Company								Total shareholders' equity
	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	General risk provision	Undistributed profits	Others	Minority interest	
1. Balance at 31 December 2010	810,900,000.00	1,152,720,122.24	-	578,042,160.61	-	997,707,102.24	-	102,170,784.50	3,641,540,169.59
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2011	810,900,000.00	1,152,720,122.24	-	578,042,160.61	-	997,707,102.24	-	102,170,784.50	3,641,540,169.59
3. Movements for the year ended 31 December 2011	-	(4,703,403.27)	-	24,853,514.85	-	222,132,465.22	-	11,349,271.18	253,631,847.98
(1) Net profit	-	-	-	-	-	287,530,980.07	-	12,465,878.54	299,996,858.61
(2) Other comprehensive income	-	(5,203,219.43)	-	-	-	-	-	(3,526.95)	(5,206,746.38)
Subtotal of items (1) and (2)	-	(5,203,219.43)	-	-	-	287,530,980.07	-	12,462,351.59	294,790,112.23
(3) Capital contribution and withdrawal by shareholders	-	-	-	-	-	-	-	900,000.00	900,000.00
Capital contribution by the shareholders	-	-	-	-	-	-	-	900,000.00	900,000.00
Share-based payment charged to equity	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
(4) Profit distribution	-	-	-	24,853,514.85	-	(65,398,514.85)	-	(2,179,685.81)	(42,724,685.81)
Appropriation to surplus reserves	-	-	-	24,853,514.85	-	(24,853,514.85)	-	-	-
Appropriation to general risk provision	-	-	-	-	-	-	-	-	-
Profit distribution to shareholders	-	-	-	-	-	(40,545,000.00)	-	(2,179,685.81)	(42,724,685.81)
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	-	499,816.16	-	-	-	-	-	166,605.40	666,421.56
4. 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

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

Legal representative:

Person in charge of accounting function:

Person in charge of accounting department:

Balance Sheet

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

ASSETS	Note	31 December 2012	31 December 2011
Current assets			
Cash at bank and on hand		141,232,654.49	107,691,016.27
Financial assets held for trading	15(1)	2,875,920.00	3,127,692.50
Notes receivable		–	–
Accounts receivable	15(2)	–	3,306,347.93
Advances to suppliers		–	–
Interest receivable		–	–
Dividends receivable		102,098,616.47	134,099,380.47
Other receivables	15(3)	806,021,195.77	716,959,386.91
Inventories		553,530.28	290,740.04
Current portion of non-current assets		–	–
Other current assets		84,871.03	–
Total current assets		1,052,866,788.04	965,474,564.12
Non-current assets			
Available-for-sale financial assets	15(4)	18,452,500.00	17,424,000.00
Long-term receivables		–	–
Long-term equity investments	15(5)	2,642,423,792.52	2,430,766,919.98
Investment properties	15(6)	34,778,855.83	36,121,032.39
Fixed assets	15(7)	13,990,379.68	14,189,764.08
Construction in progress		–	–
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets		–	–
Development costs		–	–
Goodwill		–	–
Long-term prepaid expenses		–	–
Deferred tax assets		6,703,617.32	3,204,177.31
Other non-current assets		–	–
Total non-current assets		2,716,349,145.35	2,501,705,893.76
TOTAL ASSETS		3,769,215,933.39	3,467,180,457.88

Balance Sheet

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31 December 2012	31 December 2011
Current liabilities			
Short-term borrowings		–	–
Financial liabilities held for trading		–	–
Notes payable		–	–
Accounts payable	15(9)	853,283.35	361,917.10
Advances from customers		32,584.69	31,189.69
Employee benefits payable		5,877,718.22	1,783,493.18
Taxes payable		7,456,266.36	2,558,098.84
Interest payable		–	–
Dividends payable		588.16	(596.91)
Other payables		219,985,169.21	111,016,824.41
Current portion of non-current liabilities		–	–
Other current liabilities		–	–
Total current liabilities		234,205,609.99	115,750,926.31
Non-current liabilities			
Long-term borrowings		–	–
Debentures payable		–	–
Long-term payables		–	–
Payables for specific projects		–	–
Provisions		–	–
Deferred tax liabilities		3,361,888.01	3,135,142.17
Other non-current liabilities		–	–
Total non-current liabilities		3,361,888.01	3,135,142.17
Total liabilities		237,567,498.00	118,886,068.48

Balance Sheet

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31 December 2012	31 December 2011
Shareholders' equity			
Share capital		810,900,000.00	810,900,000.00
Capital surplus		1,095,415,498.20	1,094,637,907.64
Less: Treasury share		-	-
Surplus reserve		296,127,857.17	269,761,211.63
Undistributed profits		1,329,205,080.02	1,172,995,270.13
Difference on translation of foreign currency financial statements		-	-
Total shareholders' equity		3,531,648,435.39	3,348,294,389.40
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		3,769,215,933.39	3,467,180,457.88

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

Legal
representative:

Person in charge of
accounting function:

Person in charge of
accounting department:

Income Statement

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

ITEMS	Note	Year ended 31 December	
		2012	2011
1. Revenue	15(10)	70,671,111.00	54,315,541.30
Less: Cost of sales	15(10)	4,049,254.37	14,016,691.88
Taxes and surcharges		4,651,091.13	3,199,534.03
Selling and distribution expenses		218,887.43	263,793.99
General and administrative expenses		44,517,403.18	30,811,355.68
Financial expenses	15(11)	4,659,582.92	1,896,461.74
Asset impairment loss	15(14)	(580,072.85)	(1,253,383.47)
Add: Profit arising from changes in fair value	15(12)	(251,772.50)	(3,541,599.52)
Investment income	15(13)	259,671,885.87	249,104,865.02
Including: Share of profit of associates and jointly controlled entities	15 (13)(c)	152,183,110.63	135,027,315.32
2. Operating profit		272,575,078.19	250,944,352.95
Add: Non-operating income		1,300,485.83	1,760,576.77
Less: Non-operating expenses		4,418,159.62	449,995.84
Including: Losses on disposal of non-current assets		15,577.32	9,108.11
3. Total profit		269,457,404.40	252,254,933.88
Less: Income tax expenses	15 (15)	5,790,948.97	3,719,785.36
4. Net profit		263,666,455.43	248,535,148.52
5. Earnings per share			
– Basic earnings per share		-----	-----
– Diluted earnings per share		-----	-----
6. Other comprehensive income		777,590.56	(5,060,862.04)
7. Total comprehensive income		264,444,045.99	243,474,286.48

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

Legal
representative:

Person in charge of
accounting function:

Person in charge of
accounting department:

Cash Flow Statement

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

ITEMS	Note	Year ended 31 December	
		2012	2011
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		7,026,444.68	33,024,845.22
Refund of taxes and surcharges		–	491,181.48
Cash received relating to other operating activities		40,502,272.65	25,396,983.35
Sub-total of cash inflows		47,528,717.33	58,913,010.05
Cash paid for goods and services		3,018,702.76	21,149,465.00
Cash paid to and on behalf of employees		14,253,973.23	13,838,162.85
Payments of taxes and surcharges		7,618,783.51	12,599,413.62
Cash paid relating to other operating activities		23,154,648.42	19,387,121.75
Sub-total of cash outflows		48,046,107.92	66,974,163.22
Net cash flows from operating activities	15(16)	(517,390.59)	(8,061,153.17)
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		162,155,773.74	74,180,799.56
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,040.00	59,639.00
Cash received relating to other investing activities		424,513,849.68	410,742,047.11
Sub-total of cash inflows		586,670,663.42	484,982,485.67
Cash paid to acquire fixed assets, intangible assets and other long-term assets		653,288.00	626,057.00
Cash paid to acquire investments		93,900,000.00	180,000,000.00
Net cash paid to acquire subsidiaries		–	–
Cash paid relating to other investing activities		470,432,299.04	427,290,778.18
Sub-total of cash outflows		564,985,587.04	607,916,835.18
Net cash flows from investing activities		21,685,076.38	(122,934,349.51)

Cash Flow Statement

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

ITEMS	Note	Year ended 31 December	
		2012	2011
3. Cash flows from financing activities			
Cash received from capital contributions		-	-
Including: Cash received from capital contributions by minority shareholders of subsidiaries		-	-
Cash received from borrowings		-	-
Cash received relating to other financing activities		200,000,000.00	110,000,000.00
Sub-total of cash inflows		200,000,000.00	110,000,000.00
Cash repayments of borrowings		-	30,000,000.00
Cash payments for interest expenses and distribution of dividends or profits		81,472,780.30	40,957,502.43
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		-	-
Cash payments relating to other financing activities		106,153,388.84	13,328,305.52
Sub-total of cash outflows		187,626,169.14	84,285,807.95
Net cash flows from financing activities		12,373,830.86	25,714,192.05
4. Effect of foreign exchange rate changes on cash and cash equivalents		121.57	(35,371.70)
5. Net increase/(decrease) in cash and cash equivalents		33,541,638.22	(105,316,682.33)
Add: Cash and cash equivalents at beginning of year	15(16)	107,691,016.27	213,007,698.60
6. Cash and cash equivalent at end of year		141,232,654.49	107,691,016.27

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

Legal representative:

Person in charge of accounting function:

Person in charge of accounting department:

Statement of Changes in Equity

(All amounts in Renminbi yuan unless otherwise stated)

(English Translation for Reference Only)

	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 year 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 31 December 2012						
(1) Net profit	-	777,590.56	-	26,366,645.54	156,209,809.89	183,354,045.99
(2) Other comprehensive income	-	-	-	-	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

Statement of Changes in Equity

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

	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	Undistributed profits	Total shareholders' equity
1. Balance at 31 December 2010	810,900,000.00	1,099,698,769.68	-	244,907,696.78	989,858,636.46	3,145,365,102.92
Add: Changes in accounting policies	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-
2. Balance at 1 January 2011	810,900,000.00	1,099,698,769.68	-	244,907,696.78	989,858,636.46	3,145,365,102.92
3. Movements for the year ended 31 December 2011	-	(5,060,862.04)	-	24,853,514.85	183,136,633.67	202,929,286.48
(1) Net profit	-	-	-	-	248,535,148.52	248,535,148.52
(2) Other comprehensive income	-	(5,060,862.04)	-	-	-	(5,060,862.04)
Subtotal of items (1) and (2)	-	(5,060,862.04)	-	-	248,535,148.52	243,474,286.48
(3) Capital contribution and withdrawal by shareholders	-	-	-	-	-	-
Capital contribution by the shareholders	-	-	-	-	-	-
Share-based payment charged to equity	-	-	-	-	-	-
Others	-	-	-	-	-	-
(4) Profit distribution	-	-	-	24,853,514.85	(65,398,514.85)	(40,545,000.00)
Appropriation to surplus reserves	-	-	-	24,853,514.85	(24,853,514.85)	-
Appropriation to general risk provision	-	-	-	-	-	-
Profit distribution to shareholders	-	-	-	-	(40,545,000.00)	(40,545,000.00)
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 2011	810,900,000.00	1,094,637,907.64	-	269,761,211.63	1,172,995,270.13	3,348,294,389.40

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

Legal representative:

Person in charge of accounting function:

Person in charge of accounting department:

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 Pharmaceutical Company Limited (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 4401011101830.

Approved by the Circular Ti Gai Sheng [1997] No.145 issued by the State Commission for Restructuring the Economic Systems and Circular Zheng Wei Fa [1997] No.56 issued by the Securities Regulatory Commission of the State Council, the Company issued 219,900,000 shares listed in Hong Kong Stock Exchange (H shares) in October 1997. Approved by China Securities Regulatory Commission on 10 January 2001, 78,000,000 A shares of the Company were issued and became listed in Shanghai Stock Exchange on 6 February 2001. The stock abbreviation is GZ Phar. and stock code is 600332.

The Company executed and completed the reform of shareholder structure in April 2006. Subsequent to the completion of the reform, the Company’s total share capital was 810,900,000. The address of the Company’s registered office and head quarter is 45 Sha Mian North Street, Liwan District, Guangzhou City.

The parent company as well as the ultimate holding company of the Company is GPHL.

The Company and its consolidated subsidiaries (together, the “Group”) are principally engaged in the manufacture of CPM and pre-packaged food, the wholesale, retail, import and export of western pharmaceutical products, CPM and medical apparatus and the wholesale, retail of Chinese raw medicine.

The major CPM products of the Group include Xiao Ke Wan (“消渴丸”), Xia Sang Ju (“夏桑菊”), Wu Ji Bai Feng Wan (“烏雞白鳳丸”), Hua Tuo Zai Zao Wan (“華佗再造丸”) and Mi Lian Chuan Bei Pi Pa Gao (“蜜煉川貝枇杷膏”), etc. The major pre-packaged food of the Group are Wang Lao Ji Herbal Tea (“王老吉涼茶”), etc.

The Group’s current structure mainly include 7 CPM manufacturing companies, 1 pre-packaged food manufacturing company, 3 pharmaceutical research and development companies and 2 pharmaceutical trading companies.

These financial statements were approved for issue by the Board of Directors on 28 February 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

(1) Basis of preparation

The financial statements 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.

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

The financial statements of the Company for the year ended 31 December 2012 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position as of 31 December 2012 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.

(4) Recording currency

The recording currency is Renminbi (“RMB”).

(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.

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)

(5) Accounting treatments for business combinations involving entities under and not under common control *(Continued)*

(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.

(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, come 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.

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)

(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.

(8) Foreign currency translation

(a) Foreign currency transactions

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions. The differences arising from the exchange of foreign currencies are recognised in the financial expenses.

At the balance sheet date, monetary items denominated in foreign currency are translated into RMB using the spot rate of the balance sheet date. Exchange differences arising from these translations are 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 asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the shareholders' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the spot exchange rates of the transaction dates. The differences arising from the above translation are presented separately in the shareholders' equity. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately 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 recycled into 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.

The objective evidences that indicate the impairment of available-for-sale equity instrument include a significant or prolonged decline in the fair value of available-for-sale equity instrument. The Group assesses all available-for-sale financial assets on an individual basis at each balance sheet date. Impairment loss should be recognised if the fair value of an equity instrument has is than 50% (50% inclusive) of its initial investment cost or in the case that the fair value has benn less than the initial investment cost for more than one year(one year inclusive). The Group will consider other relevant factors, such as the price volatility, to determine whether an impairment loss should be recognised for the equity instrument if the decline in the fair value of an equity instrument is more than 20% (20% inclusive) but less than 50% of its initial investment cost.

When an impairment loss on a financial asset carried at amortised cost has occurred, the amount of loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

In the case of impairment of available-for-sale financial assets, the cumulative loss arising from the decline in fair value that had been recognised directly in equity is removed from equity and recognised in impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognised, if, in a subsequent period, it's fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the previously recognised impairment loss is reversed and recognised in profit or loss for the current year. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognised, the increase in its fair value in a subsequent period is recognised in equity directly.

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 of 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 current 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 historical evidence
Group 3	Other receivables due from related parties
Group 4	Deposits and staff advances

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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)

(10) Receivables (Continued)

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

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 can not 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)
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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 realisable value and the method of provisions 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

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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)

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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.

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.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(13) Investment properties (Continued)

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.

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.

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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)

(14) Fixed assets (Continued)

(b) Depreciation method of different categories of fixed assets

Fixed assets are classified as buildings, machinery and equipment, motor vehicles, computer and electronic equipment, office equipment and fixed asset renovation. The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates are as follows:

Category	Estimated useful lives	Estimated residual value	Annual depreciation rate
Buildings	15-50 years	1%~10%	1.80%~6.60%
Machinery and equipment	4-18 years	1%~10%	5%~24.75%
Motor vehicles	5-10 years	1%~10%	9%~19.80%
Electronic equipment	5-10 years	1%~10%	9%~19.80%
Office equipment	4-8 years	1%~10%	11.25%~24.75%
Decoration and fixtures	5 years	0%	20%

(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.

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(All amounts in Renminbi yuan unless otherwise stated)
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Fixed assets (Continued)

(d) Basis for identification of fixed assets held under a finance lease and its measurement (Continued)

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.

(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.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(15) Construction in progress *(Continued)*

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.

(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.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(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.

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) Research and development

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

The specific criteria for the classification of expenditure on the research phase and expenditure on the development phase is as follows:

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

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(17) Intangible assets *(Continued)*

(c) Research and development *(Continued)*

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

Expenditure on the research phase is 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.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(17) Intangible assets (Continued)

(d) 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.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(20) Revenue

Revenue comprises 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 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.

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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 recognized when the right to receive dividend is established.

(21) Government grants

Government grants are transfers of monetary or non-monetary assets obtained by the Group from the government at nil consideration, including refund of taxes and financial subsidies, etc.

A government grant shall be recognised when the conditions attached to it can be complied with and the government grant can be received. For a government grant in the form of transfer of monetary assets, the grant is measured at the amount received or receivable. For a government grant in the form of transfer of non-monetary assets, it is measured at fair value; if the fair value is not reliably determinable, the grant is measured at nominal amount.

A government grant related to an asset shall be recognised as deferred revenue, and evenly amortised to profit or loss over the useful life of the related asset. Grants measured at nominal amounts are recognised immediately in profit or loss for the current year.

For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the enterprise in the subsequent periods, the grant shall be recognised; where the grant is a compensation for related expenses or loss already incurred by the enterprise, the grant shall be recognised immediately in profit or loss for the current year.

(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.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

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

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.

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.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(24) Changes in significant accounting policies and accounting estimates

(a) Changes in accounting policies

There are no changes in accounting policies in the current year.

(b) Changes in accounting estimates

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

(25) Correction of prior period's accounting errors

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

(26) Other significant accounting policies

(a) Segmental information

The Group identifies operating segments based on the internal organization structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments. An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group.

An operating segment's revenue, expenses, operating result, assets and liabilities include those directly attributable to the operating segment, and those allocated to the segment on a reasonable basis. Revenue, expenses, assets and liabilities of the operating segment are determined at the amounts before the elimination of inter-group transactions and balances. Transfer price between operating segments is calculated on terms similar to those in arm's length transactions.

(b) 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.

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 *(Continued)*

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 in the People's Republic of China (the "PRC"). 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.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that the future taxable profit will be available against which the temporary differences or tax losses can be utilised. 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.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(27) Critical accounting estimates and judgments (Continued)

(a) Current and deferred income tax (Continued)

Guangxi Ying Kang Pharmaceutical Co. Ltd, a subsidiary of the Group was awarded the "Certificate of High/New Technology Enterprise", 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 which was valid from 2009 to 2011. In 2012, Guangxi Ying Kang Pharmaceutical Co. Ltd applied to prolong its qualification as New/High Technology Enterprise, and has passed the public notice period. Management considers that Guangxi Ying Kang Pharmaceutical Co. Ltd can prolong their qualification as New/High Technology Enterprise successfully.

3 TAXATION

(1) The types and rates of taxes applicable to the Group

(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%
Rental income (Note)	VAT	6%
Income from transfer of technology (Note)	VAT	3%, 6%
Income from rendering of services	Business tax	5%
Rental income	Business tax	5%
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) The types and rates of taxes applicable to the Group *(Continued)*

(a) Turnover tax and Real-estate tax *(Continued)*

(Note) Pursuant to "Circular on Printing and Issuing the Pilot Proposals for the Change from Business Tax to Value-Added Tax"(Cai Shui[2011]No.110) and "Circular on the Launch of Pilot for the Change from Business Tax to Value-Added Tax in Beijing and other 7 provinces in the transportation industry and modern service industry" (Cai Shui[2012]No.71) issued by the Ministry of Finance and the State Administration of Taxation, since 1 November 2012, rental income and income of technology transfer of the subsidiaries of the Group which registered in Guangdong Province, are applicable to VAT with the tax rate of 3% or 6%.

(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

Seven subsidiaries of the Group, Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co.,Ltd, Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd, Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Han Fang Modern Pharmaceutical Co., Ltd., 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.

Notes to the Financial Statements

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

3 TAXATION (Continued)

(1) The types and rates of taxes applicable to the Group (Continued)

(e) Enterprise income tax (Continued)

The certificates of the six subsidiaries (namely, Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. and etc), numbering GF201144000520, GF201144000114, GF201144000043, GF201144000298, GF201144000144, GF201144000400 respectively, were issued in August 2011 and the effective period is 3 years. The certificate of Guangzhou Baiyunshan Han Fang Modern Pharmaceutical Co., Ltd., numbering GR201044000004, was issued in September 2010 and the effective period is 3 years. Pursuant to the relevant tax preference regulation of the PRC, the recognised New/High Technology Enterprises are entitled to the preferential enterprise income tax rate of 15%.

Guangxi Ying Kang Pharmaceutical Co. Ltd, a subsidiary of the Group was awarded 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 GR200945000085, was issued in November 2009 and the effective period is 3 years. In addition, Guangxi Ying Kang Pharmaceutical Co. Ltd is entitled to the preferential policy on enterprise income tax free according to "Policies and Regulations on economy Development of Guangxi North Gulf Economy Area" (No. 61, 2008, Gui Policy announcement). Guangxi Ying Kang Pharmaceutical Co. Ltd is exempted from enterprise income tax of the local part by Guangxi Zhuang Autonomous Region Local Tax Bureau from 1 January 2011 to 31 December 2012.

