



廣州白雲山醫葯集團股份有限公司
GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.
(Stock code: 874)



Annual Report
2014

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IMPORTANT NOTICE

- I. The Board, the Supervisory Committee of the Company and the directors, supervisors and senior management collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this annual report and confirm that there are no false information, misleading statements or material omissions in this annual report.
- II. The Directors were present at the 10th meeting of the sixth session of the Board, among whom, Mr. Wong Lun Tak Patrick, an independent non-executive Director, was unable to attend the meeting due to business reason and had appointed Mr. Qiu Hongzhong, an independent non-executive Director, to attend the meeting and vote on his behalf.
- III. The financial report of the Group and the Company for the year ended 31 December 2014 are prepared in accordance with the China Accounting Standards for Business Enterprises, which are audited by BDO China Shu Lun Pan CPAs LLP which had issued unqualified auditors' reports thereon.
- IV. Mr. Li Chuyuan (chairman of the Board), Mr. Wu Changhai and Ms. Yao Zizhi (senior manager of finance department) declared that they warranted that the financial reports contained in this annual report were true and complete.
- V. The net profit attributable to the shareholders of the Company of 2014 amounted to RMB1,192,471,636.11. Based on the net profit RMB916,674,526.23 in 2014, a 10% statutory surplus reserve in the amount of RMB91,667,452.62 is provided, with the addition of the undistributed profit carried over from last year in the amount of RMB1,747,475,798.92, and after reducing the cash dividends of last year by RMB297,008,349.50, the actual distributable profits amounted to RMB2,275,474,523.03.

Based on the actual circumstances of the Company, it is proposed that based on the share capital of 1,291,340,650 shares as at the end of 2014, a cash dividend of RMB2.8 for every 10 shares or an aggregate of RMB361,575,382.00, be distributed. The undistributed portion shall be transferred to the next distribution. There will not be any capitalization of capital reserve for 2014.

Contents

The proposal on distribution of dividend will be submitted to the 2014 annual general meeting for consideration and approval.

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

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

Company/GYBYS	Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited
PRC or China	The People's Republic of China
Reporting Period/the Year/ the current year	the year ended 31 December 2014
Post Reporting Period	the period after the end of the Reporting Period up to the date of this annual report, being 1 January 2015 to 20 March 2015
Group	the Company and its subsidiaries
Board	the board of directors of the Company
Director	the directors of the Company
Supervisory Committee	the supervisory committee of the Company
CSRC	China Securities Regulatory Commission
SSE	The Shanghai Stock Exchange
HKEx	The Stock Exchange of Hong Kong Limited
CSRC Guangdong Bureau	the Guangdong Bureau of CSRC
Depository Corporation	the Shanghai branch of China Securities Depository and Clearing Corporation Limited
Articles of Association	the articles of association of the Company
Listing Rules of HKEx	the Rules Governing the Listing of Securities on the HKEx
Listing Rules of SSE	the Listing Rules of the Shanghai Stock Exchange
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Model Code	The Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules of HKEx
New GPC	The Company
GPHL	Guangzhou Pharmaceutical Holdings Limited (廣州醫藥集團有限公司)

Definitions

Xing Qun	Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd. (廣州白雲山星群(藥業)股份有限公司)
Zhong Yi	Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited (廣州白雲山中一藥業有限公司)
Chen Li Ji	Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Company Limited (廣州白雲山陳李濟藥廠有限公司)
Qi Xing	Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. (廣州白雲山奇星藥業有限公司)
Pan Gao Shou	Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (廣州白雲山潘高壽藥業股份有限公司)
Jing Xiu Tang	Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. (廣州白雲山敬修堂藥業股份有限公司)
Wang Lao Ji	Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. (廣州王老吉藥業股份有限公司)
Guangzhou Han Fang	Guangzhou Baiyunshan Han Fang Contemporary Pharmaceutical Co., Ltd. (廣州白雲山漢方現代藥業有限公司)
Guangzhou Bai Di	Guangzhou Baiyunshan Bai Di Bio-technology Co., Ltd. (廣州白雲山拜迪生物醫藥有限公司)
Guangxi Ying Kang	Guangxi Yingkang Pharmaceutical Company Limited (廣西盈康藥業有限責任公司)
WLJ Great Health	Guangzhou WLJ Great Health Industry Co., Ltd. (廣州王老吉大健康產業有限公司)
GP Corp.	Guangzhou Pharmaceuticals Corporation (廣州醫藥有限公司)
Cai Zhi Lin	Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (廣州采芝林藥業有限公司)
Pharmaceutical Import & Export	Guangzhou Pharmaceutical Import & Export Company Limited (廣州醫藥進出口有限公司)
Guangyao Baiyunshan Hong Kong Company	Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited
Nuo Cheng	Guangzhou Promise Biological Products Co., Ltd. (廣州諾誠生物製品股份有限公司)
Baiyunshan	Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (廣州白雲山製藥股份有限公司)

Baiyunshan General Factory	Guangzhou Baiyunshan Pharmaceutical General Factory (廣州白雲山製藥股份有限公司廣州白雲山製藥總廠)
Chemical Pharmaceutical Factory	Guangzhou Baiyunshan Chemical Pharmaceutical Factory (廣州白雲山製藥股份有限公司廣州白雲山化學製藥廠)
He Ji Gong	Guangzhou Baiyunshan Pharmaceutical Co., Ltd. Baiyunshan He Ji Gong Pharmaceutical Factory (廣州白雲山製藥股份有限公司白雲山何濟公製藥廠)
Tian Xin	Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. (廣州白雲山天心製藥股份有限公司)
Guang Hua	Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd., (廣州白雲山光華製藥股份有限公司)
Ming Xing	Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (廣州白雲山明興製藥有限公司)
HWBYS	Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited (廣州白雲山和記黃埔中藥有限公司)
Guangzhou Baxter	Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. (廣州百特僑光醫療用品有限公司)
Pharmaceutical Technology	Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd. (廣州白雲山醫藥科技發展有限公司)
Baiyunshan Great Health Hotel	Guangzhou GPLH Baiyunshan Great Health Hotel Co., Ltd. (廣州廣藥白雲山大健康酒店有限公司)
CPIC	Guangzhou Baiyunshan Chemical Pharmaceutical Innovation Center (廣州白雲山化學藥創新中心)
Weiling	Baiyuanshan Weiling Pharmaceutical Co., Ltd. (白雲山威靈藥業有限公司)
Wei Yi Co., Ltd.	Guangzhou Baiyunshan Wei Yi Medical Investment Management Co.,Ltd. (廣州白雲山維醫醫療投資管理有限公司)
Bozhou Baiyunshan	Bozhou Baiyunshan Pharmaceutical Co., Ltd. (亳州白雲山創藥有限公司)
Guangzhou General Institute	Guangzhou Pharmaceutical Research General Institute (廣州醫藥研究總院)
Golden Eagle Fund	Golden Eagle Fund Management Co., Ltd. (金鷹基金管理有限公司)

Company Profile

1. Legal Chinese Name: 廣州白雲山醫藥集團股份有限公司
Chinese Name Abbreviation: 廣藥白雲山
English Name: Guangzhou Baiyunshan Pharmaceutical Holdings
Company Limited
English Name Abbreviation: GYBYS
2. Legal Representative: Li Chuyuan
3. Secretary to the Board: Chen Jing
Representative of securities affairs: Huang Xuezheng
Address: 45 Sha Mian North Street, Liwan District, Guangzhou City,
Guangdong Province, the PRC
Telephone: (8620) 66281218 / 6628 1219
Fax: (8620) 6628 1229
E-mail: chenjing@gybys.com.cn / huangxz@gybys.com.cn
4. Registered address and office: 45 Sha Mian North Street, Liwan District, Guangzhou City,
Guangdong Province, the PRC
Postal code: 510130
Internet website: <http://www.gybys.com.cn>
E-mail: sec@gybys.com.cn
Principal place of business in Hong Kong: Room 2005, 20th Floor, Tower Two Lippo Center,
89 Queensway, Hong Kong
5. Designated newspapers for information disclosure: Mainland China: China Securities Journal (中國證券報),
Shanghai Securities News (上海證券報), Securities Times
(證券時報), Securities Daily (證券日報)
<http://www.sse.com.cn>
Internet website designated by the CSRC for publishing this annual report:
Internet website of the HKEx for publishing this annual report: <http://www.hkex.com.hk>
Place where this annual report is available for inspection: The Secretariat of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited

6. Stock exchanges and codes of the Company's shares:
- A Shares: SSE
Stock Code: 600332
Stock Abbreviation: BAIYUNSHAN
H Shares: HKEx
Stock Code: 0874
Stock Abbreviation: BAIYUNSHAN PH
H Shares: GZ Phar.
- Previous Stock Abbreviation:
7. Other information:
- First registration date: 1 September 1997
First place of registration: 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC
Registration date for subsequent change: 16 August 2013
Place of registration for subsequent change: 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC
Business registration number: 440101000005674
Tax registration number: 44010063320680x
Organization code: 63320680-X
Auditors and its address: BDO China Shu Lun Pan CPAs LLP
4th Floor, Nan Jing East Road No. 61, Shanghai, China
Names of the accountants of the audit firm whose signatures are given: Zhang Ning, Zhang Xi

Financial Data and Financial Highlights

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

(i) Principal financial data

Principal financial data	2014	2013	Year on year increase/ (decrease) (%)	2012	2011	2010
Income from operations (RMB'000)	18,799,881	17,608,193	6.77	12,062,642	8,869,704	7,523,493
Net profit attributable to the shareholders of the Company (RMB'000)	1,192,472	980,045	21.68	729,040	542,763	469,216
Net profit attributable to the shareholders of the Company after deducting non-recurring items (RMB'000)	1,112,771	891,802	24.78	706,882	509,456	397,109
Net cash flow from operating activities (RMB'000)	1,761,382	1,339,140	31.53	999,230	83,079	402,565
Total profit (RMB'000)	1,467,177	1,229,190	19.36	881,063	656,121	575,572

Principal financial data	As at the end of 2014	As at the end of 2013	Year on year increase/ (decrease) (%)	As at	As at	As at
				the end of 2012	the end of 2011	the end of 2010
Shareholder's equity attributable to the shareholders of the Company (RMB'000)	7,739,301	6,831,768	13.28	5,566,352	4,943,960	4,471,669
Total assets (RMB'000)	14,210,784	12,249,123	16.01	9,394,208	7,742,904	7,250,778
Total liabilities (RMB'000)	6,251,805	5,226,886	19.61	3,638,244	2,626,151	2,622,278
Total equity per share attributable to the shareholders of the Company (RMB)	5.99	5.29	13.28	4.41	3.92	3.55