Except for the tax preference mentioned above, the Group 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 the Group is 25%.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)

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4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

(1) Subsidiaries acquired from establishment or investment

Name of subsidiary	Type of subsidiary	Registered place	Nature of business and principal activities	Registered capital ('0000)	Scope of business	Actual investment at end of year ('0000)	Entity type	Legal representative	Organization code	Other assets constitute investment in substance ('0000)	% equity interest held by the Company	% voting rights held	Consolidated or not	Minority interests ('0000)	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)
Direct subsidiaries:																
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	7,717	Production of CPM	12,532	Stock corporation	Yao Jiangxiang	19051196-X	-	88.99%	88.99%	Yes	1,471	-	-
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Manufacturing	21,741	Production of CPM	32,432	Limited Liability Company	Zhang Chunbo	19045979-4	-	100%	100%	Yes	-	-	-
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Manufacturing	11,285	Production of CPM	14,231	Limited Liability Company	Ouyang Qiang	19045981-5	-	100%	100%	Yes	-	-	-
Guangzhou Baiyunshan Han Fang Modern Pharmaceutical Co., Ltd. (Note *)	Subsidiary	Guangzhou	Manufacturing	24,606	Research and development of medicine and health products	24,902	Limited Liability Company	Huang Xiang	71241860-8	-	99.49%	99.53%	Yes	69	-	-
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Manufacturing	8,242	Production of CPM	12,678	Limited Liability Company	Li Guangliang	19045980-7	-	100%	100%	Yes	-	-	-
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	8,623	Production of CPM	10,149	Stock corporation	Yan Zhibiao	19047922-6	-	88.40%	88.40%	Yes	1,809	-	-

Note *: The ratio of ownership held and voting right held of Guangzhou Baiyunshan Han Fang Modern Pharmaceutical Co., Ltd. are inconsistent because the ratio of ownership of Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd., a non-wholly owned subsidiary, to Guangzhou Baiyunshan Han Fang Modern Pharmaceutical Co., Ltd. is 0.34%.

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 acquired from establishment or investment (Continued)

Name of subsidiary	Type of subsidiary	Registered place	Nature of business and principal activities	Registered capital ('0000)	Scope of business	Actual investment at end of year ('0000)	Entity type	Legal representative	Organization code	Other assets constitute investment in substance ('0000)	% equity interest held by the Company	% voting rights held	Consolidated or not	Minority interests ('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 losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest ('0000)
Direct subsidiaries:																
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	6,544	Production of CPM	14,430	Stock corporation	Wei Dahua	19048780-8	-	87.77%	87.77%	Yes	2,667	-	-
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Trading	3,222	Trading of CPM and Chinese raw medicine	8,908	Limited Liability Company	Zhou Lushan	19050398-6	-	100%	100%	Yes	-	-	-
Guangzhou Pharmaceutical Import & Export Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Trading	2,400	Import and export trading of medicine	1,856	Limited Liability Company	Li Haobiao	19047097-7	-	100%	100%	Yes	-	-	-
Guangzhou Baiyunshan Bai Di Bio-technology Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	13,160	Research and development of patented biological products	12,915	Limited Liability Company	Chen Jianmang	73154713-0	-	98.48%	98.48%	Yes	110	-	-
Guangzhou Wang Lao Ji Grand Health Industry Co., Ltd. (Note 1)	Wholly-owned subsidiary	Guangzhou	Manufacturing	1,000	Production and Sales of Pre-packaged food and dairy	1,000	Limited Liability Company	Wu Changhai	59151288-3	-	100.00%	100.00%	Yes	-	-	-
Guangzhou Guangyao Yi Gan Bio-technology Co., Ltd. (Note 2)	Subsidiary	Guangzhou	Manufacturing	1,100	Research and development of patented biological products	660	Stock corporation	Liu Juyan	05659089-8	-	60.00%	60.00%	Yes	287	-	-
Indirect subsidiaries:																
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	10,000	Production of CPM	7,500	Limited Liability Company	Wu Changhai	61841434-4	-	75.00%	75.00%	Yes	4,046	-	-
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd. (*)	Subsidiary	Guangzhou	Trading	50	Sales of cosmetic	98	Limited Liability Company	Chen Zhixiong	76611890-X	-	45.08%	51.00%	Yes	143	-	-
Guangzhou Pan Gao Shou Natural Healthcare Products Co., Ltd. (*)	Subsidiary	Guangzhou	Manufacturing	1,400	Production and processing of food and health products	1,106	Limited Liability Company	Wei Dahua	19145513-8	-	78.99%	90.00%	Yes	83	-	-
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Wholly-owned subsidiary	Guangzhou	Trading	294	Retailing of Chinese raw medicine and CPM	393	State-owned enterprise	Zhou Lushan	19056067-3	-	100.00%	100.00%	Yes	-	-	-
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Wholly-owned subsidiary	Guangzhou	Manufacturing	80	Processing of Chinese raw medicine	311	State-owned enterprise	Zhou Lushan	19066119-1	-	100.00%	100.00%	Yes	-	-	-

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 acquired from establishment or investment (Continued)

Name of subsidiary	Type of subsidiary	Registered place	Nature of business and principal activities	Registered capital ('0000)	Scope of business	Actual investment at end of year ('0000)	Entity type	Legal representative	Organization code	Other assets constitute investment in substance ('0000)	% equity interest held by the Company	% voting rights held	Consolidated or not	Minority interests ('0000)	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)
Indirect subsidiaries:																
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese raw medicine Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Trading	500	Trading of CPM and Chinese raw medicine	500	Limited Liability Company	Zhou Lushan	78120107-4	-	100.00%	100.00%	Yes	-	-	-
Guangzhou Ao Ma Medical Apparatus Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Trading	668	Trading of medical apparatus	668	Limited Liability Company	Lao Zhicong	68766959-4	-	100.00%	100.00%	Yes	-	-	-
Xizang Lin Zhi Guangyao Development Co., Ltd. (*)	Subsidiary	Xizang	Trading	200	Production and trading of local product, and craft	110	Limited Liability Company	Huang Xiang	58575303-1	-	54.74%	55.00%	Yes	65	-	-
Guangzhou Pan Gao Shou Food Beverage Co., Ltd. (*)	Subsidiary	Guangzhou	Manufacturing	100	Trading of pre-packaged food	100	Limited Liability Company	Wei Dahua	58339020-6	-	87.77%	100%	Yes	-	-	-

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

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Name of subsidiary	Type of subsidiary	Registered place	Nature of business and principal activities	Registered capital ('0000)	Scope of business	Actual investment at end of year ('0000)		Legal representative	Organization code	Other assets constitute investment in substance ('0000)	% equity interest held by the Company	% voting rights held	Consolidated or not	Minority interests ('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)
						Entity type	Year									
Indirect subsidiaries (Continued):																
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd. (Note 3)	Subsidiary	Wulanchabu	Trading	100	Cultivation, purchase and sales of Chinese medicine herbs and agricultural by-products, development, advisory and service of Chinese medicine herbs	80	Limited Liability Company	Zhou Lushan	59195946-6	-	80.00%	80.00%	Yes	20	-	-
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd. (Note 4)	Subsidiary	Linyi	Trading	200	Cultivation, purchase and sales of Chinese medicine herbs	90	Limited Liability Company	Kong Jian	59033298-7	-	45.00%	60.00%	Yes	126	-	-
Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd. (Note 5)	Subsidiary	Kaili	Trading	200	Cultivation, purchase and sales of Chinese medicine herbs and agricultural by-products, development, advisory and service of Chinese medicine herbs	110	Limited Liability Company	Kong Jian	05084458-6	-	55.00%	55.00%	Yes	90	-	-
Jingyuan Guangyao Chinese Raw Medicine Development Co., Ltd. (Note 6)	Subsidiary	Jingyu	Trading	300	Processing of Chinese medicine herbs and Ginseng and sales of Hashima oil products	180	Limited Liability Company	Zhou Lushan	57891596-0	-	60.00%	60.00%	Yes	120	-	-

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 acquired from establishment or investment *(Continued)*

- Note 1: Guangzhou Wang Lao Ji Grand Health Industry Co., Ltd. is a newly set-up company in 2012, 100% directly held by the Company, who exercises control over its finance and operation. According to "Accounting Standards for Enterprises No. 33-Consolidated Financial Statements", Guangzhou Wang Lao Ji Grand Health Industry Co., Ltd. has been consolidated from the date on which the Group obtains control in 2012. As at 31 December 2012, the net assets of Guangzhou Wang Lao Ji Grand Health Industry Co., Ltd. is RMB40,962 thousand, and for the year ended then, the net profit of Guangzhou Wang Lao Ji Grand Health Industry Co., Ltd. is RMB30,962 thousand.
- Note 2: Guangzhou Guangyao Yi Gan Bio-technology Co., Ltd. is a newly established company in 2012, 60% directly held by the Company, who exercises control over its finance and operation. According to "Accounting Standards for Enterprises No. 33-Consolidated Financial Statements", Guangzhou Guangyao Yi Gan Bio-technology Co., Ltd. has been consolidated from the date on which the Group obtains control in 2012. As at 31 December 2012, the net assets of Guangzhou Guangyao Yi Gan Bio-technology Co., Ltd. is RMB7,172 thousand, and for the year ended then, the net loss of Guangzhou Guangyao Yi Gan Bio-technology Co., Ltd. is RMB3,828 thousand.
- Note 3: Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd. is a newly set-up company in 2012, 65% and 15% directly held by Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. and Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. respectively, both of which are the subsidiaries of the Company. The Company indirectly controls Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd. through the equity interest held by its subsidiaries Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. and Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. and exercises control over its finance and operation. According to "Accounting Standards for Enterprises No. 33-Consolidated Financial Statements", Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd. has been consolidated from the date on which the Group obtains control in 2012. As at 31 December 2012, the net assets of Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd. are RMB1,000 thousand, and for the year ended then, the net profit of Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd. is RMB0.
- Note 4: Shandong Guangyao Chinese Raw Medicine Development Co., Ltd. is a newly set-up company in February 2012, 45%, 15% and 40% directly held by the Company's subsidiary, Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. and Shandong Pingyi Fangyuan Pharmaceutical Co., Ltd., respectively. Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. authorises Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. to exercise its voting rights in Shandong Guangyao Chinese Raw Medicine Development Co., Ltd., making Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. hold 60% of the voting right in the Board of Directors of Shandong Guangyao Chinese Raw Medicine Development Co., Ltd. In accordance with the Articles of Association of Shandong Guangyao Chinese Raw Medicine Development Co., Ltd., through its subsidiary Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd., the Group indirectly exercises control over the Shandong Guangyao Chinese Raw Medicine Development Co., Ltd. on its finance and operation. As required by "Accounting Standards for Enterprises No. 33-Consolidated Financial Statements", Shandong Guangyao Chinese Raw Medicine Development Co., Ltd. has been consolidated from the date on which the Group obtains control in 2012. As at 31 December 2012, the net assets of Shandong Guangyao Chinese Raw Medicine Development Co., Ltd. are RMB2,283 thousand, and for the year ended then, the net profit of Shandong Guangyao Chinese Raw Medicine Development Co., Ltd. is RMB283 thousand.

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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 acquired from establishment or investment (Continued)

Note 5: Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd. is a newly set-up company in August 2012, 40%, 15%, 15% and 30% directly held by the Company's subsidiary, Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. and Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd., Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd. and Guizhou Changhao Chinese Raw Medicine Development Co., Ltd., respectively. Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd. authorises Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. to exercise its voting rights in Guizhou Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd., making Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. hold 55% of the voting right in the Board of Directors of Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd.. In accordance with the Articles of Association of Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd., through its subsidiary Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd., the Group indirectly exercises control over the Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd. on its finance and operation. As required by "Accounting Standards for Enterprises No. 33-Consolidated Financial Statements", Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd. has been consolidated from the date on which the Group obtains control in 2012. As at 31 December 2012, the net assets of Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd. are RMB2,000 thousand, and for the year ended then, the net profit of Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd. is RMB0.

Note 6: Jingyuxian Guangyao Chinese Raw Medicine Development Co., Ltd. is a newly set-up company in 2012, 40%, 10% and 10% directly held by Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. and Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. respectively, all of which are the subsidiaries of the Company. The Company indirectly controls Jingyuxian Guangyao Chinese Raw Medicine Development Co., Ltd. through the equity interest held by its subsidiaries Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. and Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. and exercises control over its finance and operation. According to "Accounting Standards for Enterprises No. 33-Consolidated Financial Statements", Jingyuxian Guangyao Chinese Raw Medicine Development Co., Ltd. has been consolidated from the date on which the Group obtains control in 2012. As at 31 December 2012, the net assets of Jingyuxian Guangyao Chinese Raw Medicine Development Co., Ltd. are RMB3,000 thousand, and for the year ended then, the net profit of Jingyuxian Guangyao Chinese Raw Medicine Development Co., Ltd. is RMB0.

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

Name of subsidiary	Type of subsidiary	Registered place	Nature of business and principal activities	Registered capital ('0000)	Entity type	Legal representative	Organization code	Actual investment at end of year ('0000)	% equity interest held by the Company	% voting rights held	Consolidated or not	Minority interests ('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 losses in subsidiaries against minority interest exceeded the opening balance of minority interest. ('0000)
Guangxi Ying Kang Pharmaceutical Co., Ltd.	Subsidiary	Nanning	Manufacturing	3,188	Limited Liability Company	Feng Yaowen	19828518-6	2,172	51.00%	51.00%	Yes	1,668	-	-

There is no entity which is no longer included in the scope of consolidation for this year.

Notes to the Financial Statements

(All amounts in Renminbi yuan unless otherwise stated)
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2012			31 December 2011		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
Cash on hand						
RMB			2,096,243.60			1,226,200.50
Hong Kong Dollars ("HKD")	7,950.98	0.8109	6,447.05	12,038.58	0.8107	9,759.80
			<u>2,102,690.65</u>			<u>1,235,960.30</u>
Bank deposits						
RMB			712,391,009.32			347,704,507.24
US Dollars ("USD")	111,992.19	6.2855	703,926.91	406,854.08	6.3009	2,563,546.87
HKD	4,645,006.12	0.8109	3,766,403.21	2,506,669.98	0.8107	2,032,157.35
			<u>716,861,339.44</u>			<u>352,300,211.46</u>
Other deposits						
RMB			10,534,715.84			30,564,136.08
HKD	44,007.49	0.8109	35,683.47	43,703.27	0.8107	35,430.24
			<u>10,570,399.31</u>			<u>30,599,566.32</u>
			<u>729,534,429.40</u>			<u>384,135,738.08</u>

Details of restricted cash are listed as below:

	31 December 2012	31 December 2011
Deposit for notes payable	6,682,709.92	–
Deposit for short-term loan	–	27,838,849.42
Deposit for housing fund	548,384.33	548,384.33
	<u>7,231,094.25</u>	<u>28,387,233.75</u>

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Financial assets held for trading

	31 December 2012	31 December 2011
Listed shares	2,875,920.00	3,127,692.50
Including: market value of listed investment	2,875,920.00	3,127,692.50

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

(3) Notes receivable

(a) Classification of notes receivable

	31 December 2012	31 December 2011
Bank acceptance notes	477,938,079.97	407,381,339.40
Trade acceptance notes	4,074,792.76	23,006,735.85
	482,012,872.73	430,388,075.25

(b) As at 31 December 2012, there are no notes receivable that are being pledged (as at 31 December 2011: RMB 5,111 thousand).

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) As at 31 December 2012, 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 2012 and 31 December 2011, there are no notes receivable that are reclassified to accounts receivable due to inability of the companies of issuance.
- (ii) As at 31 December 2012, the bank acceptance notes receivable that are not matured but have been endorsed amounted to RMB 606,355 thousand (as at 31 December 2011: RMB609,765 thousand), the top five of which are summarised as follows:

Company of issuance	Date of issuance	Due date	Amount
Dongguan Ye Lian Highway Asphalt Co., Ltd.	2012.09.24	2013.03.24	5,000,000.00
Dongguan Ye Lian Highway Asphalt Co., Ltd.	2012.09.24	2013.03.24	5,000,000.00
Dongguan Ye Lian Highway Asphalt Co., Ltd.	2012.09.24	2013.03.24	5,000,000.00
Dongguan Ye Lian Highway Asphalt Co., Ltd.	2012.09.24	2013.03.24	5,000,000.00
Dongguan Ye Lian Highway Asphalt Co., Ltd.	2012.07.10	2013.01.10	5,000,000.00

- (iii) As at 31 December 2012, the trade acceptance notes that are not matured but have been endorsed amounted to RMB 2,952 thousand (as at 31 December 2011: RMB2,171 thousand), the top five of which are summarised as follows:

Company of issuance	Date of issuance	Due date	Amount
Guangdong Jiu Zhou Tong Pharmaceutical Co., Ltd.	2012.12.24	2013.03.24	2,051,929.80
Shanghai Hanfei Biochemical Technology Co., Ltd.	2012.09.21	2013.03.21	900,300.00

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)

(d) As at 31 December 2012, notes receivable that are not matured but have been discounted are summarised as follows:

(i) As at 31 December 2012, the bank acceptance notes that are not matured but have been discounted amounted to RMB 65,755 thousand (as at 31 December 2011: RMB14,720 thousand), and the top five of which are summarised as follows:

Company of issuance	Date of issuance	Due date	Amount
Zhongshan Pharmaceutical Co., Ltd.	2012.11.19	2013.02.28	4,032,524.82
Sichuan Kelun Medicine Trading Co., Ltd.	2012.09.29	2013.03.29	3,993,040.00
Chongqing He Ping Pharmacy Chain Co., Ltd.	2012.10.25	2013.04.25	3,000,436.80
Guangdong Jiu Zhou Tong Pharmaceutical Co., Ltd.	2012.07.05	2013.01.04	2,431,285.19
Shantou Chuangmei Pharmaceutical Co., Ltd.	2012.09.05	2013.03.05	2,397,755.20

(ii) As at 31 December 2012, and 31 December 2011, there are no trade acceptance notes that are not matured but have been discounted.

(4) Accounts receivable

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

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

	31 December 2012	31 December 2011
Within 1 year	549,232,659.05	443,748,943.00
1 to 2 years	6,203,392.32	6,071,602.35
2 to 3 years	1,001,230.83	4,909,957.53
3 to 4 years	3,970,058.15	2,669,468.83
4 to 5 years	1,923,249.29	1,609,619.47
Over 5 years	3,165,609.33	4,263,326.51
	565,496,198.97	463,272,917.69

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) Accounts Receivable (Continued)

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

	31 December 2012			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	3,506,187.50	0.62%	2,891,750.00	82.48%
Subject to provision by groups: Group 1	557,076,175.15	98.51%	7,638,157.29	1.37%
Individually insignificant but subject to separate provision	4,913,836.32	0.87%	4,913,836.32	100.00%
	565,496,198.97	100.00%	15,443,743.61	2.73%

	31 December 2011			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	4,683,661.62	1.01%	3,966,224.12	84.68%
Subject to provision by groups: Group 1	453,482,684.01	97.89%	7,618,382.91	1.68%
Individually insignificant but subject to separate provision	5,106,572.06	1.10%	5,091,943.70	99.71%
	463,272,917.69	100.00%	16,676,550.73	3.60%

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)

(4) Accounts Receivable (Continued)

- (c) As at 31 December 2012, accounts receivable that are individually significant and subject to separate provision are analysed as follows:

	Ending balance	Provision for bad debts	Ratio	Reason
Guangdong Liyuan Pharmaceutical Co., Ltd.	3,506,187.50	2,891,750.00	82.48%	It is hard to collect all receivables due from this company as it is in poor situation.
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- (d) The groups of accounts receivable in which provisions are made using aging analysis method are analysed as follows:

	31 December 2012			31 December 2011		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	549,037,554.44	98.56%	5,490,375.54	443,771,562.27	97.86%	4,437,715.62
1 to 2 years	5,732,282.22	1.03%	573,228.22	5,860,758.02	1.29%	586,075.80
2 to 3 years	551,692.16	0.10%	165,507.65	761,147.66	0.17%	228,344.30
3 to 4 years	263,988.56	0.05%	131,994.28	1,374,882.45	0.30%	687,441.23
4 to 5 years	1,068,030.86	0.19%	854,424.69	177,638.24	0.04%	142,110.59
Over 5 years	422,626.91	0.07%	422,626.91	1,536,695.37	0.34%	1,536,695.37
	<hr/>		<hr/>	<hr/>		<hr/>
	557,076,175.15	100.00%	7,638,157.29	453,482,684.01	100.00%	7,618,382.91
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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) Accounts Receivable (Continued)

- (e) As at 31 December 2012, accounts receivable that are individually insignificant but subject to separate provision are analysed as follows:

	Ending balance	Provision for bad debts	Ratio	Reason
Ruzhou City Tong Xin Pharmaceutical Co., Ltd.	508,889.00	508,889.00	100.00%	It is expected that the amount would not be recoverable.
Yunnan Shang He Pharmaceutical Co., Ltd.	477,000.16	477,000.16	100.00%	This company is in poor situation and it is expected that the amount would not be recoverable.
Chengdu Kang Yi Tong Pharmaceutical Co., Ltd.	467,462.40	467,462.40	100.00%	It is expected that the amount would not be recoverable.
Other customers	3,460,484.76	3,460,484.76	100.00%	It is expected that the amount would not be recoverable.
	<u>4,913,836.32</u>	<u>4,913,836.32</u>	100.00%	

- (f) As at 31 December 2012 and 31 December 2011, it is not material that the accounts receivable which have exceeded the credit period but not impaired.

- (g) Reversal or collection during the current year 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			
			<u>219,015.40</u>	<u>219,015.40</u>	<u>-</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)

(4) Accounts Receivable (Continued)

- (h) There are no accounts receivable that have been collected by restructuring or other manners during the current year.
- (i) Accounts receivable that are written off in the current year amounted to RMB2,838 Thousand and are analyzed as follows:

	Nature	Amount	Reason	Arising from related party transactions or not
Hebei Traditional & Herbal Medicine Co., Ltd.	Sales of Medicine	1,081,249.12	It is confirmed that the amount would not be recoverable	No
Hengan Trading Company	Sales of Medicine	731,016.46	It is confirmed that the amount would not be recoverable	No
Tianshan Health Care Private Limited	Sales of Medicine	636,224.82	It is confirmed that the amount would not be recoverable	No
Guangzhou Xingtai trading development Co., Ltd.	Sales of Medicine	337,004.40	It is confirmed that the amount would not be recoverable	No
Other Customers	Sales of Medicine	52,497.84	It is confirmed that the amount would not be recoverable	No
		2,837,992.64		

- (j) As at 31 December 2012, accounts receivable from shareholders who hold more than 5% (including 5%) of the voting rights of the Company is account receivable of RMB5 thousand from GPL (as at 31 December 2011: account receivable of RMB7 thousand from GPL).

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) Accounts Receivable (Continued)

(k) As at 31 December 2012, the top five of accounts receivable are analysed as follows:

	Relationship with the Group	Amount	Aging	% of total balance
Customer 1	Third Party	23,762,447.56	Within 1 year	4.20%
Customer 2	Third Party	20,392,995.06	Within 1 year	3.61%
Customer 3	Third Party	13,471,942.00	Within 1 year	2.38%
Customer 4	Related Party	12,510,363.92	Within 1 year	2.21%
Customer 5	Third Party	9,100,121.86	Within 1 year	1.61%
		<u>79,237,870.40</u>		<u>14.01%</u>

(l) As at 31 December 2012, accounts receivable from related parties accounted for 7.80% of total accounts receivable balance (as at 31 December 2011: 6.22%): refer to Note 6 for details.

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

(n) As at 31 December 2012, there are no securitizations that targeted at accounts receivable.

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

	31 December 2012			31 December 2011		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
USD	783,875.33	6.2855	4,927,048.39	688,088.10	6.3009	4,335,574.31
HKD	782,741.78	0.8109	634,686.17	1,881,743.58	0.8107	1,525,529.52
			<u>5,561,734.56</u>			<u>5,861,103.83</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) Other receivables

	31 December 2012	31 December 2011
Petty cash	2,119,897.40	2,969,220.83
Deposits	17,557,239.47	9,467,993.44
Staff advances	12,836,921.29	9,693,332.36
Receivables due from external parties	29,193,260.03	25,079,262.00
Receivables due from related parties (Note 6(5))	2,793,543.59	2,801,723.16
Tax refund for exports	27,109,079.37	7,451,438.81
Taxes pending for customs registration	6,382,157.92	4,092,536.47
Others	2,178,340.95	2,292,731.23
	100,170,440.02	63,848,238.30
Less: provision for bad debts	10,972,651.05	9,791,420.67
	89,197,788.97	54,056,817.63

(a) The aging of other receivables is analysed as follows:

	31 December 2012	31 December 2011
Within 1 year	77,406,542.08	42,200,505.29
1 to 2 years	4,638,984.49	4,955,156.64
2 to 3 years	4,618,118.87	5,024,858.33
3 to 4 years	3,036,074.44	1,123,505.99
4 to 5 years	382,284.88	816,448.66
Over 5 years	10,088,435.26	9,727,763.39
	100,170,440.02	63,848,238.30

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)

(5) Other receivables (Continued)

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

	31 December 2012			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	9,656,947.66	9.64%	9,656,947.66	100.00%
Subject to provision by groups:				
Group 1	266,509.08	0.26%	131,695.63	49.42%
Group 2	55,833,319.07	55.74%	–	–
Group 3	2,793,543.59	2.79%	100,000.00	3.58%
Group 4	30,531,833.66	30.48%	–	–
Individually insignificant but subject to separate provision	1,088,286.96	1.09%	1,084,007.76	99.61%
	100,170,440.02	100.00%	10,972,651.05	10.95%

	31 December 2011			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	8,901,925.26	13.94%	8,901,925.26	100.00%
Subject to provision by groups:				
Group 1	260,730.63	0.41%	132,955.99	50.99%
Group 2	32,759,081.58	51.31%	–	–
Group 3	2,801,723.16	4.39%	100,000.00	3.57%
Group 4	18,463,959.05	28.92%	–	–
Individually insignificant but subject to separate provision	660,818.62	1.03%	656,539.42	99.35%
	63,848,238.30	100.00%	9,791,420.67	15.34%

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)

(5) Other receivables (Continued)

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

Company name	Ending balance	Provision for bad debts	Ratio	Reason
Sui Lian Purchase & Sales department	2,868,759.75	2,868,759.75	100.00%	As this company was closed, it is expected that the amount would not be recoverable.
Sichuan Mianzhu Yong Long Biological Products Co., Ltd.	1,800,957.60	1,800,957.60	100.00%	As this company was closed, it is expected that the amount would not be recoverable.
Cai Zhi Lin Maoming Sales Store	1,520,000.00	1,520,000.00	100.00%	As this company was closed, it is expected that the amount would not be recoverable.
The 3rd Construction Company of Guangdong Province	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.
Bank of Hainan	502,043.54	502,043.54	100.00%	As this company is on bankruptcy liquidation procedures, it is expected that the amount would not be recoverable.
Others	1,939,308.27	1,939,308.27	100.00%	It is expected that the amount would not be recoverable.
	9,656,947.66	9,656,947.66	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)

(5) Other receivables (Continued)

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

	31 December 2012			31 December 2011		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	59,611.45	22.37%	484.18	33,033.00	12.67%	330.33
1 to 2 years	32,852.00	12.33%	3,285.20	24,480.97	9.39%	2,448.10
2 to 3 years	24,341.97	9.13%	7,302.59	48,213.00	18.49%	14,463.90
3 to 4 years	48,080.00	18.04%	24,040.00	78,580.00	30.14%	39,290.00
4 to 5 years	25,200.00	9.45%	20,160.00	–	–	–
Over 5 years	76,423.66	28.68%	76,423.66	76,423.66	29.31%	76,423.66
	266,509.08	100.00%	131,695.63	260,730.63	100.00%	132,955.99

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

	Ending balance	Provision for bad debts	Ratio	Reason
Zhaoqing Stainless Steel Produce Company Limited	257,782.95	257,782.95	100.00%	It is expected that the amount would not be recoverable.
Yada drying equipment factory	85,500.00	85,500.00	100.00%	It is expected that the amount would not be recoverable.
Deposits for files, etc.	77,711.20	77,711.20	100.00%	It is expected that the amount would not be recoverable.
Advances for staff residence	71,739.00	71,739.00	100.00%	It is expected that the amount would not be recoverable.
Company consulting fee	60,080.00	60,080.00	100.00%	It is expected that the amount would not be recoverable.
Others	535,473.81	531,194.61	99.20%	It is expected that the amount would not be fully recoverable.
	1,088,286.96	1,084,007.76	99.61%	

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) Other receivables (Continued)

- (f) Other receivables that are subject to full provision or in large proportionate but are reversed or collected in full amount of in large proportionate amounted to RMB318 thousand in the current year, details are as follows:

Item	Reason of reversal or collection	Basis of provisions previously made	Accumulated provision for bad debts made before reversal or collection	Amount collected	Amount of reversal of provision for bad debts
Jilin Aodong Yanbian Pharmaceutical Co., Ltd.	Collection of relevant business documents	It is expected that the amount would not be fully recoverable.	100,000.00	-	100,000.00
Receivables from Nanfang Securities Co., Ltd.	Collection through legal procedures	As this company went bankrupt, it is expected that the amount would not be recoverable.	212,545.86	212,545.86	212,545.86
Others	Collection of relevant business documents	Long aging	5,786.83	-	5,786.83
			<u>318,332.69</u>	<u>212,545.86</u>	<u>318,332.69</u>

- (g) There are no other receivables that have been collected by restructuring or other manners in the current year.
- (h) Other receivables that are written off in prior years but collected in the current year amounted to RMB 213 thousand, details are as follows:

Name of entity	Nature	Amount collected	Reason	Arising from related party transactions or not
Nanfang Securities Co., Ltd.	Distribution of liquidation	<u>(212,545.86)</u>	Collection of other receivable written off in prior year	No

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) Other receivables (Continued)

- (i) There are no other receivables that have been written off in the current year.
- (j) As at 31 December 2012, other receivables from shareholders who hold more than 5% (including 5%) of the voting rights of the Company is other receivable of RMB771 thousand from GPLH (as at 31 December 2011: other receivable of RMB1,287 thousand from GPLH).
- (k) As at 31 December 2012, the top five of other receivables are analysed as below:

	Relationship with the Company	Amount	Aging	% of total balance
Other receivable 1	Third party	27,109,079.37	Within 1 year	27.06%
Other receivable 2	Third party	6,382,157.92	Within 1 year	6.37%
Other receivable 3	Third party	5,720,052.03	Within 1 year	5.71%
Other receivable 4	Third party	3,500,000.00	Within 1 year	3.49%
Other receivable 5	Third party	2,868,759.75	Over 5 years	2.86%
		45,580,049.07		45.49%

- (l) As at 31 December 2012, the other receivables from related parties accounted for 2.79% of the total other receivables balance (as at 31 December 2011: 4.39%): refer to Note 6 for details.
- (m) There are no other receivables derecognised due to transfer of financial assets during the current year.
- (n) As at 31 December 2012 and 31 December 2011, there are no securitizations that targeted at other receivables.
- (o) As at 31 December 2012 and 31 December 2011, all other receivables are denominated in RMB.

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)

(6) Advances to Suppliers

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

	31 December 2012		31 December 2011	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	409,811,098.17	98.60%	128,378,152.12	96.88%
1 to 2 years	2,922,511.00	0.70%	388,671.57	0.29%
2 to 3 years	20,982.24	0.01%	25,434.89	0.02%
Over 3 years	2,855,727.09	0.69%	3,725,926.40	2.81%
	415,610,318.50	100.00%	132,518,184.98	100.00%

(b) As at 31 December 2012, the top five of advances to suppliers are analysed as follow:

	Related party	Amount	Aging	Reason of unsettlement
Supplier 1	Related party	27,349,635.86	Within 1 year	Normal purchases
Supplier 2	Third party	25,089,410.00	Within 1 year	Normal purchases
Supplier 3	Third party	21,295,414.69	Within 1 year	Normal purchases
Supplier 4	Third party	20,815,929.33	Within 1 year	Normal purchases
Supplier 5	Third party	20,000,000.00	Within 1 year	Normal purchases
		114,550,389.88		

(c) As at 31 December 2012, there are no advances to shareholders who hold more than 5% (including 5%) of the voting rights of the Company (as at 31 December 2011: nil).

(d) As at 31 December 2012, the advances to related parties accounted for 11.54% of the total balance of advances to suppliers (as at 31 December 2011: 1.28%): refer to Note 6 for details.

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(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Advances to Suppliers (Continued)

(e) Advances to suppliers denominated in foreign currency are summarised as follows:

	31 December 2012			31 December 2011		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
USD	81,144.00	6.2982	511,057.10	33,600.00	6.3009	211,710.24
HKD	27,581,099.30	0.8121	22,398,624.97	-	-	-
EUR	1,866,003.60	8.2043	15,309,259.32	-	-	-
			38,218,941.39			211,710.24

(f) As at 31 December 2012 and 31 December 2011, there are no significant advances to suppliers whose aging are more than one year.

(7) Inventories

(a) Classification of Inventories

	31 December 2012			31 December 2011		
	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	4,633,011.92	-	4,633,011.92	2,822,514.87	-	2,822,514.87
Raw materials	254,354,778.75	399,022.10	253,955,756.65	162,295,399.51	79,359.46	162,216,040.05
Work in progress	83,430,519.44	-	83,430,519.44	59,482,035.37	-	59,482,035.37
Semi-finished goods	150,787,462.46	981,315.46	149,806,147.00	83,813,983.59	891,968.80	82,922,014.79
Finished goods	337,972,666.00	4,813,202.29	333,159,463.71	200,055,619.57	5,126,671.71	194,928,947.86
Low-value consumables	2,438,996.58	-	2,438,996.58	2,869,449.33	-	2,869,449.33
Packaging materials	78,516,651.91	-	78,516,651.91	28,445,992.55	-	28,445,992.55
Goods in processing contract	144,451.05	-	144,451.05	14,035.85	-	14,035.85
Commodity stocks	371,331,948.56	1,079,425.10	370,252,523.46	325,685,800.09	442,167.56	325,243,632.53
Others	67,980.76	-	67,980.76	61,179.30	-	61,179.30
	1,283,678,467.43	7,272,964.95	1,276,405,502.48	865,546,010.03	6,540,167.53	859,005,842.50

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Inventories (Continued)

(b) Provisions for declines in the value of inventories

	31 December 2011	Current year additions	Current year reductions		31 December 2012
			Reversal	Write-off	
Raw materials	79,359.46	479,554.39	2,663.20	157,228.55	399,022.10
Work in progress	891,968.80	89,346.66	–	–	981,315.46
Finished goods	5,126,671.71	2,332,959.71	44,816.46	2,601,612.67	4,813,202.29
Commodity stocks	442,167.56	1,115,965.71	246,066.89	232,641.28	1,079,425.10
	<u>6,540,167.53</u>	<u>4,017,826.47</u>	<u>293,546.55</u>	<u>2,991,482.50</u>	<u>7,272,964.95</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 vs. inventory balance
Raw materials	The difference when net realizable value is less than carrying amount of raw material	Increase in net realisable value	0.00%
Finished goods	Amount of carrying amount over net realisable value	Increase in market price	0.01%
Commodity stocks	Amount of carrying amount over net realisable value	Increase in market price	0.07%

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Other current assets

	31 December 2012	31 December 2011
Deductible Input VAT	1,525,807.40	2,342,210.36
Prepayment of Income Tax	72,813.03	–
	1,598,620.43	2,342,210.36

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 and prepayment of income tax, it is requested to be presented as "Other current assets" or "Other non-current assets" in the balance sheet based on its liquidity.

(9) Available-for-sale financial assets

	31 December 2012	31 December 2011
Available-for-sale equity instruments	20,095,830.52	18,907,856.64

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 of Shanghai Stock Exchange on the last trading day of the reporting period.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Investments 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 year (RMB'0000)	Total liabilities at end of year (RMB'0000)	Net assets at end of year (RMB'0000)	Sales for the year (RMB'0000)	Net profit for the year (RMB'0000)
1. Jointly controlled entities												
Guangzhou Pharmaceuticals Corporation	Sino-foreign equity joint venture	Guangzhou	FRITZ HORLACHER	Trading of western pharmaceutical products and medical apparatus	70,000	50.00%	50.00%	778,270	587,229	191,041	1,933,347	16,924
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Sino-foreign equity joint venture	Guangzhou	Wang Jianyi	Production, processing and sales of Chinese Medicine, beverage and candies	20,476	48.05%	48.05%	141,989	54,780	87,209	232,054	14,934
Guangzhou Nuo Cheng Bio-Tech Co., Ltd. (*)	Stock corporation	Guangzhou	Zhou Lijian	Production and sale of bio-products	8,400	49.24%	50.00%	28,344	11,085	17,259	23,218	8,436
2. Associates												
Hangzhou Zheda Han Fang Chinese Medical Infor. Engineering Co., Ltd.	Limited Liability Company	Hangzhou	Qu Haibin	Infor. engineering and infor. service	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%	19,502	1,322	18,180	11,221	(556)
Guangzhou Jinshen Medical Co., Ltd.	Limited Liability Company	Guangzhou	Gao Qi	Production of health medicine	200	38.25%	38.25%	6	3	3	-	-

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

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

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Long-term equity investments

(a) Details of long-term equity investments

Entity	Investment cost	31 December 2011	Current year movement	31 December 2012	% Equity interest held	% Voting rights held	Impairment provision	Impairment provided in the current year	Cash dividend in current year
Equity method:									
Guangzhou Pharmaceuticals Corporation	396,589,139.78	783,708,808.73	82,210,240.05	865,919,048.78	50.00%	50.00%	-	-	-
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	102,035,124.44	381,407,704.57	37,250,297.12	418,658,001.69	48.05%	48.05%	-	-	34,432,453.65
Guangzhou Nuo Cheng Bio-Tech Co., Ltd.(Note 1)	42,000,000.00	46,233,601.78	38,781,705.68	85,015,307.46	49.24%	50.00%	-	-	3,200,000.00
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	37,410,094.67	(1,112,178.33)	36,297,916.34	20.00%	20.00%	-	-	-
Guangzhou Jinshen Medical Co., Ltd.	765,000.00	-	-	-	38.25%	38.25%	-	-	-
Subtotal	591,829,264.22	1,248,760,209.75	157,130,064.52	1,405,890,274.27	----	----	-	-	37,632,453.65
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%	-	-	-
Mazhong Medicine of Qi Xing 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	5,000,000.00	5,000,000.00	-	5,000,000.00	5.56%	5.56%	-	-	-
Subtotal	7,374,776.66	7,406,970.37	-	7,406,970.37	----	----	1,078,551.23	-	-
Total	599,204,040.88	1,256,167,180.12	157,130,064.52	1,413,297,244.64	----	----	1,078,551.23	-	37,632,453.65

Note 1: The reason of difference between ratio of equity interest held and ratio of voting rights held of these two companies is that the Company indirectly holds the shares of these two 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: The Group have not actually involved in the operation of Mazhong Medicine of Qi Xing Pharmaceutical Co.,Ltd. and Sales Store of Peking Road of Guangzhou Medicine Co.,Ltd., nor exercised any control on them, in which the investments were measured using the cost method.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Long-term equity investments (Continued)

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

(12) Investment properties

(a) Investment properties-cost method

	31 December 2011	Current year addition	Current year disposal	31 December 2012
Cost	186,414,027.96	–	–	186,414,027.96
Buildings	175,379,634.69	–	–	175,379,634.69
Land use rights	11,034,393.27	–	–	11,034,393.27
Accumulated depreciation and amortisation	84,123,841.03	5,970,095.53	–	90,093,936.56
Buildings	79,571,436.41	5,743,929.70	–	85,315,366.11
Land use rights	4,552,404.62	226,165.83	–	4,778,570.45
Net book value	102,290,186.93			96,320,091.40
Buildings	95,808,198.28			90,064,268.58
Land use rights	6,481,988.65			6,255,822.82
Provision for impairment	–	–	–	–
Buildings	–	–	–	–
Land use rights	–	–	–	–
Carrying amount	102,290,186.93			96,320,091.40
Buildings	95,808,198.28			90,064,268.58
Land use rights	6,481,988.65			6,255,822.82

Depreciation charges for 2012 amounted to RMB5,744 thousand (for the year ended 31 December 2011: RMB5,941 thousand). Amortization charges for 2012 amounted to RMB226 thousand (for the year ended 31 December 2011: RMB226 thousand).

Land use rights within investment properties are all located in the PRC with useful life between 10 to 50 years.

For the year ended 31 December 2012, the investment properties generated leasing income amounted to RMB41,188 thousand (for the year ended 31 December 2011: RMB40,444 thousand), and incurred direct leasing expenses (e.g. taxes and surcharges) amounted to RMB7,295 thousand (for the year ended 31 December 2011: RMB6,798 thousand).

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(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Fixed assets and accumulated depreciation

(a) Fixed assets

	31 December 2011	Current year addition	Current year disposal	31 December 2012
Cost	1,941,421,998.58	49,620,336.40	16,044,047.86	1,974,998,287.12
Buildings	933,037,508.88	9,118,590.72	903,832.04	941,252,267.56
Machinery and equipment	790,619,091.54	26,742,534.94	5,520,544.03	811,841,082.45
Motor vehicles	61,606,799.17	2,636,705.23	1,733,781.04	62,509,723.36
Electronic equipments	52,908,113.47	3,491,511.11	438,821.21	55,960,803.37
Office equipment	63,080,311.58	6,550,270.51	7,447,069.54	62,183,512.55
Decoration and fixtures	40,170,173.94	1,080,723.89	–	41,250,897.83
Accumulated depreciation	934,966,519.12	95,859,683.68	14,501,463.45	1,016,324,739.35
Buildings	298,217,112.18	30,848,864.03	185,937.56	328,880,038.65
Machinery and equipment	490,182,308.34	49,619,202.51	5,281,038.12	534,520,472.73
Motor vehicles	44,994,467.93	3,207,926.73	1,702,090.12	46,500,304.54
Electronic equipments	21,439,393.09	2,623,731.70	405,246.32	23,657,878.47
Office equipment	47,771,002.15	4,557,237.66	6,927,151.33	45,401,088.48
Decoration and fixtures	32,362,235.43	5,002,721.05	–	37,364,956.48
Provision for impairment	6,434,238.45	–	–	6,434,238.45
Buildings	5,199,353.89	–	–	5,199,353.89
Machinery and equipment	1,016,970.09	–	–	1,016,970.09
Motor vehicles	217,914.47	–	–	217,914.47
Electronic equipments	–	–	–	–
Office equipment	–	–	–	–
Decoration and fixtures	–	–	–	–
Carrying amount	1,000,021,241.01			952,239,309.32
Buildings	629,621,042.81			607,172,875.02
Machinery and equipment	299,419,813.11			276,303,639.63
Motor vehicles	16,394,416.77			15,791,504.35
Electronic equipments	31,468,720.38			32,302,924.90
Office equipment	15,309,309.43			16,782,424.07
Decoration and fixtures	7,807,938.51			3,885,941.35

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Fixed assets and accumulated depreciation (Continued)

(a) Fixed assets

- (i) For the year ended 31 December 2012, the fixed assets transferred from construction in progress amounted to RMB38,662 thousand (for the year ended 31 December 2011: 47,923 thousand).
- (ii) Depreciation expenses for the year ended 31 December 2012 amounted to RMB95,860 thousand in total (for the year ended 31 December 2011: 97,583 thousand), of which RMB61,316 thousand, RMB1,478 thousand and RMB33,066 thousand were charged to cost of sales, selling and distribution expenses and general and administrative expenses, respectively (for the year ended 31 December 2011: RMB59,600 thousand, RMB2,513 thousand and RMB35,470 thousand, respectively).