Financial Data and Financial Highlights

(ii) Principal financial indicators

Principal financial indicators	2014	2013	Year on year	2012	2011	2010
			increase/ (decrease) (%)			
Basic earnings per share (RMB)	0.923	0.768	20.26	0.578	0.430	0.372
Diluted earnings per share (RMB)	0.923	0.768	20.26	0.578	0.430	0.372
Basic earnings per share after deducting non-recurring items (RMB)	0.862	0.699	23.32	0.560	0.404	0.315
Weighted average return on net assets ratio (%)	16.38	15.71	An increase of 0.67 percentage point	13.89	11.50	11.01
Ratio of weighted return on net assets after deducting non-operating items (%)	15.29	14.30	An increase of 0.99 percentage points	13.47	10.80	9.32
Return on total equity attributable to shareholders of the Company (%)	15.41	14.35	An increase of 1.06 percentage points	13.10	10.98	10.49
Ratio on total equity attributable to shareholders of the Company to total assets (%)	54.46	55.77	A decrease of 1.31 percentage points	59.25	63.85	61.67
Gearing ratio (%) (note)	43.99	42.67	An increase of 1.32 percentage points	38.73	33.92	36.17

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

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

Financial Data and Financial Highlights

(2) NON-RECURRING ITEMS INCLUDE

Items	Amount in 2014 (RMB'000)	Notes	Amount in 2013 (RMB'000)	Amount in 2012 (RMB'000)
Gain/(Loss) on disposal of non-current assets	(9,721)		(537)	(1,169)
Government subsidies recognized as gain/(loss)	164,771	This is the amount of subsidies received by the company's subsidiaries which was transferred to non-operating income in the Reporting Period	111,537	36,563
Gain/(Loss) on changes in fair value arising from trading financial assets and trading financial liabilities held (excluding the valid hedging business related to normal operating activities of the Company) as well as the investment gains received from disposal of trading financial assets, trading financial liabilities and financial assets available for sale	1,323		487	(252)
Write-off of provision for impairment of accounts receivable undergoing independent impairment test	–		372	537
Gain/(Loss) from entrusted loans	(1,048)		(974)	(756)
Other non-operating income and expenses excluding the above items	(51,708)		1,241	(9,646)
Income tax effect	(23,376)		(22,566)	(1,874)
Effect on minority interest (after tax)	(541)		(1,317)	(1,245)
Total	79,700		88,243	22,158

Financial Data and Financial Highlights

(3) CHANGES IN SHAREHOLDERS' EQUITY IN 2014 (CONSOLIDATED)

Items	Share capital (RMB'000)	Capital reserve (RMB'000)	Other comprehensive income (RMB'000)	Surplus in reserve (RMB'000)	Retained earnings (RMB'000)	Shareholders' equity (RMB'000)
Opening balance	1,291,341	2,486,911	(818)	723,819	2,330,515	6,831,768
Additions	-	398	12,696	91,668	1,192,472	1,297,234
Deductions	-	1,025	-	-	388,676	389,701
Closing balance	1,291,341	2,486,284	11,878	815,487	3,134,311	7,739,301

(i) Reasons for changes in capital reserve:

- (1) Additions during the Year is mainly due to: Qi Xing, a subsidiary of the Company, scrapped the fixed assets from investment in capital and transferred the assessed appreciation in the amount of RMB398,000 as an addition to capital surplus.
- (2) Deductions during the Year is mainly due to: as the capital reserve of GP Corp., a jointly controlled entity, decreased in the current period, the Group recognized the decrease in capital reserve amounted to RMB1,025,000 based on its share of interest in GP Corp.

(ii) Reasons for changes in other comprehensive income:

- (1) The increase of RMB12,338,000 is due to the net changes in fair value of available-for-sale financial assets held by the Group.
- (2) The other comprehensive income of GP Corp., a jointly controlled entity, increased in the current period, the Group recognized the increase in other comprehensive income amounted to RMB234,000 based on its share of interest in GP Corp.

(iii) Reasons for changes in surplus in reserve:

Current increment was the statutory surplus reserves calculated by 10% of net profit for 2014.

(iv) Principal reason for changes in retained earnings during the Year:

Pursuant to the resolution passed at the annual general meeting of 2013 held on 26 June 2014, the Company distributed cash dividend of RMB0.23 (taxes inclusive) per share to the shareholders of the Company. On the basis of 1,291,340,650 shares in issue, the total amount of dividend was RMB297,008,000.

Financial Data and Financial Highlights

(4) ITEMS RELATED TO FAIR VALUE MEASUREMENT

Items	Balance at the beginning of the Reporting Period (RMB'000)	Balance at the end of the Reporting Period (RMB'000)	Changes during the Reporting Period (RMB'000)	Impact on the profit for the Reporting Period (RMB'000)
Financial assets available for sale	17,608	32,207	14,599	1,139
Financial assets at fair value through profit or loss	3,363	4,686	1,323	1,350
Total	20,971	36,893	15,922	2,489

(1) DISCUSSION AND ANALYSIS OF THE BOARD REGARDING OPERATIONS

The Group is principally engaged in: (1) the research and development, manufacturing and sales of Chinese and western patent medicine, chemical active pharmaceutical ingredients (API), natural medicine, biological medicine and chemical API intermediates; (2) wholesale, retail and import and export of western and Chinese pharmaceutical products and medical apparatus; (3) research and development, production and sales of great health products; and (4) investment in health industry with healthcare, health management and health nursing, etc.

Overall Review

During the Reporting Period, the Group actively promoted the implementation of the “Economy of Scale 136 Project”, pushed forward the strategic upgrading of three segments namely “Grand Southern TCM”, “Grand Health” and “Grand Commerce”, and proactively deployed three new businesses known as “e-commerce, healthcare and capital finance”. In addition, the Group actively responded to the impact brought by various factors including medical reform policy and market competition by vigorously promoting innovation in management, strengthening integrated operation and taking effective measures to reduce operating costs, thereby maintaining a steady growth in the operating results of the Group.

In 2014, the Group’s revenue amounted to RMB18,799,881,000, up by approximately 6.77% year-on-year; the total profit was RMB1,467,177,000, up by approximately 19.36% year-on-year; and the net profit attributable to shareholders of the Company was RMB1,192,472,000, up by approximately 21.68% year-on-year.

During the Reporting Period, firstly, the Group increased efforts in brand marketing and enhanced core competitiveness by capitalizing on its brand advantages. During the Year, while focusing on promoting the brand recognition and reputation of “GYBYS”, the Group actively carried out the filing work in respect of Chinese famous trademarks and successfully received three new Chinese famous trademarks for its products including “He Ji Gong”, “Pan Gao Shou” and “Tian Xin”, making its total number of Chinese famous trademarks to seven, among which “Guangyao”, “Baiyunshan” and others were recognized as outstanding proprietary brands of Guangdong Province; Baiyunshan General Factory was recognized as one of the “Top 100 Industry Enterprises in terms of Comprehensive Strength in China’s Pharmaceutical Industry for 2014”; and Baiyunshan Xiaochaihu Granule was listed as one of the top brands of pharmaceuticals in China for 2014.

Report of the Board of Directors

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

Overall Review (Continued)

Secondly, actively developed the Grand Health segment, strengthened and improved the marketing team and marketing channels, devoted more efforts in developing the food and beverage market, raised the merchandise coverage in the market, streamlined brand positioning, properly protected brand assets, and stepped up efforts in innovation of brand marketing. During the Reporting Period, the Group improved customers' satisfaction and recognition by taking effective service measures, fully enhanced its comprehensive marketing capability by focusing its resources on channel optimization, and developed both on-line and off-line interactive communication platforms through strategic cooperation with companies such as Tencent, Yixun, JD.com. In addition, brand marketing was made more charity-oriented and targeting young clients through projects such as "Four Season Rainbow" and "Wang Lao Ji Super Luck Cup". The Group also held the press conference in relation to the identification results of Wang Lao Ji DNA bar-coding technology with a focus on applying such technology to the identification of raw materials of botanical beverages, and established the first provincial research centre of herbal tea engineering and technology in China. At the same time, Wang Lao Ji set up the benchmark for intellectual property rights protection by initiating the protection and inheritance of Chinese Long-established brands and shops, established its northern head office in Beijing, and prepared to build the Herbal Tea Creator-Wang Lao Ji Museum. Moreover, by making good use of the sales channels of Wang Lao Ji Herbal Tea, the Group continuously rolled out new products in an effort to develop the Grand Health Product Cluster. The completion and trial production of Wang Lao Ji Grand Health Industry (Ya'an) Production Base in Ya'an, Sichuan, have enhanced Wang Lao Ji's overall competitiveness in the domestic market. Moreover, by utilizing the sales channels of Wang Lao Ji Herbal Tea, the Group continuously launched new products in an effort to develop the Grand Health product cluster.

Thirdly, the Group vigorously promoted research and development of scientific research and innovative projects, cultivated "cash cow product types" and to create new driving engines for profit growth. During the Reporting Period, Baiyunshan "Jin Ge", the first "Viagra" generics developed by Baiyunshan General Factory, a branch company of the Company, officially debuted, changing the situation that all pharmaceuticals used to treat erectile dysfunction were imported. Subsequently, Baiyunshan "Tie Ma" (a type of solid beverage mixed with maca, ginseng and sealwort) was launched by Great Health Company under HWBYS to echo "Jin Ge". In addition, the exclusive new product-Antivirus capsule (抗病毒軟膠囊) and Cefaclor for suspension were introduced to the market smoothly.

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

Overall Review (Continued)

Fourthly, the Group vigorously promoted the extension of modern medical logistics services, e-commerce and healthcare investments in trading business, thereby expanding and strengthening the business and health care segments. As for extension of modern medical logistics services, GP Corp. has entered into cooperative agreements for extension of modern medical logistics services with the Second People's Hospital of Guangdong Province, the Second People's Hospital of Liwan District, the People's Hospital of Qingyuan, Shunde Guizhou Hospital, Stomatology Hospital of Guangzhou Medical University, Affiliated Hospital of Guangdong Medical College and seven medical institutions in Yuexiu District, respectively. Among them, the "Smart Pharmacy" jointly established with the Second People's Hospital of Guangdong Province became a benchmark project of the extension of modern medical logistics services in China. At the same time, GP Corp. entered into the "Guangzhou Hub Logistics Cooperation Project" with Novo Nordisk to jointly establish a "cold storage chain" logistics hub. Cai Zhi Lin extended its TCM pharmacy trusteeship business into five fundamental medical institutions located in Haizhu District, Liwan District, Tianhe District and other areas in Guangzhou. To e-commerce, by utilizing third-party platforms such as Tmall.com, JD.com, Yhd.com, meituan.com and nuomi.com and capitalizing on means of communication such as Weibo and WeChat, the Group realized on-line and off-line resource sharing through planning and marketing, thus achieving a relatively fast growth. As for health care, the Group established Guangzhou Baiyunshan Medical and Health Industry Investment Company Limited to expand into a number of new fields including medical care, health management and health nursing.