- (b) As at 31 December 2012, the buildings and the machinery and equipment are temporarily idle, which are analysed as follows:

	Cost	Accumulated depreciation	Provision for impairment loss	Carrying amount	Note
Buildings	430,613.36	163,417.64	-	267,195.72	Entrust an agency to lease currently
Machinery and equipment	730,884.08	285,201.51	445,682.57	-	Chinese medicine slicing machine

- (c) As at 31 December 2012, fixed assets which were lack of ownership certificate are summarised as follows:

	Carrying amount	Reason	Estimated date of obtaining the ownership certificate
Buildings	18,760,336.84	Procedures are not complete, so the certificates are not handled.	Uncertain
Motor vehicles	189,937.50	Procedures are not complete, so the ownership cannot be transferred.	Uncertain
	<u>18,950,274.34</u>		

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Fixed assets and accumulated depreciation (Continued)

(d) As at 31 December 2012 and 31 December 2011, there are no fixed assets held for sale.

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

	31 December 2012 Carrying Amount	31 December 2011 Carrying Amount
Buildings	11,533,263.06	12,198,966.54

(14) Construction in progress

	31 December 2012			31 December 2011		
	Ending balance	Provision for impairment	Carrying amount	Ending balance	Provision for impairment	Carrying amount
Construction in progress	27,897,312.69	-	27,897,312.69	20,369,955.46	-	20,369,955.46

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)

(14) Construction in progress (Continued)

(a) Movement of construction in progress

	Budget	31 December 2011	Current year additions	Current year reductions		31 December 2012	Source of funds	% contribution in budget
				Transferred to fixed assets	Other reductions			
Yunpu New Equipment Project	8,500,000.00	1,224,217.19	4,357,780.34	3,571,229.66	-	2,010,767.87	Self-funding	85.57%
HPLC/MS Devices Upgrade Project	5,115,000.00	3,598,869.37	-	3,598,869.37	-	-	Self-funding	99.65%
Central air conditioning system, energy-saving projects	2,740,000.00	702,564.14	-	702,564.14	-	-	Self-funding	100.00%
Holeless casting machine and site improvement	9,500,000.00	4,186,912.06	172,584.53	4,359,496.59	-	-	Self-funding	48.54%
Sewage Disposal Line of Zhongyi	1,076,307.00	-	479,176.40	-	-	479,176.40	Self-funding	44.52%
EMS System	1,940,000.00	-	725,000.00	-	-	725,000.00	Self-funding	37.37%
Marketing Exhibition Room of Zhongyi	18,750,000.00	-	935,000.00	-	-	935,000.00	Self-funding	49.86%
Olein Production Line	14,300,000.00	338,834.00	2,780,565.00	2,491,765.00	-	627,634.00	Self-funding	102.35%
Improvement Project for Sewage Disposal Line	1,500,000.00	669,854.15	371,364.77	-	-	1,041,218.92	Self-funding	69.41%
Solvent tank farm project	1,300,000.00	812,587.62	585,148.59	972,557.92	-	425,178.29	Self-funding	107.52%
Dormitory surrounding road works	1,630,000.00	917,961.00	800,000.00	1,261,455.92	-	456,505.08	Self-funding	105.40%
Near-infrared line detection	5,500,000.00	800,000.00	4,432,967.54	-	-	5,232,967.54	Self-funding	95.14%
Oral Liquid Auto-packaging Line	2,300,000.00	2,266,000.00	-	1,936,752.14	-	329,247.86	Self-funding	98.52%
Tendril-leaved Fritillary Bulb Dose Auto-packaging Line	1,500,000.00	1,179,100.00	680,564.10	792,564.10	-	1,067,100.00	Self-funding	98.26%
Office Building Construction	5,000,000.00	233,776.58	-	-	-	233,776.58	Self-funding	4.68%
Cell Culture Platform	1,000,000.00	-	364,249.75	364,249.75	-	-	Self-funding	44.28%
Biological Vaccine Research Industrialization Platform Project	25,600,000.00	-	104,528.00	-	-	104,528.00	Self-funding	0.41%
Electricity Room	1,500,000.00	-	1,507,487.93	1,507,487.93	-	-	Self-funding	100.50%
Pill Preparation Line Technological Transformation Project	4,000,000.00	-	2,260,189.40	-	-	2,260,189.40	Self-funding	56.50%
4th Workshop partial GMP Reconstruction Project	2,600,000.00	-	32,000.00	-	-	32,000.00	Self-funding	1.23%
Pill Manufacturing Line	2,192,000.00	-	1,534,400.00	-	-	1,534,400.00	Self-funding	70.00%
Others	37,181,108.06	3,439,279.35	25,420,476.16	17,103,334.02	1,353,798.74	10,402,622.75	Self-funding	-
		<u>20,369,955.46</u>	<u>47,543,482.51</u>	<u>38,662,326.54</u>	<u>1,353,798.74</u>	<u>27,897,312.69</u>		

(b) For the year ended 31 December 2012, there are no borrowing costs eligible for capitalization.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Construction in progress (Continued)

- (c) As at 31 December 2012, the construction progress of significant constructions in progress are analysed as below:

	Progress
Near-infrared line detection	Commissioning phase
Yunpu New Equipment Project	Construction phase
Pill Preparation Line Technological Transformation Project	Completion phase of construction
Pill Manufacturing Line	Construction phase
Tendril-leaved Fritillary Bulb Dose Auto-packaging Line	Installation and commissioning phase

(15) Intangible assets

(a) Details of intangible assets

	31 December 2011	Current year additions	Current year reductions	31 December 2012
Original cost	130,618,577.07	1,612,207.40	112,997.41	132,117,787.06
Land use rights	111,415,483.06	–	21,541.00	111,393,942.06
Industrial patents and technologies	10,428,802.54	–	–	10,428,802.54
Non-patent technologies	4,840,000.00	1,262,451.20	–	6,102,451.20
Trademarks	76,100.00	–	–	76,100.00
Others	3,858,191.47	349,756.20	91,456.41	4,116,491.26
Accumulated amortisation	34,546,487.98	4,270,643.95	82,785.07	38,734,346.86
Land use rights	27,679,247.14	2,491,197.63	6,103.00	30,164,341.77
Industrial patents and technologies	1,929,772.23	416,400.70	–	2,346,172.93
Non-patent technologies	3,677,191.88	615,237.79	–	4,292,429.67
Trademarks	55,806.76	7,610.00	–	63,416.76
Others	1,204,469.97	740,197.83	76,682.07	1,867,985.73
Impairment	934,043.28	–	–	934,043.28
Land use rights	480,700.24	–	–	480,700.24
Industrial patents and technologies	453,343.04	–	–	453,343.04
Non-patent technologies	–	–	–	–
Trademarks	–	–	–	–
Others	–	–	–	–
Carrying amount	95,138,045.81			92,449,396.92
Land use rights	83,255,535.68			80,748,900.05
Industrial patents and technologies	8,045,687.27			7,629,286.57
Non-patent technologies	1,162,808.12			1,810,021.53
Trademarks	20,293.24			12,683.24
Others	2,653,721.50			2,248,505.53

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Intangible assets (Continued)

(a) Details of intangible assets (Continued)

For the year ended 31 December 2012, the amortization of intangible assets amounted to RMB4,271 thousand (for the year ended 31 December 2011: RMB3,975 thousand), which were recognized in profit or loss for the current year.

Land use rights within intangible assets are all located in the PRC with useful life between 10 to 50 years.

(16) Development costs

	31 December 2011	Current year additions	Current year transferred out		31 December 2012
			Recognised in profit or loss in current year	Recognised as intangible assets	
Capitalised expenditures	792,251.69	–	–	–	792,251.69
Expensed expenditures	–	86,573,545.25	86,573,545.25	–	–
	<u>792,251.69</u>	<u>86,573,545.25</u>	<u>86,573,545.25</u>	<u>–</u>	<u>792,251.69</u>

(17) Long-term prepaid expenses

	31 December 2011	Current year additions	Current year amortisation	other reductions	31 December 2012
Building decoration and fixtures	2,502,538.95	2,168,609.88	1,158,665.46	–	3,512,483.37
Basketball field construction	447,038.27	–	144,985.38	–	302,052.89
Sewage conduit maintenance	60,845.76	–	60,845.76	–	–
ERP system fee	17,044.01	–	14,598.37	–	2,445.64
Installation of the product identification code for the packing production line	734,520.46	–	284,330.50	–	450,189.96
Others	4,182,682.64	1,126,912.83	2,627,949.82	–	2,681,645.65
	<u>7,944,670.09</u>	<u>3,295,522.71</u>	<u>4,291,375.29</u>	<u>–</u>	<u>6,948,817.51</u>

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(18) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets

	31 December 2012	31 December 2011
Impairment provision of long-term equity investment	115,051.22	115,051.22
Provision for declines in values of inventories	425,460.17	222,196.60
Provision for bad debts	5,096,036.76	5,399,844.25
Impairment provision of fixed assets	374,635.21	374,635.21
Depreciation difference of fixed assets due to gap of accounting treatment and taxation law	340,350.72	335,904.41
Changes in fair value of financial assets held for trading	658,863.83	595,920.70
Employee benefits payable	21,087,702.58	4,280,103.99
Other payables	30,511,482.52	5,536,667.87
Other non-current liabilities	6,548,507.57	5,324,544.64
Deductible tax losses	5,395,982.41	9,021,141.38
Effect of elimination	8,277,806.66	7,068,603.62
Provision for impairment of intangible assets	188,176.52	188,176.52
Others	124,050.39	79,293.16
	79,144,106.56	38,542,083.57

(b) Deferred tax liabilities

	31 December 2012	31 December 2011
Other receivables – rental income	1,733,304.25	1,954,860.86
Changes in fair value of available-for-sale financial assets	2,130,188.97	1,847,852.04
	3,863,493.22	3,802,712.90

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

	31 December 2012	31 December 2011
Deductible temporary differences	58,698,183.03	48,202,080.75
Deductible tax losses	74,828,065.19	92,714,219.77
	133,526,248.22	140,916,300.52

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

	31 December 2012	31 December 2011
2012	–	28,936,792.24
2013	17,539,311.81	17,746,348.21
2014	21,659,097.66	21,746,131.60
2015	13,246,797.36	13,246,797.36
2016	10,978,815.15	11,038,150.36
2017	11,404,043.21	–
	74,828,065.19	92,714,219.77

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

	31 December 2012	31 December 2011
Impairment provision of long-term equity investment	460,204.88	460,204.88
Provision for declines in values of inventories	2,621,166.70	1,287,813.81
Provision for bad debts	23,881,774.36	25,169,591.51
Impairment provision of fixed assets	2,457,774.78	2,457,774.80
Depreciation difference of fixed assets due to gap of accounting treatment and taxation law	2,269,004.80	2,236,599.54
Changes in fair value of financial assets held for trading	2,635,455.30	2,383,682.80
Employee benefits payable	104,346,227.78	25,938,026.59
Other payables	132,202,762.31	27,791,122.47
Other non-current liabilities	43,656,717.02	35,496,964.31
Deductible tax losses	35,973,216.05	60,000,565.51
Effect of elimination	33,111,226.64	28,274,414.48
Provision for impairment of intangible assets	934,043.28	934,043.28
Others	613,825.54	528,620.81
	385,163,399.44	212,959,424.79

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

	31 December 2012	31 December 2011
Other receivables – rental income	7,741,993.71	9,138,026.71
Changes in fair value of available-for-sale financial assets	8,868,480.43	7,694,236.42
	16,610,474.14	16,832,263.13

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) Provision for asset impairment

	31 December 2011	Current year additions	Current year reductions		31 December 2012
			Reversal	Write-off	
Provision for bad debts	26,467,971.40	3,111,218.13	537,348.09	2,625,446.78	26,416,394.66
Provision for declines in value of inventories	6,540,167.53	4,017,826.47	293,546.55	2,991,482.50	7,272,964.95
Impairment provision of long-term equity investments	1,078,551.23	–	–	–	1,078,551.23
Impairment provision of fixed assets	6,434,238.45	–	–	–	6,434,238.45
Impairment provision of intangible assets	934,043.28	–	–	–	934,043.28
Impairment provision of goodwill	475,756.92	–	–	–	475,756.92
	41,930,728.81	7,129,044.60	830,894.64	5,616,929.28	42,611,949.49

(20) Short-term borrowings

	31 December 2012	31 December 2011
Credit loans	12,467,807.78	32,500,000.00
Pledged bank borrowings	–	32,428,849.42
Guaranteed bank borrowings	70,000,000.00	80,000,000.00
	82,467,807.78	144,928,849.42

- (a) As at 31 December 2012 and 31 December 2011, there are no short-term borrowings which are due but have not been repaid.
- (b) As at 31 December 2012 and 31 December 2011, there are no borrowings being mortgaged.
- (c) As at 31 December 2012, there are no pledged bank borrowings (as at 31 December 2011: USD borrowings equivalent to RMB27,839 thousand and RMB borrowings amounted to RMB4,590 thousand, which are pledged with the deposits of RMB27,839 thousand and notes receivable equivalent to RMB 5,111 thousand).
- (d) As at 31 December 2012, the weighted average interest rate of short-term borrowings is 5.7443% per annum (as at 31 December 2011: 6.8179% per annum).

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(21) Notes payable

	31 December 2012	31 December 2011
Bank acceptance notes	<u>38,936,645.00</u>	<u>5,432,012.71</u>

As at 31 December 2012, notes payable amounting to RMB 38,937 thousand were expected to be due within 1 year (as at 31 December 2011: RMB5,432 thousand).

(22) Accounts payable

(a) Details of accounts payable

	31 December 2012		31 December 2011	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	726,499,935.05	98.68%	343,592,964.13	98.10%
Over 1 year	9,716,379.10	1.32%	6,656,634.15	1.90%
	<u>736,216,314.15</u>	100.00%	<u>350,249,598.28</u>	100.00%

- (b) As at 31 December 2012 and 31 December 2011, 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 2012, the amount of accounts payable to related parties accounted for 3.41% of the total balance (as at 31 December 2011: 3.58%): refer to Note 6 for details.
- (d) As at 31 December 2012 and 31 December 2011, there are no accounts payable that are individually significant whose aging are over 1 year.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(22) Accounts payable (Continued)

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

	31 December 2012			31 December 2011		
	Amount	Exchange rate	RMB	Amount	Exchange rate	RMB
USD	1,283,744.45	6.2855	8,068,975.74	1,062,860.78	6.3009	6,696,979.49

(23) Advances from customers

(a) Details of advances from customers

	31 December 2012		31 December 2011	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	333,120,391.00	98.87%	142,018,448.61	96.66%
Over 1 year	3,803,993.28	1.13%	4,913,345.88	3.34%
	336,924,384.28	100.00%	146,931,794.49	100.00%

(b) As at 31 December 2012, there are no advances from shareholders who hold more than 5% (including 5%) of the voting rights of the Company (as at 31 December 2011: the advances from GPL are RMB5 thousand).

(c) As at 31 December 2012, advances from related parties accounted for 12.98% of the total balance (as at 31 December 2011: 1.75%): refer to Note 6 for details.

(d) As at 31 December 2012 and 31 December 2011, there are no advances from customers that are individually significant whose aging are over 1 year.

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

	31 December 2012			31 December 2011		
	Amount	Exchange rate	RMB	Amount	Exchange rate	RMB
USD	768,316.64	6.3207	4,856,310.45	2,250,214.90	6.3499	14,288,749.26
HKD	908,709.73	0.8116	737,492.29	1,998,616.03	0.8152	1,629,351.83
			5,593,802.74			15,918,101.09

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(24) Employee benefits payable

	31 December 2011	Current year additions	Current year reductions	31 December 2012
Wages and salaries, bonuses, allowances and subsidies	23,776,600.22	500,910,704.83	443,563,564.13	81,123,740.92
Staff welfare	1,093,816.52	35,307,647.95	36,015,733.87	385,730.60
Social insurances	166,558.19	119,856,922.54	119,854,907.00	168,573.73
Including: Medical insurance	–	30,716,638.39	30,723,979.69	(7,341.30)
Basic pension insurance	1,059.25	65,661,984.68	65,661,984.68	1,059.25
Annuity	162,929.05	10,827,623.18	10,810,884.46	179,667.77
Unemployment insurance	2,569.89	7,199,938.83	7,199,938.83	2,569.89
Work injury insurance	–	2,252,910.98	2,252,910.98	–
Maternity insurance	–	2,832,300.76	2,839,682.64	(7,381.88)
Other insurances	–	365,525.72	365,525.72	–
Housing funds	219,834.17	53,646,549.44	53,786,668.20	79,715.41
Labor union funds and employee education funds	2,595,559.30	12,903,624.63	12,678,835.25	2,820,348.68
Compensation for lay-off	–	944,856.78	944,856.78	–
Housing allowance	17,695,169.70	23,491,128.58	21,682,477.99	19,503,820.29
Service fee	11,850,000.00	260,171,249.96	250,407,618.67	21,613,631.29
Staff and workers' bonus and welfare fund	5,613,344.67	–	703,379.00	4,909,965.67
Others	1,156,274.41	21,168,869.98	21,190,373.39	1,134,771.00
	<u>64,167,157.18</u>	<u>1,028,401,554.69</u>	<u>960,828,414.28</u>	<u>131,740,297.59</u>

As at 31 December 2012, employee benefits payable mainly include the wages and bonus of December 2012 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 2013.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(25) Taxes payable

	31 December 2012	31 December 2011
VAT	39,529,450.00	18,204,107.42
Business tax	904,091.01	971,025.52
City maintenance and construction tax	3,316,148.73	1,616,595.95
Education surcharge	1,419,131.83	725,384.42
Local education surcharge	947,469.08	453,628.81
Enterprise income tax	55,415,292.06	8,266,138.96
Individual income tax	5,024,455.90	4,495,715.62
Real-estate tax	712,058.04	872,425.96
Urban area embankment maintenance fee	2,686,938.94	1,799,427.45
Others	157,473.05	546,831.55
	110,112,508.64	37,951,281.66

(26) Dividends payable

	31 December 2012	31 December 2011
Investors		
Foreign shares listed out of the PRC (H Shares)	592.31	(592.76)
RMB ordinary shares	(4.15)	(4.15)
Minority shareholders	138,140.14	137,037.36
	138,728.30	136,440.45

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(All amounts in Renminbi yuan unless otherwise stated)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Other payables

(a) The aging of other payables is analysed as below:

	31 December 2012	31 December 2011
Within 1 year	425,740,347.42	81,568,404.88
Over 1 year	53,113,453.55	39,975,188.24
	478,853,800.97	121,543,593.12

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

	31 December 2012	31 December 2011
Deposits	33,524,672.41	26,637,761.90
Technology development fee	523,747.85	–
Rental expenses	824,335.92	377,111.60
Payables to third parties	38,235,817.43	32,590,770.44
Amount due to employees	4,727,186.72	2,478,847.96
Payables to related parties (Note 6(5))	22,209,917.44	8,083,724.98
Accruals for purchase of fixed assets	5,800,327.04	2,656,773.05
Accruals for purchase of land use rights	2,154,323.40	2,154,323.40
Sales return	97,916,988.14	–
Accrued expenses	266,293,956.54	40,271,028.34
Others	6,642,528.08	6,293,251.45
	478,853,800.97	121,543,593.12

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Other payables (Continued)

(c) Details of accrued expenses

	31 December 2012	31 December 2011
Interest expenses	–	334,960.90
Rental expenses	4,615,372.88	3,475,240.10
Agent fees	13,338,372.20	4,569,850.23
Advertising expenses	174,909,826.29	15,254,273.77
Utilities	2,443,829.79	2,384,517.70
Transportation expenses	41,409,123.26	2,906,341.67
Research and development expenses	3,608,789.40	3,846,302.52
Marketing expenses	8,933,234.17	178,550.00
Travelling expenses	907,490.40	831,079.50
Consulting expenses	6,977,935.69	2,401,052.00
Others	9,149,982.46	4,088,859.95
	266,293,956.54	40,271,028.34

- (d) As at 31 December 2012, other payables to shareholders who hold more than 5% (including 5%) of the voting rights of the Company are other payables of RMB14,104 thousand to GPLH (as at 31 December 2011: RMB8,080 thousand to GPLH).
- (e) As at 31 December 2012, other payables to related parties accounted for 4.64% of the total balance (as at 31 December 2011: 6.65%): refer to Note 6 for details.
- (f) As at 31 December 2012 and 31 December 2011, significant other payables whose aging are over 1 year mainly include accruals for purchase of fixed assets, accruals for purchase of intangible assets, and purchase downpayment.
- (g) As at 31 December 2012 and 31 December 2011, all other payables are denominated in RMB.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(28) Long-term payables

	31 December 2012	31 December 2011
State dividend fund	2,149,157.22	2,149,157.22
State-owned Assets Supervision & Administration Commission of Guangzhou City	934.51	934.51
The Provincial Department of Finance of Guangxi Zhuang Autonomous Region	2,264,426.47	2,264,426.47
Others	8,887.36	8,887.36
	4,423,405.56	4,423,405.56

(29) Other non-current liabilities

	31 December 2012	31 December 2011
Government grants related to assets:		
Technology funds granted by government	19,872,335.03	13,711,589.63
Relocation compensation	3,261,367.57	5,445,449.38
Government discount	2,024,553.03	2,096,419.95
Sewage disposal system project	1,056,987.50	1,157,862.50
Specific funds for Xiaoke Wan online supervision project	766,666.72	866,666.68
Others	3,484,070.83	1,774,881.61
	30,465,980.68	25,052,869.75
Government grants related to income:		
Technology funds granted by government	55,113,070.60	50,656,731.42
Special funds for Technology export development	137,232.06	173,232.06
Others	1,679,715.77	644,151.78
	56,930,018.43	51,474,115.26
	87,395,999.11	76,526,985.01

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(30) Share capital

	31 December 2011		Current year addition (+)/reduction(-)					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
Share capital total	810,900,000.00	100.00	-	-	-	-	-	810,900,000.00	100.00

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(30) Share capital (Continued)

	31 December 2010		Current year addition (+)/reduction(-)					31 December 2011	
	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
Share capital total	810,900,000.00	100.00	-	-	-	-	-	810,900,000.00	100.00

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(31) Capital surplus

	31 December 2011	Current year additions	Current year reductions	31 December 2012
Share premium	914,006,770.47	–	–	914,006,770.47
Other capital surplus	234,009,948.50	1,020,905.26	271,792.21	234,759,061.55
Including: Transfer of capital surplus recognised under the previous accounting system	24,955,836.66	–	–	24,955,836.66
	<u>1,148,016,718.97</u>	<u>1,020,905.26</u>	<u>271,792.21</u>	<u>1,148,765,832.02</u>

	31 December 2010	Current year additions	Current year reductions	31 December 2011
Share premium	914,006,770.47	–	–	914,006,770.47
Other capital surplus	238,713,351.77	499,816.16	5,203,219.43	234,009,948.50
Including: Transfer of capital surplus recognised under the previous accounting system	24,955,836.66	–	–	24,955,836.66
	<u>1,152,720,122.24</u>	<u>499,816.16</u>	<u>5,203,219.43</u>	<u>1,148,016,718.97</u>

The fluctuation of the other capital surplus in current year was due to:

- The increase of capital surplus amounted to RMB902 thousand is due to the net changes in fair value of available-for-sale financial assets held by the Group, which include the increase of RMB771 thousand due to the increase in the price of the A-share of China Everbright Bank Company Limited held by the Group and the increase of RMB131 thousand due to the increase in the price of the A-share of Bank of Communications held by the Group.
- The Company recognised the decrease in capital surplus amounted to RMB272 thousand due to the increased investment in the subsidiary of Guangzhou Baiyunshan Han Fang Modern Pharmaceutical Co., Ltd..
- As the capital surplus of a jointly controlled entity Guangzhou Pharmaceuticals Corporation increased in the current year, the Group recognised the increase in capital surplus amounted to RMB6 thousand based on its share of interest in Guangzhou Pharmaceuticals Corporation.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(32) Surplus reserve

	31 December 2011	Current year additions	Current year reductions	31 December 2012
Statutory surplus reserve	483,970,057.97	26,366,645.54	–	510,336,703.51
Discretionary surplus reserve	118,925,617.49	–	–	118,925,617.49
	<u>602,895,675.46</u>	<u>26,366,645.54</u>	<u>–</u>	<u>629,262,321.00</u>

	31 December 2010	Current year additions	Current year reductions	31 December 2011
Statutory surplus reserve	459,116,543.12	24,853,514.85	–	483,970,057.97
Discretionary surplus reserve	118,925,617.49	–	–	118,925,617.49
	<u>578,042,160.61</u>	<u>24,853,514.85</u>	<u>–</u>	<u>602,895,675.46</u>

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 to more than 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 appropriate 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)*

(33) Undistributed profits

	Year ended 31 December 2012	Year ended 31 December 2011
Undistributed profits at the beginning of the year (before adjustments)	1,219,839,567.46	997,707,102.24
Adjustments of undistributed profits at the beginning of the year (Add: positive; Less: negative)	–	–
Undistributed profits at the beginning of the year (after adjustments)	1,219,839,567.46	997,707,102.24
Add: Net profit for the current year	395,278,360.28	287,530,980.07
Less: Appropriation for statutory surplus reserve	26,366,645.54	24,853,514.85
Less: Ordinary shares dividend payable	81,090,000.00	40,545,000.00
Undistributed profits at the end of the year	1,507,661,282.20	1,219,839,567.46

- (a) As at 31 December 2012, surplus reserves of the Company's subsidiaries amounting to RMB129,502 thousand is included in undistributed profits (as at 31 December 2011: RMB90,807 thousand).
- (b) In accordance with the resolution at the Annual General Meeting held on 12 April 2012, the Company proposed a cash dividend of RMB0.10 per share to shareholders of the Company, amounting to RMB 81,090 thousand in total based on the number of shares issued amounting to 810,900,000.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(34) Minority interest

Investees	Investment relationship with the Company	31 December 2012	31 December 2011
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	Holding Subsidiary	14,706,616.89	13,031,551.58
Guangzhou Baiyunshan Han Fang Modern Pharmaceutical Co., Ltd.	Holding Subsidiary	687,926.00	385,522.60
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd.	Holding Subsidiary	18,094,021.67	18,338,888.80
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	Holding Subsidiary	26,671,196.07	25,450,989.94
Guangzhou Baiyunshan Bai Di Bio-technology Pharmaceutical Co., Ltd.	Holding Subsidiary	1,100,972.57	707,176.16
Guangxi Ying Kang Pharmaceutical Co., Ltd.	Holding Subsidiary	16,678,285.66	15,748,129.29
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.	Indirect holding subsidiary	40,462,248.66	38,142,447.53
Guangzhou Jing Xiu Tang 1790 Trading Co.,Ltd.	Indirect holding subsidiary	1,428,624.84	191,482.17
Guangzhou Pan Gao Shou Natural Healthcare Products Co.,Ltd.	Indirect holding subsidiary	829,359.13	623,867.61
Xizang Lin Zhi Guangyao Development Co., Ltd.(*)	Indirect holding subsidiary	647,392.22	900,000.00
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd	Indirect holding subsidiary	200,000.00	–
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect holding subsidiary	1,255,398.17	–
Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect holding subsidiary	900,000.00	–
Jingyuxian Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect holding subsidiary	1,200,000.00	–
Guangzhou Guangyao Yi Gan Bio-technology Co., Ltd.	Holding Subsidiary	2,868,856.19	–
		127,730,898.07	113,520,055.68

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)

(35) Revenue and cost of sales

	Year ended 31 December 2012		
	Main operation	Other operation	Subtotal
Revenue	8,128,653,256.84	100,405,281.22	8,229,058,538.06
Cost of sales	5,934,257,559.39	20,686,212.39	5,954,943,771.78
Gross profit	2,194,395,697.45	79,719,068.83	2,274,114,766.28

	Year ended 31 December 2011		
	Main operation	Other operation	Subtotal
Revenue	5,345,157,954.82	94,453,663.64	5,439,611,618.46
Cost of sales	4,026,305,531.86	16,446,303.08	4,042,751,834.94
Gross profit	1,318,852,422.96	78,007,360.56	1,396,859,783.52

(a) Revenue and cost of main operation by natures are summarised by business as follows:

	Revenue of main operation		Cost of main operation	
	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2011
Manufacturing	4,585,260,186.66	2,534,759,871.46	2,599,712,032.26	1,402,835,857.13
Trading	3,543,393,070.18	2,810,398,083.36	3,334,545,527.13	2,623,469,674.73
	8,128,653,256.84	5,345,157,954.82	5,934,257,559.39	4,026,305,531.86

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)

(35) Revenue and cost of sales (Continued)

(b) Revenue and cost of main operation by regions are summarised as follows:

	Revenue of main operation		Cost of main operation	
	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2011
Southern China	5,266,786,589.40	3,761,626,123.97	3,984,575,890.08	2,920,618,972.40
Eastern China	1,039,296,169.00	544,469,385.31	689,536,642.99	396,325,257.24
Northern China	646,656,442.29	363,119,945.64	370,820,945.08	202,428,502.22
Northeastern China	148,757,154.56	104,059,218.83	83,119,734.09	61,141,622.35
Southwestern China	484,056,248.53	240,008,358.27	355,906,589.99	167,228,213.52
Northwestern China	194,027,297.20	105,573,540.82	111,453,184.48	58,935,404.85
Other countries	349,073,355.86	226,301,381.98	338,844,572.68	219,627,559.28
	8,128,653,256.84	5,345,157,954.82	5,934,257,559.39	4,026,305,531.86

(c) Top five of the revenue of the Group amounted to RMB1,256,198 thousand in total (for the year ended 31 December 2011: RMB1,007,043 thousand), which accounts for 15.46% of the total revenue of the Group (for the year ended 31 December 2011: 18.84%).

	Revenue of the main operation	Percentage of the total revenue of the main operation of the group
Customer 1	359,237,476.92	4.42%
Customer 2	293,301,819.86	3.61%
Customer 3	263,308,926.55	3.24%
Customer 4	207,895,957.48	2.56%
Customer 5	132,453,706.28	1.63%
	1,256,197,887.09	15.46%

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)

(35) Revenue and cost of sales (Continued)

(d) Revenue from other operation

	Year ended 31 December 2012	Year ended 31 December 2011
Leases of assets	57,827,021.85	57,002,184.05
Sales of materials	813,671.32	1,270,494.35
Franchise management fee income	186,200.00	198,500.00
License fee income	20,951,953.85	17,265,921.24
Consulting fee income	563,352.02	723,371.00
Agency fee income	43,843.80	459,624.79
Medicine slotting fee income	300,710.70	576,445.50
Technical service income	7,778,764.82	3,963,589.00
Others	11,939,762.86	12,993,533.71
	100,405,281.22	94,453,663.64

(e) Cost of other operation

	Year ended 31 December 2012	Year ended 31 December 2011
Depreciation of assets leased out	8,492,003.18	8,339,064.66
Cost of materials sold	973,680.11	518,487.07
Technical service fee	5,761,934.85	2,561,550.18
Others	5,458,594.25	5,027,201.17
	20,686,212.39	16,446,303.08

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)*

(36) Taxes and surcharges

	Year ended 31 December 2012	Year ended 31 December 2011
Business tax	6,994,161.37	5,670,896.86
City maintenance and construction tax	31,907,249.00	19,321,983.61
Education surcharge	13,755,469.71	8,330,372.36
Local education surcharge	9,185,974.92	5,564,161.75
Housing Real-estate tax	5,288,481.33	5,155,343.27
Others	20,226.16	–
	67,151,562.49	44,042,757.85

Basis of calculation: refer to Note 3.

(37) Selling and distribution expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Employee benefit expenses	447,827,621.67	316,945,471.53
Sales service fees	70,849,900.08	31,788,349.03
Travelling expenses	35,885,139.65	30,468,575.30
Entertainment expenses	11,267,265.30	8,445,109.41
Office expenses	11,631,056.73	7,689,041.21
Transportation expenses	126,083,762.02	47,304,648.35
Rental expenses	11,824,727.01	10,220,099.49
Conference expenses	46,153,628.54	27,064,748.41
Insurance fees	205,138.16	321,060.99
Advertising and promotion fees	547,517,136.37	198,949,778.61
Consulting fees	25,224,748.77	13,788,081.51
Depreciation charges	1,478,248.77	2,512,835.50
Others	23,505,187.60	15,335,674.32
	1,359,453,560.67	710,833,473.66

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)

(38) General and administrative expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Employee benefit expenses	283,321,259.94	225,538,282.92
Property management expenses	542,289.10	499,275.70
Insurance fees	900,337.33	931,484.01
Depreciation charges	28,157,908.30	28,222,738.65
Utilities	5,198,595.49	4,816,743.06
Administrative expenses	12,375,886.93	9,357,720.06
Travelling expenses	6,410,353.59	4,578,636.78
Transportation expenses	9,715,746.25	12,394,778.92
Entertainment expenses	13,211,223.24	8,404,356.05
Repairing expenses	6,010,395.99	4,543,952.36
Rental expenses	10,469,684.11	9,013,358.57
Conference expenses	5,775,050.57	3,508,420.11
Research and development expenses	86,573,545.25	99,348,761.38
Taxation charges	24,316,365.62	19,596,918.85
Amortisation charges	12,174,427.69	8,681,943.62
Professional service fees	22,785,920.47	8,829,011.50
Including: auditor's emolument	2,800,000.00	1,430,000.00
Consulting fees	3,163,140.06	2,526,240.37
License fees	34,155,381.05	7,411,787.12
Others	28,226,202.29	22,327,589.69
	593,483,713.27	480,531,999.72

(39) Financial expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Interest expenses	8,514,941.09	4,285,360.95
Discount interest expenses of notes	3,179,765.70	1,539,265.72
Interest income	(7,550,962.83)	(6,592,248.35)
Exchange (gains)/losses	(514,571.41)	261,561.44
Bank charges	1,879,405.98	2,018,987.71
Cash discounts	(791,317.32)	92,664.00
Others	–	247,487.48
	4,717,261.21	1,853,078.95

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(39) Financial expenses (Continued)

For the year ended 31 December 2012 and 2011, all interest expenses belong to borrowings which loan repayment dates are within 5 years.

(40) Asset impairment losses

	Year ended 31 December 2012	Year ended 31 December 2011
Provision for bad debts	2,573,870.04	(3,584,621.19)
Declines in values of inventories	3,724,279.92	4,501,486.15
	6,298,149.96	916,864.96

(41) Profit arising from changes in fair value

	Year ended 31 December 2012	Year ended 31 December 2011
Gain/(loss) arising from changes in fair value of listed shares of Hafei Aviation Industry Co., Ltd held by the Group	80,934.00	(639,378.60)
Loss arising from changes in fair value of listed shares of Harbin Pharmaceutical Group Co., Ltd. held by the Group	(332,706.50)	(2,902,220.92)
	(251,772.50)	(3,541,599.52)

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)

(42) Investment income

(a) Investment income details

	Year ended 31 December 2012	Year ended 31 December 2011
Investment income from financial assets:		
Income from disposal of financial assets held for trading	–	517,943.24
Income from financial assets held for trading	6,034.70	–
Income from available-for-sale financial assets	845,976.48	578,090.46
Income from entrusted loans	(755,524.96)	(653,775.68)
	96,486.22	442,258.02
Income from long-term equity investment:		
Income from long-term equity investment under equity method	195,216,249.12	153,343,410.54
	195,312,735.34	153,785,668.56

(b) Details of investment income from long-term equity investments under equity method are as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Guangzhou Pharmaceuticals Corporation	83,527,585.53	67,258,147.53
Grangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	70,819,136.24	68,492,353.44
Guangzhou Nuo Cheng Bio-Tech Co., Ltd.	41,981,705.68	17,350,997.07
Golden Eagle Fund Management Co., Ltd	(1,112,178.33)	230,974.87
Others	–	10,937.63
	195,216,249.12	153,343,410.54

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(43) Non-operating income

	Year ended 31 December 2012	Year ended 31 December 2011
Gain on disposal of non-current assets	90,672.20	299,476.54
Including: gain on disposal of fixed assets	90,672.20	299,476.54
Government grants	25,069,271.32	25,357,934.69
Penalty income	316,009.91	541,855.68
Sales of scraps	674,579.51	269,721.51
Waived liabilities	162,778.05	3,509,007.44
Others	3,896,006.93	3,392,705.33
	30,209,317.92	33,370,701.19

Details of government grants:

	Year ended 31 December 2012	Year ended 31 December 2011
Government grants related to assets:		
Technology funds granted by government	2,589,254.56	1,162,509.97
Compensation for relocation	2,184,081.81	1,196,463.14
Government subsidies for interests	71,866.92	71,866.92
Sewage disposal system project	100,875.00	100,875.00
Specific funds for company development	–	305,555.45
Others	292,810.78	339,946.66
	5,238,889.07	3,177,217.14
Government grants related to income:		
Technology funds granted by government	16,238,581.71	20,800,145.88
Specific funds for technology exports development	36,000.00	28,160.00
Others	3,555,800.54	1,352,411.67
	19,830,382.25	22,180,717.55
	25,069,271.32	25,357,934.69

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(44) Non-operating expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Loss on disposal of non-current assets	261,017.34	1,333,448.86
Including: Loss on disposal of fixed assets	261,017.34	1,333,448.86
Public welfare donations	9,508,469.99	5,196,518.73
Penalty and overdue fines	48,339.33	258,781.06
Others	623,776.22	514,621.21
	10,441,602.88	7,303,369.86

(45) Income tax expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Current income tax	90,332,095.02	32,269,642.36
Deferred income tax	(40,823,579.60)	2,726,507.78
	49,508,515.42	34,996,150.14

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:

	Year ended 31 December 2012	Year ended 31 December 2011
Total profit	457,839,196.56	334,993,008.75
Income tax expenses calculated at applicable tax rates	114,459,799.14	83,748,252.19
Tax effect of different rates applicable to subsidiaries	(19,755,203.76)	(15,381,440.14)
Income not subject to tax	(48,804,062.28)	(38,335,852.64)
Expenses not deductible for tax purposes	6,376,467.42	8,089,415.56
Tax effect of utilization of previously unrecognised tax losses	(4,380,543.45)	(1,877,741.82)
Tax losses for which no deferred income tax asset was recognised	2,851,010.80	2,732,635.68
Tax effect of temporary differences on which deferred tax assets are not recognised	2,624,025.57	(4,696,912.41)
Others	(3,862,978.02)	717,793.72
Income tax expenses	49,508,515.42	34,996,150.14

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(46) Earnings per share

(a) Basic earnings per share

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:

	Year ended 31 December 2012	Year ended 31 December 2011
Consolidated net profit attributable to ordinary shareholders of the Company	395,278,360.28	287,530,980.07
Weighted average number of ordinary shares outstanding:	810,900,000	810,900,000
Basic earnings per share	0.487	0.355

(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 31 December 2012, there were no potential ordinary shares (for year ended 31 December 2011: nil), diluted earnings per share is equal to basic earnings per share.

(47) Other comprehensive income

	Year ended 31 December 2012	Year ended 31 December 2011
Gains/(losses) arising from available-for-sale financial assets	1,187,973.88	(6,707,388.52)
Less: Income tax effect arising from available-for-sale financial assets	282,336.93	(1,661,004.18)
	905,636.95	(5,046,384.34)
Recognition of share of other comprehensive income of the investee based on equity method	6,215.56	(160,362.04)
	911,852.51	(5,206,746.38)

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(48) Notes to the consolidated cash flow statement

(a) Cash received relating to other operating activities

	Year ended 31 December 2012	Year ended 31 December 2011
Non-operating income	4,886,596.35	3,600,010.64
Other operation income	108,688,223.89	95,923,824.78
Government grants	34,217,679.77	7,805,953.59
Interest income	7,550,962.83	6,592,248.35
Others	140,000.00	2,800,000.00
	155,483,462.84	116,722,037.36

(b) Cash paid relating to other operating activities

	Year ended 31 December 2012	Year ended 31 December 2011
Cash payments of selling and distribution expenses	543,326,866.04	298,185,590.71
Cash payments of general and administrative expenses	188,959,647.73	143,456,672.25
Financial expenses-bank charges	5,059,171.68	2,018,987.71
Others	17,262,387.04	13,142,197.86
	754,608,072.49	456,803,448.53

(c) Cash received relating to other investing activities

	Year ended 31 December 2012	Year ended 31 December 2011
Cash received from repayment of deposits for short-term loan	31,058,849.42	11,747,283.92
Cash received from liquidation of Nanfang Securities Co., Ltd	212,545.86	1,317,784.35
Interest received from securities accounts	240.69	3,109.87
	31,271,635.97	13,068,178.14

Notes to the Financial Statements

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

(48) Notes to the consolidated cash flow statement *(Continued)*

(d) Cash paid relating to other investing activities

	Year ended 31 December 2012	Year ended 31 December 2011
Tax expenses arising from the interest income of entrusted loans	2,620,450.25	376,133.32
Deposits for short-term loan	3,220,000.00	30,718,254.51
	5,840,450.25	31,094,387.83

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(49) Supplementary information of cash flow statements

(a) Supplementary information of cash flow statements

(i) Reconciliation of net profit to cash flow operating activities

	Year ended 31 December 2012	Year ended 31 December 2011
Net profit	408,330,681.14	299,996,858.61
Add: Provision for assets impairment	6,298,149.96	916,864.96
Depreciation of fixed assets, and depreciation and amortisation of Investment properties	101,829,779.21	103,749,472.40
Amortisation of intangible assets	4,270,643.95	3,975,029.88
Amortisation of long-term prepaid expenses	4,291,375.29	2,860,674.18
Loss (less: gain) on disposal of fixed assets, intangible assets and other long-term assets	(11,924.68)	(224,557.90)
Loss (less: gain) on scrapping of fixed assets	182,269.82	1,258,530.22
Loss (less: gain) on changes in fair value	251,772.50	3,541,599.52
Financial expenses (less: income)	7,798,389.65	4,618,450.63
Investment loss (less: gain)	(195,312,735.34)	(153,785,668.56)
Decrease/(less: increase) in deferred tax assets	(40,602,022.99)	3,085,005.74
Increase/(less: decrease) in deferred tax liabilities	(221,556.61)	(358,497.97)
Decrease/(less: increase) in inventories	(418,132,457.40)	(103,555,380.30)
Decrease/(less: increase) of operating receivables	(449,598,185.57)	(348,045,014.96)
Increase/(less: decrease) of operating payables	1,077,155,553.72	(3,072,888.19)
Net cash flows from operating activities	506,529,732.65	(185,039,521.74)

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

(49) 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

	Year ended 31 December 2012	Year ended 31 December 2011
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

	Year ended 31 December 2012	Year ended 31 December 2011
Cash at the end of year	722,303,335.15	355,748,504.33
Less: cash at the beginning of year	355,748,504.33	696,347,134.34
Add: cash equivalents at end of the year	–	–
Less: cash equivalents at beginning of the year	–	–
Net movement in cash and cash equivalents	366,554,830.82	(340,598,630.01)

The cash and cash equivalents do not include housing fund amounting to RMB 548 thousand and deposits for short-term loan of RMB 6,683 thousand security deposit for bank acceptance notes.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(49) Supplementary information of cash flow statements (Continued)

(b) Details of cash and cash equivalents

	Year ended 31 December 2012	Year ended 31 December 2011
Cash	722,303,335.15	355,748,504.33
Including: Cash on hand	2,102,690.65	1,235,960.30
Bank deposits that are readily available for payment	716,861,339.44	352,300,211.46
Other cash that are readily available for payment	3,339,305.06	2,212,332.57
Cash equivalents	—	—
Total cash and cash equivalents	722,303,335.15	355,748,504.33

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	No. 45, North Street, Shamian, Guangzhou	Yang Rongming	Manufacturing and trading	125,281	48.20%	48.20%	Guangzhou State-owned Assets Supervision and Administration Commission	2312473

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6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(1) General information of the parent company (continued)

Registered capital and changes in registered capital of the parent company:

	31 December 2011 and 31 December 2012 (RMB '0000)
GPHL	125,281

The percentage of equity interests and voting rights held by the parent company in the Company

	31 December 2011 and 31 December 2012	
	% equity interest held	% voting rights held
GPHL	48.20%	48.20%

(2) Information of subsidiaries

For the general information and related information of the subsidiaries, please refer to Note 4.