Fifthly, the Group paid close attention to the industrial policy, actively responded to the catalogue addition of basic pharmaceuticals in all regions, accelerated the development of and distribution in the basic pharmaceutical market, and raised the share of pharmaceutical usage by grass root medical institutions. Meanwhile, the Group actively grasped the opportunities brought by the Catalogue of Medicine at Low Price issued by the National Development and Reform Commission. During the Reporting Period, over 300 individual quality specifications of the Group were selected for inclusion in the List of Medicine at Low Price of the State, including some main products with sales revenue of hundreds of million RMB such as Baiyunshan compound Salvia Milltiorrhiz slice, Baiyunshan Ban Lan Gen, Xiao Ke Wan, amoxicillin etc., while 4 exclusive products, namely Xiao Ke Wan, Ru He San Jie Pian, Zhang Yan Ming Pian and Gu Shen Ding Chuan Wan were also enlisted.

Sixthly, the Group strengthened the integration of resources and integrated operations by promoting centralized procurement. During the Reporting Period, remarkable results were achieved in centralized procurement. In addition, the Group also stepped up its efforts to push forward external investment and merger and acquisition as well as the construction of GAP planting bases for bulk raw materials of Chinese herbal medicine.

During the Reporting Period, the gross profit margin of the manufacturing operations was 43.06%, representing an increase of 3.70 percentage points as compared with last year; the gross profit margin of the trading operations was 8.82%, representing an increase of 1.57 percentage points as compared with last year.

Report of the Board of Directors

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

Overall Review *(Continued)*

As at 31 December 2014, the Group had 35 retail chain pharmacy outlets, including 34 “Cai Zhi Lin” which specialized in traditional Chinese medicines, and 1 pharmacy named Ying Bang.

(i) Analysis of principal operations

A. Analysis of changes in financial statement related subjects:

Items	The Reporting Period (RMB'000)	Corresponding period of 2013 (RMB'000)	Increase/(Decrease) compared with the same period of 2013
			(%)
Revenue	18,799,881	17,608,193	6.77
Include: income from principal operations	18,614,517	17,463,016	6.59
Cost of sales	12,173,919	11,806,295	3.11
Include: cost from principal operations	12,136,640	11,768,412	3.13
Selling and distribution expenses	3,942,791	3,485,311	13.13
General and administrative expenses	1,265,268	1,227,255	3.10
Financial expenses	1,720	28,305	(93.92) (Note 1)
Profit before tax	1,467,177	1,229,190	19.36
Net profit attributable to shareholders of the Company	1,192,472	980,045	21.68
Net cash flow from operating activities	1,761,382	1,339,140	31.53 (Note 2)
Net cash flow from investing activities	(287,420)	(323,700)	11.21
Net cash flow from financing activities	(363,998)	(211,689)	(71.95) (Note 3)
Research and development expenses	279,286	282,195	(1.03)

Notes:

- (1) The financial expenses decreased as compared with the corresponding period of last year was mainly due to (i) the Group actively developed potential internal funds, improved the operating efficiency of funds, gradually repaid external bank borrowing, during the Reporting Period; and (ii) the subordinate enterprises of the Company had a great increase in their interest income through allocated funds accordingly, and improved the efficiency of operating funds.
- (2) Net cash flow from operating activities increased as compared with the corresponding period of last year was mainly due to the increase in the Group's sales revenue and improvement in fund collection during the Reporting Period.
- (3) Net cash flow from financing activities decreased as compared with the corresponding period of last year was mainly due to the substantial increase in the payment of dividends and interest during the Reporting Period.

Report of the Board of Directors

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

Overall Review (Continued)

(i) Analysis of principal operations (Continued)

B. Revenue

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

In 2014, the main factors leading to changes in the revenue of the Group:

Facing a tough challenge from the continuous “two declines and one rise” in the pharmaceutical industry and amid a constant growth in the pharmaceutical sector, the Group focused its resources on the development of the “Great Health” segment, thereby achieving a rapid growth in its sales revenue.

(ii) Major customers

During the Reporting Period, Goods and services sold to the 5 largest customers amounted to RMB1,637,453,000 representing 8.79% of the total sales. Sales to the largest customer amounted to RMB467,614,000 representing 2.51% of the total sales of the Group.

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

C. Cost

(A) Analysis of cost

Principal Operation Cost	Items	2014		2013		Percentage of Changes in the proportion
		Amount (RMB'000)	Percentage of the proportion of operation cost (%)	Amount (RMB'000)	Percentage of the proportion of operation cost (%)	
Medicine and healthcare	Raw materials	3,463,865	43.08	3,377,255	40.39	2.56
	Fuel	114,980	1.43	98,667	1.18	16.53
	Labor costs	311,169	3.87	310,216	3.71	0.31
	Others	4,150,527	51.62	4,575,473	54.72	(9.29)
	Procurement costs	4,096,099	100.00	3,406,801	100.00	20.23

Report of the Board of Directors

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

Overall Review *(Continued)*

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

C. Cost *(Continued)*

(A) Analysis of cost *(Continued)*

Type of products	Items	2014		2013		Percentage of Changes in the proportion
		Amount (RMB'000)	Percentage of the proportion of operation cost (%)	Amount (RMB'000)	Percentage of the proportion of operation cost (%)	
Manufacturing	Raw materials	3,463,865	43.08	3,377,255	40.39	2.56
	Fuel	114,980	1.43	98,667	1.18	16.53
	Labor costs	311,169	3.87	310,216	3.71	0.31
	Others	4,150,527	51.62	4,575,473	54.72	(9.29)
Trading	Procurement costs	4,096,099	100.00	3,406,801	100.00	20.23

(B) Major suppliers

During the year, purchases of goods and services from the 5 largest suppliers amounted to RMB1,521,126,000, representing approximately 16.84% of the total purchases. The purchases from the largest supplier amounted to RMB377,685,000, representing 4.18% of the total purchases.

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

D. Expenses

During the Reporting Period, the Group's selling and distribution expenses was approximately RMB3,942,791,000 with a growth of 13.13% as compared with last year, mainly due to the Group's active marketing efforts to increase sales revenue in the Year. The Group increased advertising efforts and sales associated expenses such as marketing personnel expenses.

During the Reporting Period, the Group's general and administrative expenses was approximately RMB1,265,268,000, representing a growth of 3.10% as compared with last year, mainly due to the remuneration of the employees of the Group increased.

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

Overall Review (Continued)

(i) Analysis of principal operations (Continued)

D. Expenses (Continued)

During the Reporting Period, the Group's financial expense was approximately RMB1,720,000, representing a decrease of 93.92% as compared with last year, mainly due to: (i) the Group actively developed potential internal funds, improved the operating efficiency of funds, gradually repaid external bank borrowing during the Reporting Period; and (ii) the subsidiaries had a great increase in interest income through allocated funds accordingly, improved the efficiency of operating funds.

During the Reporting Period, the Group's income tax expenses was approximately RMB256,533,000 with a growth of 15.43% as compared with last year, mainly due to the increase in profit of the Company's subsidiaries.

E. Research and development expenses

Current cost of research and development expenses (RMB'000)	278,521
Current capitalization of research and development expenses (RMB'000)	765
Total research and development expenses (RMB'000)	279,286
Total research and development expenses accounted for the proportion of net assets (%)	3.51
Research and development expenses to total operating income ratio (%)	1.49

In 2014, the Group vigorously promoted scientific and research innovation, enhanced its intellectual property right related affairs and made remarkable achievements, mainly including:

(1) Approval

During the Reporting Period, the Group obtained one medicine clinical research approval for phosphoryl choline injection manufactured by Tian Xin. In addition, the Group acquired six approvals for medicine manufacturing, namely ceftizoxime sodium for injection (0.5g and 1.0g) manufactured by Tian Xin, citric acid sildenafil raw material by the chemical pharmaceutical factory, cefprozil granule of 0.125g (supplemental application for additional specification), citric acid sildenafil of 50mg (supplemental application for the domestic Viagra-Baiyunshan "Jin Ge") and ceftizoxime sodium of 0.25g for injection (supplemental application) manufactured by Baiyunshan General Factory.

Report of the Board of Directors

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

Overall Review *(Continued)*

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

E. Research and development expenses *(Continued)*

(2) Science and Technology Awards

During the Reporting Period, the Group totally obtained one National Science & Technology Progress Award (second class), two Science & Technology Progress Awards of Guangdong Province (third class), two Science & Technology Progress Awards of Guangzhou City (second class) and three such awards (third class), three Science & Technology Progress Awards of various districts, and other technological honours and awards, among which citric acid sildenafil of 50mg (domestic Viagra-Baiyunshan "Jin Ge") manufactured by Baiyunshan General Factory obtained the New Technological Innovative Result Pilgrimage Award of the Chinese pharmaceutical industry. The project of "Basic and Applied Research on Prevention and Treatment of Metabolic Disorders of Glycolipid by Eliminating Dampness Through Harmonised Liver and Smoothed Pivot" jointly submitted by four units including HWBYS and Guangdong Pharmaceutical University was granted the National Science & Technology Progress Award (second class). "Technical innovation research and application for the excellent quality Chinese patent medicine Clearing Heat and Anti-inflammation series of products" conducted by Jing Xiu Tang obtained the 2014 ACFIC Science and Technology Award (third class), which has been made public. The project of "Excellent quality Chinese patent medicine Naoxingqing tablet quality Standard Improvement and quality control key technology industrialisation" carried out by HWBYS obtained the Science & Technology Progress Awards of Guangdong Province (third class). Baiyunshan General Factory was granted the Science & Technology Progress Award of Guangdong Province, thanks to its "Multiple combination drugs gelatin skeleton sustained release tablet core and micro-dose coating technology platform construction and industrialisation" project. Projects such as "Rabies vaccine and industrialisation" conducted by Guangzhou Baidi. and "Study and application of fritillaria cirrhosa new source fritillaria Taibaiensis", which have been made public, carried out by Pan Gao Shou obtained the Science and Technology Award of Guangzhou (second class). Moreover, projects like "Multiple combination drugs felatin skeleton sustained release tablet core and micro-dose coating technology platform construction and industrialisation" conducted by Baiyunshan General Factory, "Clearing heat and anti-inflammation function material basis and quality specification study and application" conducted by Jing Xiu Tang pharmacy and "Xia Sang Ju particle quality system research and standard improvement", which have been made public, carried out by Xing Qun obtained the 2013 Science and Technology Award of Guangzhou (third class). In addition, "Study and overall application of the MES in the management and control for the

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

Overall Review *(Continued)*

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

E. Research and development expenses *(Continued)*

(2) Science and Technology Awards *(Continued)*

production process of Chinese patent medicine” of Zhong Yi was affirmed to be a technological achievement of Guangzhou and at the same time, it obtained the 2014 Technological Innovation Achievement (second class) awarded by the Chinese Association of Quality Evaluation. Furthermore, the Company, Wang Lao Ji WLJ Great Health and Chen Li Ji won the title of “Guangdong Self-dependent Innovation Demonstration Enterprise”. Zhong Yi was recognised as among the sixth batch of intellectual property rights demonstration enterprises in the Guangzhou Economic Development Zone.

(3) Intellectual Property Rights

During the Reporting Period, the companies under the Group totally applied for 62 Chinese patents for invention and obtained 33 Chinese patent licences for invention. In addition, the levulifloxacin research project received the certificate of European (U.K., France and Germany) invention patent. Cefathiamidime for injection manufactured by Baiyunshan General Factory won the title of “China’s Chemical Pharmaceutical Industry and Excellent Original Drugs Product Brand for 2014. In the same year, Baiyunshan General Factory passed the national intellectual property standards to become among the first batch of companies in the country, and the first pharmaceutical manufacturer in South China that passed the inspection and certification for its intellectual property management system at state level. Besides, Zhong Yi received the registration certificate for one computer software copyright, “Baiyunshan Zhongyi Pharmacy Integrated Application Management Software V1.0 for Chinese Patent Medicine Manufacturing and Execution”. Furthermore, two awards in respect of intellectual property rights were received, among which the “16th China Patent Award, Excellent Award” was granted to Baiyunshan General Factory for its invention patent of “Cefixime Tablet and Preparation Method”. Zhong Yi was recognised as among the sixth batch of intellectual property rights model enterprises in Guangzhou Economic Development Zone.

Report of the Board of Directors

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

Overall Review *(Continued)*

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

F. Cash flow

Items	The Reporting Period (RMB'000)	The corresponding period of last year (RMB'000)	Increase/(Decrease) compared with the same period of 2013 (%)	Reason of changes
Net cash flow from operating activities	1,761,382	1,339,140	31.53	During the Reporting Period, increase was due to the increase of the sales and improvement in collection of accounts receivable of the Group.
Net cash flow from investing activities	(287,420)	(323,700)	11.21	During the Reporting Period, the Group received the cash income from investment increased.
Net cash flow from financing activities	(363,998)	(211,689)	(71.95)	During the Reporting Period, the Group paid dividends, interest.

(ii) Industry, product and regional analysis of the operationed results

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

Principal operations	Income from principal operations		Cost of principal operations		Gross profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/(Decrease) compared with the same period of 2013 (%)	Cost of principal operations (RMB'000)	Increase/(Decrease) compared with the same period of 2013 (%)	Gross profit margin of principal operations (%)	Increase/(Decrease) compared with the same period of 2013 (Percentage point)
Medicine and healthcare	18,614,517	6.59	12,136,640	3.13	34.80	An increase of 2.19 percentage points

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

Report of the Board of Directors

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

Overall Review (Continued)

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

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

Types of products	Income from principal operations		Cost of principal operations		Gross profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/ (Decrease) compared with the same period of 2013 (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) compared with the same period of 2013 (%)	Gross profit margin of principal operations (%)	Increase/(Decrease) compared with the same period of 2013 (Percentage point)
Manufacturing operations	14,122,230	2.41	8,040,541	(3.84)	43.06	An increase of 3.70 percentage points
Trading operations	4,492,287	22.30	4,096,099	20.23	8.82	An increase of 1.57 percentage points

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

C. Analysis of regional sales of the Group for 2014 is set out as follows:

Regions	Income from principal operations (RMB'000)	Increase/ (Decrease) compared with the corresponding period of 2013 (%)
Southern China	10,023,751	5.99
Eastern China	3,396,065	7.49
Northern China	2,096,738	8.76
North-Eastern China	245,163	(27.13)
South-Western China	1,634,989	0.38
North-Western China	606,514	18.42
Exports	611,297	38.51
Total	18,614,517	6.59

Report of the Board of Directors

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

Overall Review *(Continued)*

(iii) Analysis of Financial Conditions

A. Liquidity

As at 31 December 2014, the current ratio of the Group was 1.47 (31 December 2013: 1.45), and its quick ratio was 1.04 (31 December 2013: 1.00). Accounts receivable turnover rate was 21.23 times, representing a decrease of 5.90% as compared with the corresponding period of 2013. Inventory turnover rate was 4.98 times, representing a decrease of 8.22% as compared with the corresponding period of 2013.

B. Financial resources

As at 31 December 2014, cash and cash equivalents of the Group amounted to RMB3,029,136,000, of which approximately 99.4% and 0.6% were denominated in Renminbi and foreign currencies, like Hong Kong dollar, respectively.

As at 31 December 2014, the Group had bank borrowings of RMB560,530,000 (31 December 2013: RMB518,279,000), including short-term borrowings of RMB560,530,000 (31 December 2013: RMB509,652,000) and no long-term borrowings (31 December 2013: RMB8,627,000).

C. Capital structure

As at 31 December 2014, the Group's current liabilities amounted to RMB6,061,527,000 (31 December 2013: RMB5,050,078,000), representing an increase of 20.03% as compared with the corresponding period of 2013, and its long-term liabilities was RMB190,278,000 (31 December 2013: RMB176,808,000), with an increase of 7.62% as compared with the corresponding period of 2013. The shareholders' equity attributable to the shareholders of the Company amounted to RMB7,739,301,000 (31 December 2013: RMB6,831,768,000), with an increase of 13.28% as compared with the corresponding period of 2013.

D. Capital expenditure

The Group expects that the capital expenditure for 2015 to be approximately RMB1,393 million (2014: RMB441 million), which would be mainly applied in production sites, factories and infrastructure, purchases of machines, equipment, information system construction, external purchases, etc. The Group will raise funds to meet the capital requirements of capital expenditure by resorting to its internal funds, bank loans, etc.

Report of the Board of Directors

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

Overall Review (Continued)

(iii) Analysis of Financial Conditions (Continued)

E. Assets and liabilities

Item	As at 31 December 2014 (RMB'000)	% of the total assets	As at 31 December 2013 (RMB'000)	% of the total assets	Increase/ (Decrease) compared with the same period of 2013 (%)	Reason of changes
Cash	3,180,888	22.38	1,935,682	15.80	64.33	The increase was mainly due to the increase in the Group's sales revenue.
Financial assets at fair value through profit or loss	4,686	0.03	3,363	0.03	39.35	In the Year, the price of the shares of Zhong Zhi and Ha Yao rose which held by the Company.
Advance to suppliers	326,857	2.30	613,882	5.01	(46.76)	The decrease was mainly due to the decrease in prepayments by the Company's subsidiaries for the purchase of pharmaceutical raw materials and packagings in the Year.
Other receivables	306,277	2.16	181,146	1.48	69.08	As at 31 December 2014, the increase was mainly due to the increase in the deposits paid by the Group.
Construction in progress	441,810	3.11	335,423	2.74	31.72	Increase was mainly due to the increase in the investments in GMP reformation and construction of the production base by the Group in the Year.
Notes payable	356,573	2.51	130,774	1.07	172.66	The Company trading subsidiaries adopted a bankers' acceptances settlement method for short-term fund facilities to reduce finance costs in the Year.
Accounts payable	2,075,534	14.61	1,470,361	12.00	41.16	The increase was mainly due to the active development with high quality suppliers and achieve good commercial credit policy by the Company's subsidiaries in the Year.
Taxes payable	176,414	1.24	403,384	3.29	(56.27)	As at 31 December 2014, the decrease was mainly due to the decrease in value-added tax and corporate income tax which had not been paid by the Group.
Interests payable	237	0.00	675	0.01	(64.96)	As at 31 December 2014, the decrease was mainly due to the decrease in the bank loans.
Dividends payable	46,932	0.33	113,513	0.93	(58.66)	Mainly due to the 2012 special dividend distribution of the Group had not been paid as at the end of 2013.
Long-term borrowings	—	—	8,627	0.07	(100.00)	As at 31 December 2014, the Group repaid the long-term bank loan in advance.
Deferred income tax liabilities	15,500	0.11	3,475	0.03	345.99	As at 31 December 2014, the increase was mainly due to the increase in the difference of the income tax payable in the future.

Report of the Board of Directors

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

Overall Review *(Continued)*

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

F. Exposure to fluctuations in exchange rates

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

G. Main cash resources and applications

As at 31 December 2014, cash and cash equivalents of the Group amounted to RMB3,029,136,000 with an increase of RMB1,110,184,000 as compared with the beginning of 2014. The net cash inflow derived from operating activities amounted to RMB1,761,382,000 with an increase of RMB422,242,000 as compared with 2013. The increase was mainly due to the increase in sale revenue and increase in advanced payments for goods from customers.

H. Contingent liabilities

As at 31 December 2014, the Group had no material contingent liabilities.

I. Charge on the Group's assets

As at 31 December 2014, Guangyao Baiyunshan Hong Kong Company, a wholly-owned subsidiary of the Company, had a general banking facility of HK\$300,000, a letter of credit and a letter of trust with total limit of HK\$100,000,000 and drew up an unearned credit with US\$179,000, YEN131,858,000 granted by Bank of China (Hong Kong) Limited with a charge over its fixed assets, properties and buildings with original value of HK\$8,893,000 and net value of HK\$6,545,000 and investment properties with original value of HK\$6,843,000 and net value of HK\$4,109,000.

J. Bank loans, overdraft and other borrowings

As at 31 December 2014, the bank loans of the Group amounted to RMB560,530,000 (31 December 2013: RMB518,279,000), with an increase of RMB42,251,000 as compared with the beginning of 2014. The above bank loans included short-term loans of RMB560,530,000 and no long-term loans.

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

Overall Review *(Continued)*

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

K. Gearing ratio

As at 31 December 2014, the Group's gearing ratio (total liabilities/total assets × 100%) was 43.99% (31 December 2013: 42.67%).

L. Material investment

As at 31 December 2014, the Group did not have any other material additional investment.