Notes to the Financial Statements

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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								
Guangzhou Pharmaceuticals Corporation	Sino-foreign joint venture	Guangzhou	FRITZ HORLACHER	Trading of medicine and medical apparatus	70,000	50.00%	50.00%	73296653-X
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd	Sino-foreign joint venture	Guangzhou	Wang Jianyi	Production, processing and sales of Chinese Medicine, beverage and candies.	20,476	48.05%	48.05%	19047976-0
Guangzhou Nuo Cheng Bio-Tech Co., Ltd.	Stock Corporation	Guangzhou	Zhou Lijian	Research, development and industrialization of human vaccine	8,400	49.24%	50.00%	78608627-1
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

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6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(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 Baiyunshan Pharmaceutical Co., Ltd.	Controlled by the same parent company	190481270
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Controlled by the same ultimate holding company	19046020X
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Controlled by the same ultimate holding company	190485108
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Controlled by the same ultimate holding company	190485116
Guangzhou South China Medical Apparatus Co., Ltd.	Controlled by the same parent company	23123789X
Polian Development Co., Ltd.	Controlled by the same parent company	Not applicable
Guangzhou Pharmaceutical Industrial Research Institute	Controlled by the same parent company	455347297
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	Jointly controlled entity of the same ultimate company	773303038
Baiyunshan Wei Ling Pharmaceutical Co., Ltd.	Controlled by the same ultimate holding company	618223177
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Controlled by the same ultimate holding company	721974948
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.	Jointly controlled entity of the same ultimate company	661806271
Guangzhou Baiyunshan Pharmacy	Controlled by the same ultimate holding company	190560067
Haozhou Baiyunshan Pharmaceutical Co., Ltd.	Controlled by the same ultimate holding company	151940665
Nanyang Baiyunshan Hutchison Whampoa Guanbao Pharmaceutical Co., Ltd.	Jointly controlled entity of the same ultimate company	577639538
Guangzhou Baiyunshan Health Hotel Co., Ltd.	Controlled by the same ultimate holding company	587609500
Nanyang Baiyunshan Hutchison Whampoa Salvia Technology Development Co., Ltd.	Jointly controlled entity of the same ultimate company	789157944
Fuyang Baiyunshan Hutchison Whampoa Chinese Medicine Technology Co., Ltd.	Jointly controlled entity of the same ultimate company	754885570
Qingyuan Baiyunshan Hutchison Whampoa Paniculta Technology Development Co., Ltd.	Jointly controlled entity of the same ultimate company	765746496
Daqing Baiyunshan Hutchison Whampoa Banlangen Technology Co., Ltd.	Jointly controlled entity of the same ultimate company	766008524

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

(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	Year ended 31 December 2012		Year ended 31 December 2011	
				Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	103,389,396.85	1.68	107,554,494.13	2.36
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	485,751.08	0.01	403,358.84	0.01
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	105,408.91	0.00	241,448.65	0.01
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	26,419,172.97	0.43	108,194,752.13	2.38
Polian Development Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	85,201,924.15	1.38	79,045,507.33	1.74
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd	Purchase of goods	Chinese raw medicine or medicine	Market price	1,809,128.58	0.03	1,551,207.81	0.03
Guangzhou Pharmaceuticals Corporation	Purchase of goods	Chinese raw medicine or medicine	Market price	120,235,805.67	1.95	65,159,110.00	1.43
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	19,498,092.19	0.32	3,915,625.56	0.09
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	106,595,567.68	1.73	213,187.95	0.00
Nanyang Baiyunshan Hutchison Whampoa Guanbao Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	1,872,051.28	0.03	-	-
Fuyang Baiyunshan Hutchison Whampoa Chinese Medicine Technology Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	7,017,225.05	0.11	-	-
Daqing Baiyunshan Hutchison Whampoa Banlangen Technology Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	3,094,313.62	0.05	-	-
				475,723,838.03	7.72	366,278,692.40	8.05

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)

(c) Sales of goods to related parties

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	Year ended 31 December 2012		Year ended 31 December 2011	
				Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
GPHL	Sales of goods	Chinese raw medicine or medicine	Market price	241,595.91	0.00	228,815.35	0.00
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	35,860,828.35	0.44	36,959,381.11	0.69
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	75,375,345.46	0.93	44,540,011.40	0.83
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	2,329,792.75	0.03	2,883,291.95	0.05
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	108,162,611.69	1.33	103,168,537.83	1.93
Polian Development Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	6,930,113.93	0.09	1,797,150.81	0.03
Guangzhou Pharmaceutical Industrial Research Institute	Sales of goods	Chinese raw medicine or medicine	Market price	633,323.93	0.01	12,831.87	0.00
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	43,661,886.73	0.54	31,634,959.79	0.59
Guangzhou Pharmaceuticals Corporation	Sales of goods	Chinese raw medicine or medicine	Market price	359,237,476.92	4.42	265,850,039.72	4.99
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	112,848,071.96	1.39	50,070,108.79	0.94
Guangzhou Nuo Cheng Bio-Tech Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	35,213.68	0.00	-	-
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	16,137,501.49	0.20	3,820,172.65	0.07
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	85,602.39	0.00	12,230.77	0.00
Nanyang Baiyunshan Hutchison Whampoa Guanbao Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	37,423,151.77	0.46	3,050,111.15	0.06
Fuyang Baiyunshan Hutchison Whampoa Chinese Medicine Technology Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	73,753.85	0.00	-	-
				799,036,270.81	9.84	544,027,643.19	10.18

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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)

(d) Other related party transactions

(i) Guarantees for related parties: details please refer to Note 7.

(ii) Leases

(1) Tenancy Agreement

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 term at an agreed annual rent. The agreement was expired on 31 December 2010. The Tenancy Agreement was renewed by the Company and GPLH on 27 August 2010 and the renewed Tenancy Agreement will be expired on 31 December 2013. The Group should pay GPLH RMB1,136 thousand of the above-mentioned for the current year (for the year ended 31 December 2011: RMB1,248 thousand), details please refer to the below table:

Name of Lessor	Name of lessee	Condition of lease assets	Amount related to the lease assets (RMB'000)
GPHL	Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co.,Ltd.	Assets in good condition, for lessee's operation use	17
GPHL	Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	Assets in good condition, for lessee's operation use	203
GPHL	Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	Assets in good condition, for lessee's operation use	192
GPHL	Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd.	Assets in good condition, for lessee's operation use	19
GPHL	Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	Assets in good condition, for lessee's operation use	20
GPHL	Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Assets in good condition, for lessee's operation use	685
			1,136

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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

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 an agreed annual rent (which is subject to the adjustment of standard rent as prescribed by Guangzhou Real Estate Administration Bureau). The Office Tenancy Agreement was expired on 31 August 2010. The Office Tenancy Agreement was renewed by the Company and GPLH on 27 August 2010 and the renewed Office Tenancy Agreement will be expired 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 rent is discounted at 38% 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 in advance in 180 days after the Tenancy Agreement was signed. GPLH promised to use the advances only for new office buildings as well as agreed to offset the rent with the advances.

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 2012, the ending balance of the advances for rentals is RMB480 thousand (as at 31 December 2011, the ending balance of the rent is RMB1,032 thousand).

The Company should pay GPLH RMB1,093 thousand regarding the two office tenancy contracts mentioned as above for the current year(for the year ended 31 December 2011: RMB1,093 thousand).

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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(exclude Guangzhou Wang Lao Ji Grand Health Industry Co., Ltd.). The License Agreement was expired on 1 September 2007. GPLH issued Letter of Commitment for Extension of Usage Term of Trademarks granted to Guangzhou Pharmaceutical Company Limited on 21 November 2000: The License Agreement will be renewed for a term of 10 years automatically after the above-mentioned Trademarks License Agreement expires. The Group should pay GPLH RMB7,057 thousand of trademarks license fee for the current year(for the year ended 31 December 2011: RMB7,412 thousand).

Pursuant to the Trademark License Agreement entered into by Guangzhou Wang Lao Ji Grand Health Industry Co., Ltd. and GPLH on 25 May 2012,GPLH has granted Guangzhou Wang Lao Ji Grand Health Industry Co., Ltd. an exclusive right to use 5 trademarks owned by GPLH for a term of 1 year(such as the need to extend the time limit for licensing, otherwise agreed by both parties) since the License Agreement was signed. Guangzhou Wang Lao Ji Grand Health Industry Co., Ltd. Agreed to pay a license fee to GPLH for the use of the trademarks at 2.1% of its aggregate net sales. GPLH is entitled by 53% of the license fee from Guangzhou Wang Lao Ji Pharmaceutical Co. Ltd. while the Company by 47% of that. The Trademark License Agreement will be expired on 24 May 2013. The Company should receive RMB19,036 thousand of the license fee from Wang Lao Ji Pharmaceutical Co. Ltd. for the current year(for the year ended 31 December 2011: nil).

Pursuant to the Trademark License Supplementary Agreement entered into by Guangzhou Wang Lao Ji Pharmaceutical Co. Ltd. and GPLH on 28 July 2005, Guangzhou Wang Lao Ji Pharmaceutical Co. Ltd. agreed to pay a license fee to GPLH for the use of the trademarks at 2.1% of its aggregate net sales since Guangzhou Wang Lao Ji Pharmaceutical Co. Ltd. become to be a foreign-invested company limited. GPLH is entitled by 53% of the license fee from Guangzhou Wang Lao Ji Pharmaceutical Co. Ltd. while the Company by 47% of that. The Company should receive RMB20,952 thousand of the license fee from Wang Lao Ji Pharmaceutical Co. Ltd. for the current year(for the year ended 31 December 2011: RMB17,266 thousand).

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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 Baiyunshan Trade Name License Agreement entered into by the six subsidiaries of the Group, Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co.,Ltd., Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd., Guangzhou Xing Qun Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd., Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Han Fang Modern Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Bai Di Bio-technology Co., Ltd.and Guangzhou Baiyunshan Pharmaceutical Co., Ltd. in 2012, The six subsidiaries of the Group agreed to pay a license fee for the use of the trade name at 0.5% of the aggregate net sales respectively since the subsidiaries completed the registration. The Group should pay Guangzhou Baiyunshan Pharmaceutical Co., Ltd. RMB8,052 thousand of trade name license fee for the current year(for the year ended 31 December 2011: nil).

(iv) Employee residence service fee

	Name of entity	Year ended 31 December 2012 (RMB'000)	Year ended 31 December 2011 (RMB'000)
Employee residence service fee	GPHL	353	353

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6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(d) Other related party transactions (Continued)

(iv) Employee residence service fee (Continued)

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.

(v) Transfer of Research and Development projects

		Year ended 31 December 2012 (RMB'000)	Year ended 31 December 2011 (RMB'000)
Technical Advisory	Guangzhou Pharmaceutical Industrial Research Institute	–	200
Preclinical ago Toxicology Research on Qing Re Tong Fu	Guangzhou Pharmaceutical Industrial Research Institute	–	260
Technical service fee	Guangzhou Pharmaceutical Industrial Research Institute	55	–
		55	460

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6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(e) Directors and supervisors' emoluments (Continued)

Directors and supervisors' emoluments for the year ended 31 December 2011 are as follows:

Name	Remuneration	Salary and allowance	Pension	Bonus	Sign-off bonus	Termination benefits	Others	Total
Director's name:								
Yang Rongming	-	-	-	-	-	-	-	-
Li Chuyuan	-	-	-	-	-	-	-	-
Shi Shaobin (Note 2)	-	-	-	20,078.00	-	-	-	20,078.00
Wu Changhai	-	451,836.00	-	300,740.00	-	-	-	752,576.00
Liu Jinxiang	80,000.00	-	-	-	-	-	-	80,000.00
Li Shanmin	80,000.00	-	-	-	-	-	-	80,000.00
Zhang Yonghua	80,000.00	-	-	-	-	-	-	80,000.00
Wong Lung Tak Patrick	80,000.00	-	-	-	-	-	-	80,000.00
Qiu Hongzhong	80,000.00	-	-	-	-	-	-	80,000.00
Supervisor's name:								
Yang Xiuwei	-	-	-	-	-	-	-	-
Wu Quan	-	101,280.00	-	105,810.00	-	-	-	207,090.00
Zhong Yugan	30,000.00	-	-	-	-	-	-	30,000.00

Note 1: Appointed as director of the company on 19 September, 2012.

Note 2: Resigned as director of the company on 18 June, 2012.

In addition to the directors' and supervisors' emoluments disclosed above, director Yang Rongming, Li Chuyuan, Cheng Ning, Shi Shaobin and supervisor Yang Xiuwei received emoluments from the Company's holding company, amounting to RMB1,014,374.00, RMB1,141,561.00, RMB658,357.00, RMB607,253.00 and RMB800,323.00 (for the year ended 31 December 2011: director Yang Rongming, Li Chuyuan, Shi Shaobin and supervisor Yang Xiuwei received emoluments from the Company's holding company, amounting to RMB729,641.00, RMB656,075.00, RMB600,943.00 and RMB627,554.00), part of which are in respect of their services to the Group. No apportionment has been made as the directors consider that it is impracticable to apportion amounts between their services to the Group and their services to the Company's holding company and jointly controlled entities.

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6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(f) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one director (for the year ended 31 December 2011: one director) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 4 (for the year ended 31 December 2011: 4) individuals during the year are as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Basic salaries, bonus, housing allowance, other allowances in kind	<u>2,828,426.00</u>	<u>1,986,754.00</u>
	Number of individuals	
	Year ended 31 December 2012	Year ended 31 December 2011
Emolument bands: RMB 0 – 1,000,000	4	4

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6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(g) Receivables from and payables to related parties

(i) Receivables from related parties

Related Parties	31 December 2012		31 December 2011	
	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Notes				
Receivable: Guangzhou Pharmaceuticals Corporation	9,400,000.00	-	22,751,108.25	-
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	3,306,672.00	-	-	-
	12,706,672.00	-	22,751,108.25	-
Accounts receivable:				
GPHL	4,763.40	47.63	7,124.70	71.25
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	7,344,382.40	73,443.82	5,012,293.48	50,122.93
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	12,510,363.92	125,103.64	1,504,714.36	15,047.14
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	31,250.00	312.50	80,000.00	800.00
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	3,715,749.60	37,157.50	6,481,029.05	64,810.29
Polian Development Co., Ltd.	186,404.72	1,864.05	294,054.15	2,940.54
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	3,760,058.96	37,600.59	892,038.91	8,920.39
Guangzhou Pharmaceuticals Corporation	718,622.77	7,186.23	9,161,542.02	91,615.42
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	8,859,080.68	88,590.81	3,774,043.72	37,740.44
Guangzhou Nuo Cheng Bio-Tech Co., Ltd.	7,600.00	76.00	-	-
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	1,543,248.00	15,432.48	381,850.00	3,818.50
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.	64,574.80	645.75	-	-
Nanyang Baiyunshan Hutchison Whampoa Guanbao Pharmaceutical Co., Ltd.	5,370,618.41	53,706.18	1,226,245.90	12,262.46
	44,116,717.66	441,167.18	28,814,936.29	288,149.36

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6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(g) Receivables from and payables to related parties (Continued)

(i) Receivables from related parties (Continued)

	31 December 2012		31 December 2011	
	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Related Parties				
Other				
receivables: GPLH	770,744.39	-	1,286,918.80	-
Guangzhou South China Medical Apparatus Co., Ltd.	100,000.00	100,000.00	100,000.00	100,000.00
Guangzhou Pharmaceuticals Corporation	7,600.00	-	-	-
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	1,915,199.20	-	1,414,804.36	-
	2,793,543.59	100,000.00	2,801,723.16	100,000.00
Advances to				
suppliers: Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	4,460,302.41	-	1,111.00	-
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	-	-	52,200.00	-
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	-	-	918.00	-
Polian Development Co., Ltd.	27,349,635.86	-	-	-
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	75,871.73	-	-	-
Guangzhou Pharmaceuticals Corporation	-	-	1,532,092.27	-
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	838,130.40	-	103,346.80	-
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	13,193,652.50	-	-	-
Nanyang Baiyunshan Hutchison Whampoa Guanbao Pharmaceutical Co., Ltd.	67,620.00	-	-	-
Fuyang Baiyunshan Hutchison Whampoa Chinese Medicine Technology Co., Ltd.	1,971,838.40	-	-	-
	47,957,051.30	-	1,689,668.07	-

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6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(g) Receivables from and payables to related parties (Continued)

(ii) Payables to related parties

		31 December 2012	31 December 2011
	Related Parties		
Notes			
Payable:	Guangzhou Pharmaceuticals Corporation	8,654,300.00	-
	Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	10,000,000.00	-
		18,654,300.00	-
Accounts			
Payable:	Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	2,899,033.33	2,909,311.29
	Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	2,715.11	5,672.65
	Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	592.74	18,409.56
	Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	70,742.66	989,854.60
	Polian Development Co., Ltd.	8,103,135.31	5,775,799.52
	Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	120,254.22	37,661.54
	Guangzhou Pharmaceuticals Corporation	10,833,697.92	2,787,296.76
	Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	476,396.56	-
	Fuyang Baiyunshan Hutchison Whampoa Chinese Medicine Technology Co., Ltd.	2,603,465.54	-
	Daqing Baiyunshan Hutchison Whampoa Banlangen Technology Co., Ltd.	15,253.87	-
		25,125,287.26	12,524,005.92
Other Payables: GPLL		14,103,625.92	8,079,872.29
	Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	8,066,291.52	3,852.69
	Guangzhou Pharmaceuticals Corporation	20,000.00	-
	Nanyang Baiyunshan Hutchison Whampoa Guanbao Pharmaceutical Co., Ltd.	20,000.00	-
		22,209,917.44	8,083,724.98
Advances			
from customers: GPLL		-	5,250.00
	Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	3,864,745.00	774,870.00
	Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	2,571,688.88	371,000.00
	Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	480,000.00	-
	Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	8,905,284.70	8,308.85
	Polian Development Co., Ltd.	3,548,297.44	-
	Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	35,000.00	-
	Guangzhou Pharmaceuticals Corporation	4,028.90	1,418,812.40
	Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	24,294,003.19	-
	Fuyang Baiyunshan Hutchison Whampoa Chinese Medicine Technology Co., Ltd.	26,236.00	-
		43,729,284.11	2,578,241.25

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7 CONTINGENCIES

- (1) As at 31 December 2012, the Group renders guarantee for external parties as follows:

Name of the guaranteed entity	Nature of guarantee	Amount	Duration
Guangzhou Nuo Cheng Bio-tech Co.,Ltd.	Loans for working capital	49,000,000.00	1 year

- (2) As at 31 December 2012, the actual balance of the guarantees provided by the Company to the subsidiaries are summarised as follows:

Name of the guaranteed entity	Nature of guarantee	Amount	Duration
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Loans for working capital	30,000,000.00	6 months
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Loans for working capital	40,000,000.00	1 year
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Bank acceptance notes	10,000,000.00	6 months
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Bank acceptance notes	12,500,000.00	1 year
Guangzhou Baiyunshan Han Fang Modern Pharmaceutical Co., Ltd.	Bank acceptance notes	3,139,005.00	6 months
Guangzhou Pharmaceutical Import & Export Co., Ltd.	Bank acceptance notes	16,641,774.48	6 months
		<u>112,280,779.48</u>	

- (3) In Year 2012, Guangzhou Wang Lao Ji Grand Health Industry Company Limited, the wholly-owned subsidiary of the Company was sued with its unauthorized use of the specific name, packaging and decoration of the well-known products by Guangdong Jia Duo Bao Beverage and Food Company Limited.