(iv) Core Competence Analysis

The Group's core competitiveness mainly includes the following aspects:

A. The Group possesses rich product and brand resources:

(A) Products: The Group has formed complete series in areas such as diabetes, cardiovascular and cerebrovascular diseases, anti-bacteria and anti-infection, cooling and detox, parenteral nutrition, coughing, bone-setting and pain relief, rheumatism and bone pain, gynaecological and paediatric medication, and nurturing and health. The Group has more than 30 forms, nearly 2,000 specifications and over 100 exclusive products.

(B) Brands: Currently, the Group has trademarks of 7 nationally renowned brands, 20 renowned brands in Guangdong Province and 27 renowned brands in Guangzhou City. Among which, the brand awareness and reputation of "Baiyunshan" have a greater impact and appeal among consumers in the country, and "Baiyunshan" is one of the most valuable pharmaceutical brands in the country. After completion of the major asset reorganization comprising the merger and absorption of the former Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (廣州白雲山製藥股份有限公司) by way of exchange of shares and acquisition of the assets of GPLH by way of issue of shares, the Group promoted the grand brand strategy on the basis of integrating brand resources, implementing the changes in brand marketing model from developing individual brands to grouping brands under one umbrella with collective strategy. On the basis of reviving the Grand Southern TCM, the Group developed the Grand Health business, expanding the brand value from traditional pharmaceutical products to the new grand health products.

Report of the Board of Directors

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

Overall Review *(Continued)*

(iv) Core Competence Analysis *(Continued)*

- B. Long history in Chinese traditional medicine history and cultural soft power. The Group has more than 10 long lasting enterprises in Chinese pharmaceutical industry, including Chen Li Ji, Pan Gao Shou, Jing Xiu Tang, Zhong Yi, Qi Xing, Xing Qun, He Ji Gong, Guang Hua, Cai Zhi Lin, Ming Xing, Wang Lao Ji. Among which, Chen Li Ji, Wang Lao Ji, Jing Xiu Tang, Zhong Yi, Pan Gao Shou and Ming Xing have been established for over a hundred years. Also, the Group has 6 items admitted as the nation's Intangible Cultural Heritage, namely "Xia Sang Ju" (夏桑菊) of Xing Qun, "Dashen Kouyanqing" (大神口焱清) of Baiyunshan, herbal tea of Wang Lao Ji, the traditional Chinese medicine culture of Chen Li Ji and Pan Gao Shou as well as the "Production Technology of Bao Zi Tang Bao Ying Dan" (保滋堂保嬰丹製作技藝) of Zhong Yi. The Group had established the Chen Li Ji Museum (陳李濟博物館), "Chen Li Ji Health Preservation Research Institute" (陳李濟健康養生研究院), "Lingnan Experience Centre of Chinese Medicine Culture" (嶺南中醫藥文化體驗館), Shen Nong Cottage (神農草堂) and Wang Lao Ji Herbal Tea Museum and had established a number of platforms for the promotion of the "Grand Southern TCM" culture and demonstration of the long history and splendid culture of Chinese medicine and rebuilding the famous brands of Chinese medicine.
- C. The Group possesses a relatively complete production chain system, including the existing major pharmaceutical assets. Through the internal and external forward integration and backward integration, more comprehensive raw materials, research and development, production, circulation and terminal production chain has been formed. In respect of the supply of Chinese herbs, the Group has more than 40 GAP herbs bases nationwide and establish a unified procurement platform of raw material, which effectively safeguards the quality and supply of Chinese herbs and controls production costs. In respect of research and development of products, the Group continues to build a comprehensive technological innovation system. It has built an extensive collaborative network with renowned scientific research institutions at home and abroad to create a synergy effect between both sides for highly effective utilization of favourable resources from various parties, promoting development through the support of technology.
- D. The Group has a large sales network and a broad and stable customer base with 35 retail chain pharmacy outlets in Guangdong Province. The Company is one of the first pharmaceutical trading enterprises that obtained the GSP certificate. The Group has also established the largest pharmaceutical retail network and medicine logistics center in southern China. With the advantages of its strong market position and marketing network, the Group has established a long-term and reliable business relationship with hundreds thousands of customers across the country, including medium to large-sized hospitals, pharmaceutical wholesalers, distributors and retailers.

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

Overall Review *(Continued)*

(iv) Core Competence Analysis *(Continued)*

- E. The Group possesses an ever-improving technological innovation system. The Group has state-level research and development institutions including the national projects research centre for modernizing the process of extracting and separating Chinese medicine, the key research centre for integrated development and international cooperation of Southern TCM resources and a state-level key laboratory for respiratory diseases (joint establishment). The Group also has 1 state-level corporate technical centre, 6 provincial-level engineering technical centres, 3 provincial-level corporate technical centres, 11 municipal-level engineering technical research and development centres and 11 municipal-level corporate technical centres. The Group has research and development of Chinese medicine and Chinese NHPs, Chinese medicine engineering technology including automatic control and online testing, Chinese preparation medicine, supercritical CO₂ extraction, reversal extraction, separation of macroporous resin adsorption, quality control for finger printing of Chinese medicine, synthesis and technology of cephalosporins antibiotic APIs and core technology in national leading position such as sterile powder production technology and preparation agent technology.
- F. The Group has a forward-thinking, high quality, reasonably aged structured and extremely innovative team of talents. In recent years, the Group has insisted on attracting talents with competitive work environment and remuneration package, nurturing them with its excellent corporate culture and motivating them with promising corporate visions. Currently, the Group has 4 national model labour, 2 national Special Allowance Experts, 12 state specialists, 4 outstanding specialists of Guangzhou City and more than 50 EMBA holders (高級管理人員工商管理碩士). In recent years, 59 Doctors and Post-doctoral fellows were employed to carry out scientific research for the Group. The Group also has 512 master degree holders and nearly 5,000 bachelor degree holders engaged in research and development, including more than 1,500 technology personnel for common technology, key technology and prospective technology.

Report of the Board of Directors

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

Overall Review *(Continued)*

(v) Information on investment

A. Foreign equity investment in the overall analysis

At the end of the Reporting Period, the foreign equity investment of the Company amounted to RMB1,950,765,000, with a growth of RMB80,032,000 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	Percentage in the investment units (%)
GP Corp.	Sales of western pharmaceutical products and medical apparatus	50.00
Wang Lao Ji	Manufacturing, processing and sales of Chinese patent medicine; food and medicine homologous drink and candy	48.05
Nuo Cheng	Production of Rabies bacterin, export of goods and technology	50.00
HWBYS	Manufacturing, constructing, research and development, and sales of medicine, NHPs, food and Chinese herbs	50.00
Baxter Qiao Guang	Production of large capacity injection, imports and wholesales of medicine	50.00
Hangzhou Zhe Da Han Fang Chinese Medicine Information Engineering Company Limited	Development of technology and technology service	44.00
Golden Eagle Fund Management Co., Ltd.	Fund management	20.00
Guangzhou Goldsum Pharmaceutical technology Co., Ltd.	Research and development; NHPs, Chinese medicine and food	38.25
Guangzhou Baiyunshan Wei Yi Medical Investment Management Co., Ltd.	Medical investment management	50.50

Report of the Board of Directors

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

Overall Review (Continued)

(v) Information on investment (Continued)

A. Foreign equity investment in the overall analysis (Continued)

(A) Investments in stocks

Number	Type of Stock	Stock Code	Stock name	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 market of Shanghai	600038	AVIC Helicopter Co., Ltd.	1,806	57,810	2,175	46.41	593
2	A Share market of Shanghai	600664	Harbin Pharmaceutical Group Co.,Ltd.	3,705	289,310	2,511	53.59	757
	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		4,686	100.00	1,350

Report of the Board of Directors

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

Overall Review *(Continued)*

(v) Information on investment *(Continued)*

A. Foreign equity investment in the overall analysis *(Continued)*

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

Stock Code	Stock name	Initial amount of investment (RMB'000)	% of share holding	Book value as at the end of the Reporting Period (RMB'000)	Gain/(Loss) during the Reporting Period (RMB'000)	Changes in equity during the Reporting Period (RMB'000)	Accounting item	Sources of shares
601328	Bank of Communications	525	-	2,683	98	937	Available-for-sale financial assets	Acquisition
601818	Everbright Bank	10,725	Approximately 0.02	29,524	1,041	11,416	Available-for-sale financial assets	Acquisition

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

Name	Initial amount of investment (RMB'000)	Number of sharesheld (share)	% of shareholding	Book value as at the end of the Reporting Period (RMB'000)	Gain/(Loss) during the Reporting Period (RMB'000)	Changes in equity during the Reporting Period (RMB'000)	Accounting item	Sources of shares
Golden Eagle Fund	50,000	-	20.00	28,807	241	-	Long-term equity investment	Acquisition
Bank of Guangzhou Co. Ltd	100	-	-	100	18	-	Available-for sale financial assets	Acquisition

Report of the Board of Directors

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

Overall Review (Continued)

(v) Information on investment (Continued)

B. During the Reporting Period, the Group did not have any entrusted investment activities.

C. During the Reporting Period, the Company's entrusted loans are set out below:

Borrower name	Entrusted loan amount (RMB'000)	Term of loan	Lending rates	Whether overdue	Whether the connect transactions	Relationship with the Company
Cai Zhi Lin	15,000	One year	5.60%	No	No	Wholly-owned subsidiary
Cai Zhi Lin	263,000	One year	6.00%	No	No	Wholly-owned subsidiary
Guangzhou Pharmaceutical Import & Export Company Limited	20,000	One year	5.60%	No	No	Wholly-owned subsidiary
Guangzhou Pharmaceutical Import & Export Company Limited	145,000	One year	6.00%	No	No	Wholly-owned subsidiary
Guangzhou Baiyunshan Bai Di Bio-technology Co., Ltd.	14,000	One year	5.60%	No	No	Subsidiary
Guangzhou Baiyunshan Bai Di Bio-technology Co., Ltd.	10,000	One year	6.00%	No	No	Subsidiary
Total	<u>467,000</u>					

As at 31 December 2014, the Company provided entrusted loan totaling RMB467,000,000 to its subsidiaries.

Report of the Board of Directors

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

Overall Review *(Continued)*

(v) Information on investment *(Continued)*

D. Use of Proceeds from the issue of A shares

applicable Not applicable

E. Details of the principal subsidiaries and joint ventures of the Company

Name of enterprises	Business nature	Major products or services	Registered capital (RMB'000)	Equity directly held by the Company (%)	Total assets (RMB'000)	Net assets (RMB'000)	Net profit (RMB'000)
Subsidiaries							
WLJ Great Health	Manufacturing	Production and sales of pre-packaged food, dairy products, etc.	10,000	100.00	3,184,116	401,794	340,356

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

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

(2) DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT

(i) The competitive patterns and development trend of the industry

In 2014, as adversely affected by various factors including macroeconomic downward pressure, pressure resulting from the declining prices of medicine and increasingly drastic market competition, both the production and efficiency of the pharmaceutical industry recorded a slowdown, dragging the growth in sales down to a new low in recent years.

However, 2014 was still a year mixed with opportunities and challenges for the pharmaceutical industry. There were changes in the pharmaceutical industry policy, such as the introduction of the Catalogue of Medicine at Low Price, the selective two-child policy, the intended loosening restrictions on sales of medicine through the internet and the marketisation of health care services, etc., all bringing vitality to the future development of the pharmaceutical industry.

Looking into 2015, the pace of development of the pharmaceutical industry will be affected by decline in domestic GDP growth, the macroeconomic structural adjustment and the possible slowdown of growth in financial investment in health care. However, the continuous increase in the aging population, the constantly increasing security levels and enhanced health awareness of the public, as well as the implementation of relevant policies such as the Catalogue of Medicine at Low Price, the selective two-child policy and the loosening restrictions on sales of medicine through the internet, etc., will bring opportunities for the development of the pharmaceutical industry.

(ii) Development strategies and annual work plan for 2015

2015 will be a year for the Group to strengthen management and improve efficiency. While focusing on the strategic objectives of future development, the Group will strive to revitalize the "Grand Southern TCM", develop the "Great Health", promote the "Great Commerce" and explore the "Grand Medical Care", and strengthen fundamental management and internal control, thereby further deepening the integration of operations.

In 2015, the key tasks of the Group will mainly include:

- A. **Revitalizing the "Grand Southern TCM"**. The Group will accelerate the process of integration of resources of the companies under the Group to promote integrated operations; step up efforts to create star products and vigorously develop pharmaceuticals for children; further strengthen the implementation of famous brand strategy, fully enhance the recognition and reputation of the Group and its brands as well as customer loyalty; actively responding to local bidding policies on basic pharmaceuticals and capitalize on the opportunity of introduction of the Catalogue of Medicine at Low Price, with a view to raise the share of pharmaceutical usage by grass root medical institutions.

Report of the Board of Directors

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

(ii) Development strategies and annual work plan for 2015 *(Continued)*

- B. **Developing the “Great Health”.** The Group will innovate marketing modes, improve channel building, enhance market exposure, and vigorously enhance the brand planning for Wanglaoji to boost market competitiveness and accelerate the internationalisation and overseas deployment and expansion of Wanglaoji Herbal Tea. Moreover, the Group will further enhance the integration of the Great Health sector, attach importance to research and technological innovation in Great Health products and build Great Health product clusters.
- C. **Boosting the “Great Commerce”.** The Group will aggressively develop pilot extended services for modern logistics and build a new landscape for Great Commerce. Meanwhile, the Group will increase investments in e-commerce and aim to build an e-commerce platform and a third party logistics platform on medicine and health, while actively carrying out expansion, merger and acquisition to achieve an extensional growth.
- D. **Developing the “Great Medical Care”.** The Group will rapidly enter into the medical field through merger and acquisition, equity investment, joint venture and trusteeship, etc. In addition, it will plan to build a comprehensive Guangzhou Baiyunshan Health Industry Valley by integrating medical, drug, health maintenance and rehabilitation, leveraging on the favourable urban renewal and industrial structure adjustment policies and the current advantages in land and buildings resources.
- E. **Upgrading the “Great Technology”.** Firstly, the Group will actively promote the integration of the edge of the Group in the resources in technological research and development and strengthen the core competitiveness in technological innovation. Secondly, the Group will increase its investments in scientific research to carry out large projects in the key fields of antineoplastic drugs, cardiovascular drugs and the medicines for gynaecology, as well as the secondary development of excellent quality Chinese patent medicines and biological products, etc., while accelerating the cooperation projects in medical equipment and other fields. Thirdly, the Group will implement a cooperation strategy of building up an alliance with the government, the industry, the academia, research institutes and users to establish a long-term and effective cooperation relationship with domestic and overseas first-class scientific research institutes and organisations to speed up the internationalisation process of the industry. Fourthly, the new functions and efficacy of some ancient medicines will be tapped to accelerate the second development of excellent quality Chinese patent medicines.
- F. **Building the “Great Capital”.** The Group will steadily boost the private placement and financing projects, accelerate undertaking performance like the assets injection of Guangzhou General Pharmaceutical Institute Co., Ltd., vigorously promote merger and acquisition in the three major sectors of “Grand Southern TCM”, “Great Health” and “Great Commerce”, while actively exploring innovative ways of merger and acquisition through interpersonal relationships and widen financing channels.

Report of the Board of Directors

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

(ii) Development strategies and annual work plan for 2015 *(Continued)*

- G. **Building the “Great Industrial Zone”**. The Group will endeavour to the deployment for production capacity and accelerate the construction progress of the Baiyun Industrial Zone, Wanglaoji Ya’an base, Meizhou base, Nansha headquarters and other bases.
- H. **Grasping the “Great Management”**. The Group will stringently carry out internal management and resources integration, and further perfect its corporate governance structure, improve management efficiency, reduce cost and increase efficiency and strive to boost efficacy by focusing on the theme “management efficiency year”.

(iii) Potential challenges and risks

The principal challenges and risks that the Group may face including: (1) the risk of the frequent changes in the bidding policy of the pharmaceutical industry, the price of some medicines may decline; (2) the risk of the fluctuations in prices of raw and auxiliary materials; (3) the risk that asset consolidation fails to meet expectations; (4) the operational risk in the process of developing new fields such as medical health, pharmacy trusteeship and e-commerce, etc.; and (5) the increasingly intense market competition.

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

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

Applicable Not applicable

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

Applicable Not applicable

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

Applicable Not applicable

Report of the Board of Directors

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

(i) Formulation of cash distribution policy and its implementation

During the Reporting Period, the Company implemented its distribution policy in accordance with the relevant provisions of Article 217 of the Articles of Association on distribution policy.

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

Applicable Not applicable

(iii) Profit distribution of the Company for the last three years:

Distribution year	Distributions of every 10 shares (including tax) (RMB)	Amount of profit distribution in cash (including tax) (RMB)	Net profit attributable to the shareholders of the listed company for the distribution year as shown in the consolidated financial statements (RMB)	Proportion of payout distribution in the net profit as shown in the consolidated financial statements (%)
2014	2.80	361,575,382.00	1,192,471,636.11	30.32
2013	2.30	297,008,349.50	980,045,077.10	30.31
2012	0.60	77,480,439.00	729,039,715.80	10.63

(5) PERFORMANCE OF SOCIAL RESPONSIBILITIES

Performance of social responsibilities

The Company prepared the Social Responsibilities Report of 2014 (full version is available on the website of the SSE) in accordance with the requirements of the "Notice on Preparation of the 2014 Annual Report in an orderly manner by Listed Companies" issued by the SSE.

(6) OTHER MATTERS

(i) Accounts

The results of the Group for the year ended 31 December 2014 are set out in the consolidated income statement.

The financial conditions of the Group as at 31 December 2014 are set out in the consolidated balance sheet.

The cash flows of the Group for the year ended 31 December 2014 are set out in the consolidated cash flow statement.

The cash flows of the Company for the year ended 31 December 2014 are set out in the cash flow statement.

(ii) Financial Summary

A summary of the results and of the assets and liabilities of the Group are set out on pages 13 to 25 in the Directors' report contained in this annual report.

(iii) Reserves

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

(iv) Distributable Reserves

The distributable reserves of the Group as at 31 December 2014 calculated in accordance with the China accounting standards for Business Enterprises was RMB2,275,475,000.

(v) Fixed Assets

Details of the movements of fixed assets for the year ended 31 December 2014 are set out on pages 202 to 204 of the financial report contained in this annual report.

(vi) Ordinary Connected Transactions

Details of the ordinary connected transactions were set out in the section headed "Major Events" on pages 41 to 44 of this annual report.

Report of the Board of Directors

(6) OTHER MATTERS *(Continued)*

(vii) Management Contracts

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

(viii) Corporate Governance

During the Reporting Period, the Company had fully complied with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules provided below in Chapter IX of the Corporate Governance except for the deviations 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.

(x) Retirement Scheme

Details of the retirement scheme and amounts of contributions of the Group are set out on pages 167 to 169 and 219 of the financial report contained in this annual report respectively.

(xi) Changes in the Newspapers Designated by the Company for Information Disclosure

During the Reporting Period, the newspaper named "Securities Daily (證券日報)" was added for the purpose of the Company's disclosure.

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

- (i) The Group had neither been engaged in any material litigation or arbitration nor subject to any doubts by media during the Reporting Period.
- (ii) Litigation, arbitration or matters subject to doubts by media of the Group during the Reporting Period.
 - A. Wang Lao Ji, a joint venture of the Company, received a subpoena of “(2014) Sui Zhong Fa Min Si Chu Zi Di No.57” regarding the disputes in respect of the dissolution of Wang Lao Ji with Golden Force Pharmaceutical Co., Ltd. from the Intermediate People’s Court of Guangzhou, Guangdong Province on 11 July 2014. For more details, please refer Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and on the website of the SSE (www.sse.com.cn) on 12 July 2014 and on the website of the HKEx (www.hkex.com.hk) on 11 July 2014.
 - B. On 4 August 2014, WLJ Great Health, a wholly-owned subsidiary of the Company, received the “Civil Case Judgment” of the Fifth People’s Medium Court of Chongqing under “(2013) No. Yu Wu Zhong Fa Min Chu Zi No. 00345” and “(2013) Yu Wu Zhong Fa Min Chu Zi No. 00346” respectively on the dispute case of WLJ Great Health suing Jia Duo Bao (China) Beverage and Food Company Limited for false propaganda. For more details, please refer to the announcement published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報), the website of the SSE on 5 August 2014 and on the website of HKEx (www.hkex.com.hk) on 4 August 2014.
 - C. On or about 5 August 2014, the Company received the “Notification of Case Acceptance” under “(2014) Sui Yu Fa Min Chu Si Chu Zi No. 100” from the People’s Court of Yuxiu District, Guangzhou City. The People’s Court of Yuexiu District, Guangzhou City had decided to open a case to hear the dispute case of the Company and 10 other natural person shareholders of Wang Lao Ji suing Wang Jianyi (王健儀) for damaging the interest of Wang Lao Ji. For more details, please refer to the announcement published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報), the website of the SSE on 6 August 2014 and on the website of HKEx (www.hkex.com.hk) on 5 August 2014.
 - D. In September 2014, the Company received a notice of arbitration on dispute in relation to shareholders’ contract No. V20140834 ([2014]Zhong Guo Mao Zhong Jing Zi No. 024104) from China International Economic and Trade Arbitration Commission. For more details, please refer to the announcement published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報), the website of the SSE on 25 September 2014 and on the website of HKEx (www.hkex.com.hk) on 25 September 2014.