Up to the date of the publication of the annual report, this case has been assigned to Guangdong Provincial Higher People's court for jurisdiction by Supreme People's Court. The Company considers that there is little chance that Guangzhou Wang Lao Ji Grand Health Industry Company Limited losses the lawsuit and direct economic losses arises therefrom after assessing this case taking the advices of external lawyers' into consideration.

Notes to the Financial Statements

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7 CONTINGENCIES (Continued)

- (4) In Year 2012, Guangzhou Wang Lao Ji Grand Health Industry Company Limited, the wholly-owned subsidiary of the Company, has been sued with its unauthorized use of the slogan “Pa Shang Huo, He Wang Lao Ji(怕上火·喝王老吉)” by Guangdong Jia Duo Bao Beverage and Food Company Limited.

Up to the date of the publication of the annual report, this case is still in the stage of dispute of the Court jurisdiction, and does not enter substantial trials. The Company considers that it is not likely that Guangzhou Wang Lao Ji Grand Health Industry Company Limited losses the lawsuit and direct economic losses arises therefrom after assessing this case taking the advices of external lawyers' into consideration.

8 COMMITMENTS

(1) Capital 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 2012	31 December 2011
Building, machinery and equipment	<u>21,740,342.54</u>	<u>20,385,584.98</u>

The Group's share of the jointly controlled entities' capital commitments are as follows:

	31 December 2012	31 December 2011
Building, machinery and equipment	<u>8,368,312.12</u>	<u>9,749,841.31</u>

Notes to the Financial Statements

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8 COMMITMENTS (Continued)

(1) Capital commitments (Continued)

(b) Capital commitments authorised by the management but are not yet contracted for

	31 December 2012	31 December 2011
Investment	4,500,000.00	2,000,000.00
Building, machinery and equipment	3,350,000.00	4,850,000.00
	7,850,000.00	6,850,000.00

(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:

	Minimum lease payables	
Remaining leasing term	31 December 2012	31 December 2011
Within 1 year (including 1 year)	11,974,135.61	17,402,488.99
1 to 2 years (including 2 years)	11,098,324.92	7,782,896.69
2 to 3 years (including 3 years)	7,027,961.16	5,413,983.32
Over 3 years	32,116,627.60	28,200,508.78
	62,217,049.29	58,799,877.78

The rental expenses under operating lease amounting to RMB24,851 thousand are recognised in the profit or loss for the year ended 31 December 2012 (for the year ended 31 December 2011: RMB21,595 thousand).

(3) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2011.

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9 EVENTS AFTER THE BALANCE SHEET DATE

Up to the date of the publication of the annual report, there is no significant subsequent event after the balance sheet date for the Group.

10 OTHER SIGNIFICANT EVENTS

- (1) There are no significant debt restructurings and non-monetary transactions incurred in the current period.
- (2) The Company's controlling shareholder GPLH is planning major assets reorganization related to the Company. The major assets reorganization includes: (1) the Company acquires Guangzhou Baiyunshan Pharmaceutical Co., Ltd. through share swap. Guangzhou Baiyunshan Pharmaceutical Co., Ltd. will terminate its legal personality, and all of its assets, liabilities, equity, business and staff will be transferred to the Company upon the completion of the acquisition; (2) the Company acquires assets from GPLH through issuing A shares to GPLH. The assets to be acquired include ownership of buildings and trademarks held by GPLH, 100% equity interest of Polian Development Co., Ltd. held by GPLH and 12.5% equity interest of Guangzhou Baxter Healthcare Co., Ltd. held by GPLH. On the date these financial statements were approved for issue, the major assets reorganization has not been formally implemented.

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 the CPM and health product produced by the Group's manufacturing subsidiaries;
- Trading: wholesale and retail of western pharmaceutical products, medical apparatus, CPM and Chinese raw medicine and wholesale of goods other than pharmaceutical products.

Notes to the Financial Statements

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11 SEGMENT INFORMATION (Continued)

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 2012 and as of 31 December 2012 are as follows:

	Manufacturing	Trading	Unallocated	Elimination	Total
Revenue	4,645,136,657.21	3,556,329,004.72	27,592,876.13	-	8,229,058,538.06
Inter-segment revenue	4,412,850.69	934,153,345.08	40,237,410.57	(978,803,606.34)	-
Interest income	5,234,882.49	578,019.52	1,738,060.82	-	7,550,962.83
Interest expenses	10,370,857.78	36,410,757.94	6,153,388.84	(42,031,615.09)	10,903,389.47
Share of profit or loss of associates and jointly controlled entities	41,786,015.72	-	152,183,110.63	1,247,122.77	195,216,249.12
Asset impairment losses	6,038,438.60	317,622.45	(212,545.86)	154,634.77	6,298,149.96
Depreciation and amortisation	102,597,326.89	5,451,600.55	2,342,871.01	-	110,391,798.45
Total profit	266,899,111.00	19,025,685.55	282,860,549.01	(110,946,149.00)	457,839,196.56
Income tax expenses	38,953,273.52	5,973,495.96	5,790,948.97	(1,209,203.03)	49,508,515.42
Net profit					
(Including: minority interest)	227,945,837.48	13,052,189.59	277,069,600.04	(109,736,945.97)	408,330,681.14
Total assets	3,690,589,051.12	1,306,065,888.46	3,889,548,050.44	(2,650,809,272.13)	6,235,393,717.89
Total liabilities	1,757,393,549.87	1,203,626,206.31	236,767,411.51	(1,186,713,783.09)	2,011,073,384.60
Long-term equity investments in associates and jointly controlled entities	85,015,307.46	-	1,319,771,135.50	1,103,831.31	1,405,890,274.27
Additions of non-current assets other than long-term equity investments	58,825,844.82	2,377,280.82	852,298.00	-	62,055,423.64

Notes to the Financial Statements

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11 SEGMENT INFORMATION (Continued)

(2) The segment information for 2011 and as of 31 December 2011 are as follows:

	Manufacturing	Trading	Unallocated	Elimination	Total
Revenue	2,591,579,999.93	2,824,904,775.01	23,126,843.52	–	5,439,611,618.46
Inter-segment revenue	24,617,692.86	530,451,338.16	18,265,157.76	(573,334,188.78)	–
Interest income	4,140,764.96	662,869.60	1,788,613.79	–	6,592,248.35
Interest expenses	6,869,333.57	26,702,913.21	3,731,430.52	(31,386,386.63)	5,917,290.67
Share of profit or loss of associates and jointly controlled entities	17,361,934.70	–	135,027,315.32	954,160.52	153,343,410.54
Asset impairment losses	1,201,912.94	1,449,320.85	(1,317,784.35)	(416,584.48)	916,864.96
Depreciation and amortisation	104,079,691.73	4,172,575.32	2,332,909.41	–	110,585,176.46
Total profit	176,330,414.14	16,253,842.83	251,103,528.45	(108,694,776.67)	334,993,008.75
Income tax expenses	29,278,195.55	3,459,726.49	3,719,785.36	(1,461,557.26)	34,996,150.14
Net profit (Including: minority interest)	147,052,218.59	12,794,116.34	247,383,743.09	(107,233,219.41)	299,996,858.61
Total assets	2,654,431,749.77	981,033,652.88	3,586,340,684.59	(2,370,540,238.89)	4,851,265,848.35
Total liabilities	948,405,820.52	893,449,598.53	118,233,344.70	(1,003,994,932.97)	956,093,830.78
Long-term equity investments in associates and jointly controlled entities	46,780,795.49	–	1,202,014,262.96	512,345.01	1,249,307,403.46
Additions of non-current assets other than long-term equity investments	53,896,550.83	5,280,323.76	626,057.00	–	59,802,931.59

Notes to the Financial Statements

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11. SEGMENT INFORMATION (Continued)

The Group's revenue from external customers in the PRC and other countries, and the total non-current assets other than financial assets and deferred tax assets located in the PRC and other countries are summarized as follows:

Revenue from external customers	31 December 2012	31 December 2011
PRC	7,879,985,182.20	5,213,310,236.48
Other countries	349,073,355.86	226,301,381.98
	8,229,058,538.06	5,439,611,618.46
Total non-current assets	31 December 2012	31 December 2011
PRC	2,577,122,645.99	2,469,336,900.40
Other countries	11,743,226.95	12,308,079.48
	2,588,865,872.94	2,481,644,979.88

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 program 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 recognised 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.

Notes to the Financial Statements

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12 FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk (Continued)

(a) Foreign exchange risk (Continued)

As at 31 December 2012 and 31 December 2011, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarised as below:

	31 December 2012			
	USD	HKD	Others	Total
Financial assets denominated in foreign currency–				
Cash at bank and on hand	703,926.91	3,808,533.73	–	4,512,460.64
Accounts receivable	4,927,048.39	634,686.17	–	5,561,734.56
	5,630,975.30	4,443,219.90	–	10,074,195.20
Financial liabilities denominated in foreign currency–				
Short-term borrowings	4,967,807.78	–	–	4,967,807.78
Accounts payable	8,068,975.74	–	–	8,068,975.74
	13,036,783.52	–	–	13,036,783.52

Notes to the Financial Statements

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12 FINANCIAL INSTRUMENT AND RISK *(Continued)*

(1) Market risk *(Continued)*

(a) Foreign exchange risk *(Continued)*

	31 December 2011			
	USD	HKD	Others	Total
Financial assets denominated in foreign currency–				
Cash at bank and on hand	2,563,546.87	2,077,347.39	–	4,640,894.26
Accounts receivable	4,335,574.31	1,525,529.52	–	5,861,103.83
	<u>6,899,121.18</u>	<u>3,602,876.91</u>	<u>–</u>	<u>10,501,998.09</u>
Financial liabilities denominated in foreign currency–				
Short-term borrowings	27,838,849.42	–	–	27,838,849.42
Accounts payable	6,696,979.49	–	–	6,696,979.49
	<u>34,535,828.91</u>	<u>–</u>	<u>–</u>	<u>34,535,828.91</u>

As at 31 December 2012, if RMB had appreciated/depreciated by 10% against the USD or HKD with all other variables held constant, the Group's net profit for the period would have been approximately RMB222 thousand higher/lower (as at 31 December 2011: RMB285 thousand lower/higher).

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12 FINANCIAL INSTRUMENT AND RISK *(Continued)*

(1) Market risk *(Continued)*

(b) Interest rate risk

As at 31 December 2012, the Group has no long-term interest bearing 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)*

The financial assets and liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

	31 December 2012				Total
	Within 1 year	1 – 2 years	2 – 5 years	Over 5 years	
Financial assets–					
Cash at bank and on hand	729,534,429.40	-	-	-	729,534,429.40
Notes receivable	482,012,872.73	-	-	-	482,012,872.73
Accounts receivable	565,496,198.97	-	-	-	565,496,198.97
Other receivables	98,901,749.87	-	-	-	98,901,749.87
	<u>1,875,945,250.97</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,875,945,250.97</u>
Financial liabilities–					
Short-term borrowings	84,516,138.37	-	-	-	84,516,138.37
Notes payable	38,936,645.00	-	-	-	38,936,645.00
Accounts payable	736,216,314.15	-	-	-	736,216,314.15
Other payables	478,853,800.97	-	-	-	478,853,800.97
Long-term payables	-	-	-	4,423,405.56	4,423,405.56
	<u>1,338,522,898.49</u>	<u>-</u>	<u>-</u>	<u>4,423,405.56</u>	<u>1,342,946,304.05</u>
Provision of guarantees	49,000,000.00	-	-	-	49,000,000.00

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12 FINANCIAL INSTRUMENT AND RISK (Continued)

(3) Liquidity risk (Continued)

	31 December 2011				Total
	Within 1 year	1 – 2 years	2 – 5 years	Over 5 years	
Financial assets–					
Cash at bank and on hand	384,135,738.08	–	–	–	384,135,738.08
Notes receivable	430,388,075.25	–	–	–	430,388,075.25
Accounts receivable	463,272,917.69	–	–	–	463,272,917.69
Other receivables	63,299,457.45	–	–	–	63,299,457.45
	<u>1,341,096,188.47</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,341,096,188.47</u>
Financial liabilities–					
Short-term borrowings	147,998,897.45	–	–	–	147,998,897.45
Notes payable	5,432,012.71	–	–	–	5,432,012.71
Accounts payable	350,249,598.28	–	–	–	350,249,598.28
Other payables	121,543,593.12	–	–	–	121,543,593.12
Long-term payables	–	–	–	4,423,405.56	4,423,405.56
	<u>625,224,101.56</u>	<u>–</u>	<u>–</u>	<u>4,423,405.56</u>	<u>629,647,507.12</u>
Provision of guarantees	50,000,000.00	–	–	–	50,000,000.00

Notes to the Financial Statements

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12 FINANCIAL INSTRUMENT AND RISK *(Continued)*

(3) Liquidity risk *(Continued)*

The repayment periods of the bank loans and other loans are analysed as follow:

	31 December 2012		31 December 2011	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Wholly repayable within five years	84,516,138.37	–	147,998,897.45	–

(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).

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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 three levels above are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets–				
Financial assets held				
for trading–				
Investments in equity				
instrument held for				
trading	2,875,920.00	-	-	2,875,920.00
Available-for-sale				
financial assets–				
Available-for-sale				
equity instruments	20,095,830.52	-	-	20,095,830.52
	<u>22,971,750.52</u>	<u>-</u>	<u>-</u>	<u>22,971,750.52</u>

As at 31 December 2011, the financial assets measured at fair value by the three levels above are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets–				
Financial assets held				
for trading–				
Investments in				
debenture held				
for trading	3,127,692.50	-	-	3,127,692.50
Available-for-sale				
financial assets–				
Available-for-sale				
equity instruments	18,907,856.64	-	-	18,907,856.64
	<u>22,035,549.14</u>	<u>-</u>	<u>-</u>	<u>22,035,549.14</u>

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12 FINANCIAL INSTRUMENT AND RISK *(Continued)*

(4) Fair value *(Continued)*

(b) Financial instruments measured at fair value *(Continued)*

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.

13 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	31 December 2011	Profit or loss arising from changes in fair value during the current year	Accumulated changes in fair value recognised in equity during the current year	Impairment loss recognised during the current year	31 December 2012
Financial assets –					
Financial assets at fair value through profit or loss	3,127,692.50	(251,772.50)	–	–	2,875,920.00
Available-for-sale financial assets	18,907,856.64	–	1,187,973.88	–	20,095,830.52
	<u>22,035,549.14</u>	<u>(251,772.50)</u>	<u>1,187,973.88</u>	<u>–</u>	<u>22,971,750.52</u>

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14 FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

	31 December 2011	Profit or loss arising from changes in fair value during the current year	Accumulated changes in fair value recognised in equity during the current year	Impairment loss recognised during the current year	31 December 2012
Financial assets –					
Cash and bank	4,640,894.26	–	–	–	4,512,460.64
Accounts receivable	5,861,103.83	–	–	–	5,561,734.56
	<u>10,501,998.09</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>10,074,195.20</u>
Financial liabilities –					
Short-term borrowings	27,838,849.42	–	–	–	4,967,807.78
Accounts payable	6,696,979.49	–	–	–	8,068,975.74
	<u>34,535,828.91</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>13,036,783.52</u>

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Financial assets held for trading

	31 December 2012	31 December 2011
Listed shares	<u>2,875,920.00</u>	<u>3,127,692.50</u>

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

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Accounts receivable

The majority of the Company's sales are transacted at cash, advances or bank notes.

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

	31 December 2012	31 December 2011
1 to 2 years	—	3,673,874.92

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

	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	—	—	—	—
	—	—	—	—

Notes to the Financial Statements

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Accounts receivable (Continued)

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

	31 December 2011			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provisions	-	-	-	-
Subject to provision by groups:				
Group 1	3,673,874.92	100.00%	367,526.99	10.00%
Individually insignificant but subject to separate provisions	-	-	-	-
	<u>3,673,874.92</u>	<u>100.00%</u>	<u>367,526.99</u>	<u>10.00%</u>

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

- (c) As at 31 December 2012, there are no accounts receivable that are individually significant and subject to separate provision.
- (d) The groups of accounts receivable in which provisions are made using aging analysis method are analysed as follows:

	31 December 2012			31 December 2011		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
1 to 2 years	-	-	-	3,673,874.92	100.00%	367,526.99

- (e) As at 31 December 2012, there are no accounts receivable that are individually insignificant but subject to separate provision.
- (f) There are no accounts receivable that are collected by restructuring or other manners during the current year.
- (g) There are no accounts receivable that are written off during the current year.
- (h) As at 31 December 2012 and 31 December 2011, there are no accounts receivable due from shareholders who hold more than 5% (including 5%) of the voting rights of the Company.

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)

(2) Accounts receivable (Continued)

- (i) There are no accounts receivables derecognised during the current year.
- (j) As at 31 December 2012, there are no securitizations that targeted at accounts receivable.

(3) Other receivables

	31 December 2012	31 December 2011
Receivables due from related parties	800,146,569.54	710,521,454.36
Including: entrusted loan	318,000,000.00	228,000,000.00
others	482,146,569.54	482,521,454.36
Rentals, deposits and staff advances	5,839,903.68	5,974,246.95
Others	536,766.09	965,729.14
	806,523,239.31	717,461,430.45
Less: provision for bad debts	502,043.54	502,043.54
	806,021,195.77	716,959,386.91

- (a) The aging of other receivables is analysed as below:

	31 December 2012	31 December 2011
Within 1 year	805,541,195.77	714,657,864.23
1 to 2 years	–	1,269,522.68
Over 5 years	982,043.54	1,534,043.54
	806,523,239.31	717,461,430.45

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) Other receivables (Continued)

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

	31 December 2012			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	502,043.54	0.06%	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	0.02%	-	-
Individually insignificant but subject to separate provision	-	-	-	-
	806,523,239.31	100.00%	502,043.54	0.06%

	31 December 2011			
	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%
Subject to provision by groups:				
Group 1	-	-	-	-
Group 2	6,305,254.35	0.88%	-	-
Group 3	710,521,454.36	99.03%	-	-
Group 4	132,678.20	0.02%	-	-
Individually insignificant but subject to separate provision	-	-	-	-
	717,461,430.45	100.00%	502,043.54	0.07%

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) Other receivables (Continued)

- (c) As at 31 December 2012, 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
Bank of Hainan	502,043.54	502,043.54	100.00%	Unable to be collected

- (d) As at 31 December 2012, there are no other receivables in the Group in which provisions are made using aging analysis method.

- (e) Other receivables that are subject to full provision or in large proportionate but are reversed or collected in full amount of in large proportionate amounted to RMB213 thousand in the current year, details are as follows:

Item	Reason of reversal or collection	Basis of provisions previously made	Accumulated provision for bad debts made before reversal or collection	Amount collected	Amount of reversal of provision for bad debts
Receivables from Nanfang Securities Co., Ltd.	Collection through legal procedures	As this company went bankrupt, it is expected that the amount would not be recoverable	212,545.86	212,545.86	212,545.86

- (f) There are no others receivables collected by restructuring or other manners in the current year.

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(All amounts in Renminbi yuan unless otherwise stated)
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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(3) Other receivables (Continued)

- (g) Other receivables that are written off in prior years but collected in the current year amounted to RMB 213 thousand, details are as follows:

Name of entity	Nature of other receivables	Amount collected	Reason	Arising from related party transactions or not
Nanfang Securities Co., Ltd.	Distribution of liquidation	(212,545.86)	Collection of other receivable written off in prior year	No.

- (h) As at 31 December 2012, other receivables due from shareholders who hold more than 5% (5% inclusive) of the voting rights of the Company was receivables due from GPLH amounted to RMB480 thousand (31 December 2011: RMB1,032 thousand due from GPLH).

- (i) As at 31 December 2012, the top five of other receivables are analysed as follows:

Name of entity	Relation of the Company	Amount	Aging	% of total balance
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	532,042,609.81	Within 1 year	65.97%
Guangzhou Pharmaceutical Import and Export Co., Ltd.	Wholly-owned subsidiary	122,380,651.84	Within 1 year	15.17%
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	Subsidiary	69,159,454.00	Within 1 year	8.58%
Guangzhou Bai Di Bio-technology Pharmaceutical Co., Ltd.	Subsidiary	47,941,815.15	Within 1 year	5.94%
Guangzhou Wang Lao Ji Grand Health Industry Co., Ltd.	Wholly-owned subsidiary	11,565,204.86	Within 1 year	1.43%
		<u>783,089,735.66</u>		<u>97.09%</u>

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(All amounts in Renminbi yuan unless otherwise stated)
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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(3) Other receivables (Continued)

(j) Other receivables due from related parties are analysed as follows:

	Relation with the Company	Amount	% of total balance
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	532,042,609.81	65.97%
Guangzhou Pharmaceutical Import and Export Co., Ltd.	Wholly-owned subsidiary	122,380,651.84	15.17%
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	Subsidiary	69,159,454.00	8.58%
Guangzhou Baiyunshan Bai Di Bio-technology Pharmaceutical Co., Ltd.	Subsidiary	47,941,815.15	5.94%
Guangzhou Wang Lao Ji Grand Health Industry Co., Ltd.	Wholly-owned subsidiary	11,565,204.86	1.43%
Guangzhou Baiyunshan Han Fang Modern Pharmaceutical Co., Ltd.	Subsidiary	9,016,634.68	1.12%
Guangxi Ying Kang Pharmaceutical Co., Ltd.	Subsidiary	6,000,000.00	0.74%
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Jointly controlled entities	1,560,199.20	0.19%
GPHL	Parent company	480,000.00	0.06%
		800,146,569.54	99.20%

(k) As at 31 December 2012, there are no other receivables that are derecognized.