Major Events

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

(ii) Litigation, arbitration or matters subject to doubts by media of the Group during the Reporting Period. (Continued)

- E. GPLH, the controlling shareholder of the Company, and WLJ Great Health, a wholly-owned subsidiary of the Company, received the “Civil Case Judgment” of the Intermediate People’s Court of Guangzhou, Guangdong Province regarding the dispute case of WLJ Great Health and GPLH against Guangdong Jiaduobao Co., Ltd., Guangdong Shengjia Supermarket Co., Ltd. and East Shipai branch of Guangdong Shengjia Supermarket “(2013) Sui Zhong Fa Zhi Min Chu Zi No. 499”. For more details, please refer to the announcement published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報), the website of the SSE on 18 November 2014 and on the website of HKEx (www.hkex.com.hk) on 18 November 2014.
- F. On 3 December 2014, GPLH, the controlling shareholder of the Company, and WLJ Great Health, a wholly-owned subsidiary of the Company, received the “Civil Case Judgment” of the Third Intermediate People’s Court of Beijing regarding the dispute case of GPLH and WLJ Great Health against Jiaduobao (China) Drink Co Ltd., and Guangdong JDB Beverage and Food Co., Ltd. “(2014) San Zhong Min Chu Zi No. 08077”. For more details, please refer to the announcement published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報), the website of the SSE on 4 December 2014 and on the website of HKEx (www.hkex.com.hk) on 3 December 2014.
- G. GPLH, the controlling shareholder of the Company, received the award “[2014] Zhong Guo Mao Zhong Jing Cai Zi No. 1014” from China International Economic and Trade Arbitration Commission. For more details, please refer to the announcement published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報), the website of the SSE on 5 December 2014 and on the website of HKEx (www.hkex.com.hk) on 4 December 2014.
- H. On 19 December 2014, WLJ Great Health, a wholly-owned subsidiary of the Company, received the Civil Case Judgment “(2013) Yue Gao Fa Min Chu Zi No. 1” from Guangdong Higher People’s Court. GPLH, the controlling shareholder of the Company, received the Civil Case Judgment “(2013) Yue Gao Fa Min Chu Zi No. 2” from Guangdong Higher People’s Court. For more details, please refer to the announcement published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報), the website of the SSE on 19 December 2014 and on the website of HKEx (www.hkex.com.hk) on 19 December 2014.

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

- (iii) Litigation, arbitration or matters subject to doubts by media of the Group after the Reporting Period.
- A. The Company received the Civil Ruling “(2014) Sui Zhong Fa Min Si Chu Zi No.57” setting out that, the Company, as one of the shareholders of Wang Lao Ji, requested for arbitration of South China International Economic and Trade Arbitration Commission (Shenzhen Court of International Arbitration) (the “Arbitration Commission”), and required Golden Force Pharmaceutical Co., Ltd. to fulfill the obligation to transfer equity as agreed in the Shareholders’ Agreement i.e. to transfer 48.0465% shares in Wang Lao Ji to the Company. The Arbitration Commission accepted the case (Case No.: SHEN T2014811). For more details, please refer to the announcement published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and on the website of the SSE (www.sse.com.cn) on 15 January 2015 and on the website of the HKEx (www.hkex.com.hk) on 14 January 2015.
- B. For details on the updates on the dispute case of “Wang Lao Ji” trademark of the Company, please refer to the announcement published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and on the website of the SSE (www.sse.com.cn) on 27 February 2015 and on the website of the HKEx (www.hkex.com.hk) on 27 February 2015.

(2) APPROPRIATION OF FUNDS AND PROGRESS OF PAYMENTS OF DEBTS DURING THE REPORTING PERIOD

Applicable Not applicable

(3) THE GROUP’S ACQUISITION AND DISPOSAL OF ASSETS OR ENTERPRISE MERGER, CONNECTED TRANSACTIONS AND OTHER TRANSACTIONS DURING THE REPORTING PERIOD

1. As approved at the 23rd meeting of the fifth session of the Board, WLJ Great Health, a wholly-owned subsidiary of the Company, proposed to establish WLJ herbal tea production base in Ya’an to offer more job opportunities, the total investment of the project is expected to be RMB298 million for the construction of two canning production lines. At present, the production line and ancillary facilities of the project has started a trial run on schedule and entered the stage of trial production debugging, which is expected to put into operation before 20 April 2015.

For details, please refer to the announcement published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報) and on the website of the SSE on 17 July 2013 and on the website of the HKEx on 16 July 2013.

Major Events

(3) THE GROUP'S ACQUISITION AND DISPOSAL OF ASSETS OR ENTERPRISE MERGER, CONNECTED TRANSACTIONS AND OTHER TRANSACTIONS DURING THE REPORTING PERIOD *(Continued)*

2. As approved at the 2nd meeting of the Strategic Development and Investment Committee in 2014, Guang Hua, a subsidiary of the Company, formed Guangzhou Baiyunshan Guang Hua Health Food Company together with Beijing Kang Bao Rui Bio-technology Company ("Beijing Kang Bao Rui"). The registered capital of which was RMB10 million, among which, Guang Hua invested RMB7.5 million in cash and held 75% interest therein; Beijing Kang Bao Rui invested RMB2.5 million in cash and held 25% interest therein. The company was established in early April 2014.
3. As approved at the 2nd meeting of the Strategic Development and Investment Committee in 2014, the Company invested in the formation of Guangzhou Baiyunshan Medical and Health Industry Investment Company Limited, the registered capital of which was RMB10 million and the Company held 100% interest. It was mainly engaged in investments in fields such as medical care, health management, health maintenance and provision for the old-aged. The new company got its business license on 28 May 2014 and was inaugurated on 24 June 2014.
4. As approved at the 2nd meeting of the Strategic Development and Investment Committee in 2014, the Company proposed to acquire 14.07% interest of Hunan Tian Jing Pharmaceutical Company Limited with the price of less than RMB5 million. The Company participated in the delisting activity but failed to acquire the equity interest.
5. As approved at the 3rd meeting of the Strategic Development and Investment Committee in 2014, Guangzhou Baiyunshan Chemical Technology Co., Ltd. (廣州白雲山化學藥科技有限公司) ("Chemical Technology Company"), a wholly-owned subsidiary of the Company, and Zhejiang Anglikang Pharmaceutical Co., Ltd. (浙江昂利康製藥有限公司) established Zhejiang Guangkang Pharmaceutical Co., Ltd. (浙江廣康製藥投資有限公司) ("Guangkang Pharmaceutical") with registered capital of RMB85 million. Chemical Technology Company made a cash contribution of RMB51 million, representing 60% of equity interest of the Company. Guangkang Pharmaceutical was incorporated in November 2014.
6. As approved at the 4th meeting of the Strategic Development and Investment Committee in 2014, WLJ Great Health, the wholly-owned subsidiary of the Company and Murad Biotechnology Group Ltd. (穆拉德生物科技集團有限公司) established a joint venture, Guangzhou WLJ Murad Biotechnology Co., Ltd. (廣州王老吉穆拉德生物科技有限公司) with 50% equity interest each. WLJ Great Health would make a contribution of RMB5 million in cash. This transaction mentioned above is still in progress.

(3) THE GROUP'S ACQUISITION AND DISPOSAL OF ASSETS OR ENTERPRISE MERGER, CONNECTED TRANSACTIONS AND OTHER TRANSACTIONS DURING THE REPORTING PERIOD *(Continued)*

7. As approved at the 5th meeting of the Strategic Development and Investment Committee in 2014, the Company made additional capital of RMB16 million to Chemical Technology Company, the wholly-owned subsidiary of the Company. The registered capital of Chemical Technology Company will increase from RMB10 million to RMB26 million after the capital injection. In December 2014, the capital injection has completed.
8. As approved at the 6th and 7th meetings of the Strategic Development and Investment Committee in 2014, the Company proposed to acquire 30% interest of Guangzhou Xinhucheng Biotechnology Co., Ltd. (廣州市新花城生物科技有限公司) with the price of less than RMB150 million. In November 2014, the Company participated in the delisting activity but failed to acquire the equity interest.
9. As approved at the 7th meeting of the Strategic Development and Investment Committee in 2014, the Company acquired 100% of interest in Guangzhou Pharmaceutical Haima Advertising Co., Ltd. (廣州醫藥海馬品牌整合傳播有限公司) with the price of RMB7 million according to the assessment report issued by Zhonghe Appraisal Co., Ltd. (中和資產評估有限公司) as of 31 December 2013.
10. According to the arrangements of the industrial structure adjustment, 11 enterprises under the Company plan to relocate to the Baiyun base in the Biological Medicine Town of Guangzhou Pharmaceutical Group ("Baiyun base"), which covers a gross area of about 2,460 mu (of which an area of about 2,000 mu meets land planning requirements). The government of Baiyun district will provide integrated land plots for industrial use in four phases within the Guangzhou Pharmaceutical Industry Zone. A total land area of 474.41 mu (of which an area of 303.09 mu can be used for construction) will be provided in the first phase. Mingxing Pharmacy (98.8 mu), Hejigong Pharmacy (36 mu), Baiyunshan Hutchison Whampoa (99.7 mu) and GP Corp. (68.5mu), which are under the Group, have obtained the land use rights of the land available for construction (303 mu) in the first phase, with a total land bidding price of about RMB221.29 million. At present, the relevant work is under active progress.

In addition, "Regulatory detailed planning revision on the east group plot of Bai Yun Mountain of GPHL and Wan Li Group in Bai Yun District (Planning management unit No. AB3103, AB1318) " had been approved by the Guangzhou Municipal Planning Committee and finished the research and planning work. Approximately 0.3 million square metres of land of the Company and 66,600 square metres of land of HWBYS are within the scope of planning.