(l) As at 31 December 2012, there are no securitizations that targeted at other receivables.

(4) Available-for-sale financial assets

	31 December 2012	31 December 2011
Available-for-sale equity instruments	18,452,500.00	17,424,000.00

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

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(5) Long-term equity investments

(a) Details of long-term equity investments

Name of entity	Investment cost	31 December 2011	Current year movement	31 December 2012	% Equity interest held	% Voting rights held	Provision for impairment	Impairment losses recognised in current year	Cash dividend in current year
Equity method:									
Guangzhou Pharmaceuticals Corporation	396,589,139.78	783,434,908.84	82,482,327.45	865,917,236.29	50.00%	50.00%	-	-	-
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	102,035,124.44	381,169,259.44	36,386,723.42	417,555,982.86	48.05%	48.05%	-	-	34,432,453.65
Golden Eagle Asset Management Co., Ltd.	50,000,000.00	37,410,094.67	(1,112,178.33)	36,297,916.34	20.00%	20.00%	-	-	-
Guangzhou Jinshen Medical Co., Ltd.	765,000.00	-	-	-	38.25%	38.25%	-	-	-
Sub-total of equity method	549,389,264.22	1,202,014,262.95	117,756,872.54	1,319,771,135.49	-	-	-	-	34,432,453.65
Cost method:									
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	125,322,300.00	125,322,300.00	-	125,322,300.00	88.99%	88.99%	-	-	-
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co. Ltd.	324,320,391.34	324,320,391.34	-	324,320,391.34	100.00%	100.00%	-	-	28,443,286.46
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	142,310,800.00	142,310,800.00	-	142,310,800.00	100.00%	100.00%	-	-	22,641,772.04
Guangzhou Baiyunshan Han Fang Modern Pharmaceutical Co., Ltd.	249,017,109.58	171,717,109.58	77,300,000.00	249,017,109.58	97.97%	97.97%	55,000,000.00	-	-
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	126,775,500.00	126,775,500.00	-	126,775,500.00	100.00%	100.00%	-	-	13,663,605.17
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd.	101,489,800.00	101,489,800.00	-	101,489,800.00	88.40%	88.40%	-	-	13,868,632.12
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	144,298,200.00	144,298,200.00	-	144,298,200.00	87.77%	87.77%	-	-	12,592,687.68
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	89,078,900.00	89,078,900.00	-	89,078,900.00	100.00%	100.00%	69,000,000.00	-	-
Guangzhou Pharmaceutical Import & Export Co., Ltd.	18,557,303.24	18,557,303.24	-	18,557,303.24	100.00%	100.00%	-	-	3,702,141.62
Guangzhou Baiyunshan Bai Di Bio-technology Pharmaceutical Co., Ltd.	129,145,812.38	129,145,812.38	-	129,145,812.38	98.48%	98.48%	47,000,000.00	-	-
Guangzhou Wang Lao Ji Grand Health Industry Co., Ltd.	10,000,000.00	-	10,000,000.00	10,000,000.00	100.00%	100.00%	-	-	-
Guangxi Ying Kang Pharmaceutical Co., Ltd.	21,536,540.49	21,536,540.49	-	21,536,540.49	51.00%	51.00%	-	-	-
Guangzhou Guangyao Yi Gan Bio-technology Co., Ltd.	6,600,000.00	-	6,600,000.00	6,600,000.00	60.00%	60.00%	-	-	-
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.	5,000,000.00	5,000,000.00	-	5,000,000.00	5.56%	5.56%	-	-	-
Sub-total of cost method	1,493,652,657.03	1,399,752,657.03	93,900,000.00	1,493,652,657.03	-	-	171,000,000.00	-	94,912,125.09
Total	2,043,041,921.25	2,601,766,919.98	211,656,872.54	2,813,423,792.52	-	-	171,000,000.00	-	129,344,578.74

(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)

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(6) Investment properties

	31 December 2011	Increase in current year	Decrease in current year	31 December 2012
Cost	42,384,523.00	–	–	42,384,523.00
Buildings	42,384,523.00	–	–	42,384,523.00
Land use rights	–	–	–	–
Accumulated depreciation/ amortisation	6,263,490.61	1,342,176.56	–	7,605,667.17
Buildings	6,263,490.61	1,342,176.56	–	7,605,667.17
Land use rights	–	–	–	–
Net book value	36,121,032.39			34,778,855.83
Buildings	36,121,032.39			34,778,855.83
Land use rights	–			–
Provision for impairment	–	–	–	–
Buildings	–	–	–	–
Land use rights	–	–	–	–
Carrying amount	36,121,032.39			34,778,855.83
Buildings	36,121,032.39			34,778,855.83
Land use rights	–			–

For the year ended 31 December 2012, RMB1,342 thousand (for the year ended 31 December 2011: RMB1,342 thousand) of depreciation and amortisation was charged to the investment properties.

Land use rights within investment properties are all located in the PRC with useful life between 10 to 50 years.

For the year ended 31 December 2012, the investment properties generated RMB5,861 thousand (for the year ended 31 December 2011: RMB5,808 thousand) of lease income, and incurred RMB1,059 thousand (for the year ended 31 December 2011: RMB1,028 thousand) of relevant taxes.

Notes to the Financial Statements

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(7) Fixed assets

	31 December 2011	Increase in current year	Decrease in current year	31 December 2012
Cost	43,948,674.16	852,298.00	4,484,209.00	40,316,763.16
Buildings	19,969,533.74	–	–	19,969,533.74
Machinery and equipment	299,472.50	–	–	299,472.50
Motor vehicles	1,794,855.60	–	–	1,794,855.60
Computer and electronic equipment	–	–	–	–
Office equipment	19,576,283.93	653,288.00	4,484,209.00	15,745,362.93
Fixed assets decoration	2,308,528.39	199,010.00	–	2,507,538.39
Accumulated depreciation	29,758,910.08	1,000,901.51	4,433,428.11	26,326,383.48
Buildings	7,661,454.26	564,852.53	–	8,226,306.79
Machinery and equipment	187,079.89	3,851.96	–	190,931.85
Motor vehicles	1,437,029.29	101,142.26	–	1,538,171.55
Computer and electronic equipment	–	–	–	–
Office equipment	18,164,818.25	331,054.76	4,433,428.11	14,062,444.90
Fixed assets decoration	2,308,528.39	–	–	2,308,528.39
Provision for impairment	–	–	–	–
Buildings	–	–	–	–
Machinery and equipment	–	–	–	–
Motor vehicles	–	–	–	–
Computer and electronic equipment	–	–	–	–
Office equipment	–	–	–	–
Fixed assets decoration	–	–	–	–
Carrying amount	14,189,764.08			13,990,379.68
Buildings	12,308,079.48			11,743,226.95
Machinery and equipment	112,392.61			108,540.65
Motor vehicles	357,826.31			256,684.05
Computer and electronic equipment	–			–
Office equipment	1,411,465.68			1,682,918.03
Fixed assets decoration	–			199,010.00

For the year ended 31 December 2012, depreciation charged to fixed assets amounted to RMB1,001 thousand (for the year ended 31 December 2011: RMB991 thousand), which charged to general and administrative expenses.

Notes to the Financial Statements

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(8) Provision for asset impairment

	31 December 2011	Increase in current year	Decrease in current year		31 December 2012
			Reversal	Write-off	
Provision for bad debts of accounts receivable	367,526.99	(367,526.99)	-	-	-
Provision for bad debts of other receivables	502,043.54	-	212,545.86	(212,545.86)	502,043.54
Provision for impairment of long-term equity investments	171,000,000.00	-	-	-	171,000,000.00
	<u>171,869,570.53</u>	<u>(367,526.99)</u>	<u>212,545.86</u>	<u>(212,545.86)</u>	<u>171,502,043.54</u>

(9) Accounts payable

Details of accounts payable:

	31 December 2012	31 December 2011
Within 1 year	768,422.44	277,056.19
Over 1 year	84,860.91	84,860.91
	<u>853,283.35</u>	<u>361,917.10</u>

Notes to the Financial Statements

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(10) Revenue and cost of sales

	Year ended 31 December 2012		
	Main operations	Other operations	Subtotal
Revenue	2,840,824.30	67,830,286.70	70,671,111.00
Cost of sales	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

	Year ended 31 December 2011		
	Main operations	Other operations	Subtotal
Revenue	12,923,540.02	41,392,001.28	54,315,541.30
Cost of sales	12,674,515.32	1,342,176.56	14,016,691.88
Gross profit	249,024.70	40,049,824.72	40,298,849.42

(a) Revenue and cost of main operations by natures are summarised as follows:

	Revenue from main operations		Cost of main operations	
	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2011
Trading	2,840,824.30	12,923,540.02	2,707,077.81	12,674,515.32

(b) Revenue and cost of main operations by regions are summarised as follows:

	Revenue from main operations		Cost of main operations	
	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2011
Southern China	2,840,824.30	12,923,540.02	2,707,077.81	12,674,515.32

(c) There are not any individually customers which constituted to a significant portion of the Company's revenue from main operations, as all major customers of the Company are retail customers during the current year.

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS *(Continued)*

(11) Financial expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Interest expenses	6,153,388.84	3,731,430.52
Interest income	(1,752,611.36)	(1,829,552.34)
Exchange losses/(gains)	221,958.91	(38,146.35)
Others	36,846.53	32,729.91
	<u>4,659,582.92</u>	<u>1,896,461.74</u>

In 2012 and 2011, all interest expenses belong to borrowings which are repayable within 5 years.

(12) Profit arising from changes in fair value

	Year ended 31 December 2012	Year ended 31 December 2011
Gain/(loss) arising from changes in fair value of listed shares of Hafei Aviation Industry Co., Ltd held by the Group	80,934.00	(639,378.60)
Loss arising from changes in fair value of listed shares of Harbin Pharmaceutical Group Co., Ltd. held by the Group	(332,706.50)	(2,902,220.92)
	<u>(251,772.50)</u>	<u>(3,541,599.52)</u>

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(13) Investment income

(a) Investment income details

	Year ended 31 December 2012	Year ended 31 December 2011
Income from financial assets:		
Income from financial assets hold for trading	5,781.00	134,857.68
Income from available-for-sale financial assets	804,650.00	572,330.00
Income from entrusted loans	11,766,219.15	8,759,000.81
Income from long-term equity investments under cost method	94,912,125.09	104,611,361.21
Income from long-term equity investments under equity method	152,183,110.63	135,027,315.32
	259,671,885.87	249,104,865.02

(b) Investment income from long-term equity investments under cost method

	Year ended 31 December 2012	Year ended 31 December 2011
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd.	28,443,286.46	70,651,281.03
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co.,Ltd.	22,641,772.04	16,637,848.66
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	13,663,605.17	–
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd.	13,868,632.12	10,552,874.92
Guangzhou Pharmaceutical Import & Export Co, Ltd.	3,702,141.62	1,064,526.04
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	12,592,687.68	5,704,830.56
	94,912,125.09	104,611,361.21

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(13) Investment income (Continued)

(c) Investment income from long-term equity investments under equity method

	Year ended 31 December 2012	Year ended 31 December 2011
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	70,819,177.07	68,512,534.59
Guangzhou Pharmaceuticals Corporation	82,476,111.89	66,283,805.86
Golden Eagle Fund Management Co., Ltd.	(1,112,178.33)	230,974.87
	152,183,110.63	135,027,315.32

(14) Asset impairment losses

	Year ended 31 December 2012	Year ended 31 December 2011
Reversal of bad debts	(580,072.85)	(1,253,383.47)

(15) Income tax expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Current income tax calculated based on tax law and related regulations	9,320,768.14	5,422,723.79
Deferred income tax	(3,529,819.17)	(1,702,938.43)
	5,790,948.97	3,719,785.36

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(15) Income tax expenses (Continued)

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the Company's financial statements to the income tax expenses is as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Total profit	269,457,404.40	252,254,933.88
Income tax expenses calculated at applicable tax rates	67,364,351.10	63,063,733.47
Income not subject to tax	(61,773,808.93)	(59,976,433.13)
Others	200,406.80	632,485.02
Income tax expenses	5,790,948.97	3,719,785.36

(16) Supplementary information to the Company's cash flow statement

	Year ended 31 December 2012	Year ended 31 December 2011
(a) Reconciliation from net profit to cash flows from operating activities		
Net profit	263,666,455.43	248,535,148.52
Add: Provisions for asset impairment	(580,072.85)	(1,253,383.47)
Depreciation and amortisation of fixed assets and investment property	2,343,078.07	2,333,323.60
Amortisation of intangible assets	-	-
Amortisation of long-term prepaid expenses	-	-
Gains on disposal of fixed assets, intangible assets and other long-term assets	15,577.32	(43,152.18)
Losses on scrapping of fixed assets	-	-
Loss on change in fair value	251,772.50	3,541,599.52
Financial expenses	6,375,226.18	3,728,655.87
Investment income	(283,028,368.01)	(267,370,022.78)
Increase in deferred tax assets	(3,499,440.01)	(1,426,769.56)
Decrease in deferred tax liabilities	(30,379.16)	(276,168.87)
Increase in inventories	(262,790.24)	(158,251.48)
Decrease (less: increase) in operating receivables	(6,141,003.47)	11,603,395.36
Increase (less: decrease) in operating payables	20,372,553.65	(7,275,527.70)
Net cash flows from operating activities	(517,390.59)	(8,061,153.17)

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15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(16) Supplementary information to the Company's cash flow statement (Continued)

	Year ended 31 December 2012	Year ended 31 December 2011
(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 year	141,232,654.49	107,691,016.27
Less: cash at beginning of year	107,691,016.27	213,007,698.60
Add: cash equivalents at end of year	-	-
Less: cash equivalents at beginning of year	-	-
Net movement in cash and cash equivalents	33,541,638.22	(105,316,682.33)

16 NET CURRENT ASSETS

	Group	
	31 December 2012	31 December 2011
Current assets	3,547,287,907.87	2,312,170,928.26
Less: Current liabilities	1,915,390,486.71	871,340,727.31
Net current assets	1,631,897,421.16	1,440,830,200.95

	Company	
	31 December 2012	31 December 2011
Current assets	1,052,866,788.04	965,474,564.12
Less: Current liabilities	234,205,609.99	115,750,926.31
Net current assets	818,661,178.05	849,723,637.81

Notes to the Financial Statements

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

17 TOTAL ASSETS LESS CURRENT LIABILITIES

	Group	
	31 December 2012	31 December 2011
Total assets	6,235,393,717.89	4,851,265,848.35
Less: current liabilities	1,915,390,486.71	871,340,727.31
Total assets less current liabilities	4,320,003,231.18	3,979,925,121.04

	Company	
	31 December 2012	31 December 2011
Total assets	3,769,215,933.39	3,467,180,457.88
Less: current liabilities	234,205,609.99	115,750,926.31
Total assets less current liabilities	3,535,010,323.40	3,351,429,531.57

Supplementary information

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

1 SUMMARY OF NON-RECURRING PROFIT OR LOSS

Item	Year ended 31 December 2012	Year ended 31 December 2011
Losses on disposal of non-current assets	(170,345.14)	(1,033,972.32)
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)	25,069,271.32	25,357,934.69
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 c ontrol 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	(251,518.80)	(3,158,513.96)
Reversal of provision for bad-debts of accounts receivable subject to separate provision	537,348.09	1,233,435.91
Gains or losses arising from entrusted loan granted to other entities	(755,524.96)	(653,775.68)
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	(5,131,211.14)	1,743,368.96
Other profit or loss items meeting the definition of non-recurring profit or loss	-	-
Impact on income tax	(535,413.82)	(805,639.70)
Impact on minority interests (post-tax)	(909,220.66)	(893,810.72)
Total	17,853,384.89	21,789,027.18

Supplementary information

(All amounts in Renminbi yuan unless otherwise stated)
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2 RETURN ON NET ASSETS AND EARNINGS PER SHARE

Year ended 31
December 2012

Net profit attributable to ordinary
shareholders of the Company
Net profit after deducting
non-recurring profit or loss
attributable to ordinary
shareholders of the Company

Weighted average return on net assets (%)	Earnings per share	
	Basic earnings per share	Diluted earnings per share
10.05%	0.487	0.487
9.60%	0.465	0.465

Year ended 31
December 2011

Net profit attributable to ordinary
shareholders of the Company
Net profit after deducting
non-recurring profit or loss
attributable to ordinary
shareholders of the Company

Weighted average return on net assets (%)	Earnings per share	
	Basic earnings per share	Diluted earnings per share
7.84%	0.355	0.355
7.25%	0.328	0.328

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 31 December 2012/Year ended 31 December 2012 (RMB'000)	At 31 December 2011/Year ended 31 December 2011 (RMB'000)	Fluctuation (%)	Reasons of fluctuation
Cash at bank and on hand	729,534	384,136	89.92	The Group's sales increased with more fund reflowing and advances from customers.
Advances to suppliers	415,610	132,518	213.63	The increase was due to that the Company's subsidiaries prepaid for medical raw materials and packing materials.
Other receivables	89,198	54,057	65.01	As at 31 December 2012, the Group's prepayment for deposits and tax refund for exports increased.
Inventories	1,276,406	859,006	48.59	To seize the markets, the Group's subsidiaries expanded inventory for production at the end of the year, and prepared strategic reserves of raw materials.
Other current assets	1,599	2,342	(31.75)	By the time of 31 December 2012, the Group's deductible input VAT declined.
Construction in progress	27,897	20,370	36.95	The Group increased input into construction programs, such as technology innovation.
Deferred tax assets	79,144	38,542	105.34	The growth of deferred income tax assets resulted from the increase in accrued expenses, other payables, and temporary variance derived from employee benefits payable.
Short-term borrowings	82,468	144,929	(43.10)	The Company's trading subsidiaries repaid their bank loans in advance.
Notes payable	38,937	5,432	616.80	The Company's trading subsidiaries financed for short-term funds through banker's acceptance, in order to control financial expenses.
Accounts payable	736,216	350,250	110.20	The Company's trading subsidiaries developed high-quality suppliers actively, for better credit terms.
Advances from customers	336,924	146,932	129.31	The Company's newly established company Guangzhou Wang Lao Ji Grand Health Industry Co.,Ltd. received large amount of payment for goods from dealers in advance.
Employee benefits payable	131,740	64,167	105.31	By 31 December 2012, the Group's employee benefits payable went up.
Taxes payable	110,113	37,951	190.14	As at 31 December 2012, the Group's VAT payable and enterprise income tax rose.
Other payables	478,854	121,544	293.98	As at 31 December 2012, the Group's advertising fees, transportation expenses and sales return to be paid went up leading to the increase of other payable balance.

Supplementary information

(All amounts in Renminbi yuan unless otherwise stated)
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3 REASONS FOR EXCEPTIONAL ITEMS IN FINANCIAL STATEMENTS (Continued)

Items	At 31 December 2012/Year ended 31 December 2012 (RMB'000)	At 31 December 2011/Year ended 31 December 2011 (RMB'000)	Fluctuation (%)	Reasons of fluctuation
Revenue	8,229,059	5,439,612	51.28	The Company's subsidiaries strengthened market development, established effective sales outlets, so as to promote general sales.
Cost of sales	5,954,944	4,042,752	47.30	Sales cost climbed along with the increment of sales.
Taxes and surcharges	67,152	44,043	52.47	The rise of taxes and surcharges was resulted from the addition of sales revenue.
Selling and distribution expenses	1,359,454	710,833	91.25	The Group increased selling expenses, such as advertisement and promotion, expenses on salesmen and transportation expenses, in order to develop marketing and promote sales revenue.
Financial expenses	4,717	1,853	154.56	The Group's bank loans rose year on year, leading to the increase of financial expenses.
Asset impairment losses	6,298	917	586.92	The Group's account receivables increased, therefore bad debt provision according to aging went up.
Profit arising from changes in fair value	(252)	(3,542)	92.89	The decline of fair value of listed shares of Hafei Aviation Industry Co., Ltd. And Harbin Pharmaceutical Group Co., Ltd. held by the Group shrank year on year.
Non-operating expenses	10,442	7,303	42.97	The Group's expenses for donation developed.
Income tax expenses	49,509	34,996	41.47	The Company's subsidiaries' profit grew.
Net cash flows from operating activities	506,530	(185,040)	373.74	The increase was mainly due to more fund reflowing and the growth of advances from customers.
Net cash flows from investing activities	11,430	(215,540)	105.30	The increase was mainly due to the reduction in investment of projects outside the Group, and the redemption of trading subsidiaries' deposits for short-term borrowings that expired.
Net cash flows from financing activities	(151,553)	60,259	(351.50)	The decrease was mainly due to the Company's dividend payment for 2011 and repayment of part of its loans through financing within the Group.

Documents Available For Inspection

1. The financial statements signed by the legal representative and the manager of the Finance Department of the Company;
2. The auditor's reports sealed and signed by PricewaterhouseCoopers Zhong Tian Limited Company together with the financial statements prepared in accordance with PRC Accounting Standards;
3. The original company documents disclosed and announcements published in the Shanghai Securities News and Securities Times during the Reporting Period;
4. The documents listed above are available at the Secretariat.