Major Events

(3) THE GROUP'S ACQUISITION AND DISPOSAL OF ASSETS OR ENTERPRISE MERGER, CONNECTED TRANSACTIONS AND OTHER TRANSACTIONS DURING THE REPORTING PERIOD (Continued)

11. Trading in the shares of the Company was suspended from 3 December 2014 until 12 January 2015 for the preparation of non-public issue of shares. On 12 January 2015, the Board approved the proposed placing, pursuant to which the Company proposed to issue no more than 419,463,087 new A Shares to 5 subscribers in total, being GPLH, Guangzhou State-owned Asset Development Holdings Limited*(廣州國資發展控股有限公司), Guangzhou China Life Insurance Urban Development Industry Investment Enterprises (Limited Partnership)*(廣州國壽城市發展產業投資企業), Shanghai Yunfeng Xinchuang Investment Management Company Limited* (上海雲峰創新投資管理有限公司) and China Universal Asset Management Company Limited*(匯添富基金管理股份有限公司) (as trustee of the Employee Stock Trust) at the subscription price of RMB23.84 per new A Share, representing a maximum amount of gross proceeds of approximately RMB10,000 million (the "Proposed Placing").

The Proposed Placing was approved by the independent shareholders, the independent shareholders of A shares and the independent shareholders of H Shares by poll at the first extraordinary general meeting, the general meeting of holders of A shares and general meeting of holders of H Shares held on 13 March 2015.

For details of the Proposed Placing, please refer to the announcement of the Company dated 12 January 2015 and 17 March 2015 and the circular of the Company dated 26 February 2015.

Save as disclosed above, the Group did not engage in any material acquisitions or disposals.

12. Set out below are the details of the ordinary connected transactions disclosed in accordance with the requirements of the CSRC and the SSE:

Connected parties	Relationship with the Company	Type of connected transactions	Contents of connected transactions	Pricing principle of the connected transactions	Amounts of connected transactions (RMB'000)	Percentage of similar transactions (%)	Settlement method of connected transactions (RMB'000)
HWBYS	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	389,573	4.31	Cash
GP Corp.	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	156,670	1.73	Cash
Wang Lao Ji	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	15,753	0.17	Cash
Subtotal					561,996	6.21	
GPLH	Parent company	Sales of products	Medicine or pharmaceutical products	Market price	57	0.00	Cash
Guangzhou General Institute	Fellow parent company	Sales of products	Medicine or pharmaceutical products	Market price	39	0.00	Cash

(3) THE GROUP'S ACQUISITION AND DISPOSAL OF ASSETS OR ENTERPRISE MERGER, CONNECTED TRANSACTIONS AND OTHER TRANSACTIONS DURING THE REPORTING PERIOD (Continued)

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

Connected parties	Relationship with the Company	Type of connected transactions	Contents of connected transactions	Pricing principle of the connected transactions	Amounts of connected transactions (RMB'000)	Percentage of similar transactions (%)	Settlement method of connected transactions (RMB'000)
HWBYS	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	163,774	0.88	Cash
GP Corp.	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	318,763	1.71	Cash
Wang Lao Ji	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	136,824	0.74	Cash
Nuo Cheng	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	102	0.00	Cash
Baxter Qiao Guang	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	1,555	0.01	Cash
Subtotal					621,114	3.34	
GPHL	Parent company	Acceptance of Patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	80,412	92.10	Cash
Wang Lao Ji	Joint venture	Acceptance of Patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	32,277	100.00	Cash
GPHL	Parent company	Others	Rental assets	Agreement price	2,874	4.38	Cash
GPHL	Parent company	Others	Rental assets	Agreement price	523	0.57	Cash
GP Corp.	Joint venture	Others	Rental assets	Agreement price	2,731	2.96	Cash
Baxter Qiao Guang	Joint venture	Others	Rental assets	Agreement price	2,500	2.71	Cash
Nuo Cheng	Joint venture	Others	Rental assets	Agreement price	1,879	2.04	Cash
HWBYS	Joint venture	Others	Rental assets	Agreement price	61	0.07	Cash
Guangzhou General Institute	Fellow parent company	Sales of the program on research and development	Research and development fee	Agreement price	189	0.06	Cash
Total					1,306,556		

The above connected transactions were the normal production and operational activities of the Group the pricing principle of which is the market price and there is no adverse impact on the continuing operational capabilities of the Group.

Major Events

(3) THE GROUP'S ACQUISITION AND DISPOSAL OF ASSETS OR ENTERPRISE MERGER, CONNECTED TRANSACTIONS AND OTHER TRANSACTIONS DURING THE REPORTING PERIOD *(Continued)*

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

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

	2014 (RMB'000)
Ultimate holding company	
License fee expenses of Wang Lao Ji trademark	80,412
Rental expenses	2,874
Rental income	523
Ultimate Holding Company and its subsidiaries	
Sales of finished goods and raw materials	96

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

The Board considered that the above-mentioned connected transactions were conducted in accordance with the terms of the relevant agreements and contracts. The Board acknowledged that the exchange limit for the year ended 31 December 2014 of the "Wang Lao Ji License Agreement" published on 26 April 2013 amounted to RMB200,000,000 (Calculated by net amount paid to GPLL).

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

(3) THE GROUP'S ACQUISITION AND DISPOSAL OF ASSETS OR ENTERPRISE MERGER, CONNECTED TRANSACTIONS AND OTHER TRANSACTIONS DURING THE REPORTING PERIOD (Continued)

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

The Company's auditor was appointed to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Listing Rules of HKEx" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its conclusions in respect of the sales and purchase of finished product and raw material and the license fee for Wang Lao Ji trademarks as disclosed in the continuing connected transactions above in accordance with the rule 14A.56 of the Listing Rules.

In addition to disclosed above, please refer to (12) DISPOSAL OF ASSETS, ENTERPRISE MERGER for details of the Group's major acquisition and sales.

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

Applicable Not applicable

(5) DEBTS OF RELATED PARTIES

Related Party	Relationship to the related parties	Funds provided to related parties			Funds provided by related parties to listed company		
		Balance at the beginning of the Reporting Period (RMB'000)	Amount (RMB'000)	Ending balance (RMB'000)	Balance (RMB'000)	Amount (RMB'000)	Ending balance (RMB'000)
Bozhou Baiyunshan Pharmaceutical	Subsidiary of Joint venture	18,694.00	(1,263.00)	17,431.00	-	-	-
Total		18,694.00	(1,263.00)	17,431.00	-	-	-
Amount of funds provided by the Company to its controlling shareholder and its subsidiaries during the Reporting Period (RMB'000)					/		
balance of funds provided by the Company to its controlling shareholder and its subsidiaries during the Reporting Period (RMB'000)					/		

Major Events

(5) DEBTS OF RELATED PARTIES (Continued)

Related Party	Relationship to the related parties	Balance at the beginning of the Reporting Period (RMB'000)	Funds provided to related parties		Funds provided by related parties to listed company		
			Amount (RMB'000)	Ending balance (RMB'000)	Balance (RMB'000)	Amount (RMB'000)	Ending balance (RMB'000)
Reasons for the funds provided to/from related parties							
Repayment of the funds provided to/from related parties							
Undertaking in relation to the funds provided to/from related parties							
Impact of the funds provided to/from related parties on the Company's operating results and financial position							

(6) ACCORDING TO THE REQUIREMENTS OF RULE 23 OF APPENDIX 16 TO THE LISTING RULES OF HKEX, THE GROUP DID NOT HAVE ANY INVESTMENT PROPERTIES WHOSE ASSET RATIO, CONSIDERATION RATIO, PROFIT RATIO AND REVENUE RATIO EXCEED 5% DURING THE REPORTING PERIOD.

(7) DURING THE REPORTING PERIOD, THE COMPANY DID NOT HAVE ANY SPECIAL TRANSACTION WITH ITS CONNECTED PARTIES INCLUDING DIRECT DONATIONS IN CASH OR ASSETS IN KIND, DIRECT EXEMPTION OR REPAYMENT, ETC. EXCEPT MENTIONED BELOW.

In the end of 2014, the Company and Bozhou Baiyunshan entered into an agreement on Liabilities relief and Compensation. Both sides agreed to exempt and compensate the liabilities of Bozhou Baiyunshan amounted to RMB1,909,330 as at the completion date of equity transfer (30 April 2013) in accordance with the agreement.

(8) MATERIAL CONTRACTS AND THEIR PERFORMANCE

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

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

(9) GUARANTEES

Guarantees provided to parties other than the Group's subsidiaries

Guaranteed parties	Date of occurrence (Date of the signing of the agreement)	Amount involved (RMB'000)	Type of guarantees	Term of guarantees	Performance completed or not	Guarantees for connected parties (yes or no)
Nuo Cheng	24 November 2013	59,088	Joint and several liability guarantee	1 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 subsidiaries

Accumulated amount of guarantees provided to the Company's holding subsidiaries during the Reporting Period (RMB'000)	60,000
Balance of guarantees provided to the Company's holding subsidiaries as at the end of the Reporting Period (RMB'000)	60,000

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

Total amount of guarantees provided (RMB'000)	119,088
Total amount of guarantees provided amount the net assets of the Group (%)	1.50

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)	60,000
Amount of guarantees provided which exceeds 50% of the total net assets of the Company (RMB'000)	–
Total amount of the above three types of guarantees (RMB'000)	60,000

(10) PERFORMANCE OF UNDERTAKINGS BY THE COMPANY, ITS SHAREHOLDERS AND ACTUAL CONTROLLER

(1) Equity incentive implemented by actual controller listed companies

Item	Content
Background of the undertaking	Undertakings in connection with equity division reform
Party given the undertaking	Controlling shareholder
Details of undertaking	<ol style="list-style-type: none"> In order to improve the value of the listed company, after the reform, the controlling shareholder of the Company, GPLH will, to the extent permitted by laws and regulations and subject to the approval of the supervision authority, the Company to set up an equity incentive mechanism as the prerequisite for management to fulfill their rights of options based on the performance growth of the listed company. Upon the original undertakings, GPLH made further undertaking: In order to fully mobilize the initiative and creativity of the management team of the listed company, realize the sustainable development and improve the value of the listed company, Guangzhou Pharmaceutical Holdings Limited undertakes that it will, to the extent permitted by laws and regulations and subject to the approvals of the supervisory authorities, urge and support Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited to set up incentive scheme for long and medium term within three years from the date of this undertaking letter, which scheme shall stipulate the growth in profits of the Company as a condition and link to market value.
Time and period of undertaking	The original undertaking was given in March 2006. On 25 June 2014, GPLH supplemented the original undertaking. The undertaking remains valid until it has been fully performed.
Valid period for performance	Up to 25 June 2017
Whether strictly and timely performed	Being performed
Specification	Yes

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

(2) Independence of listed company

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

Major Events

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

(3) Avoiding competition

Item	Content
Background of undertakings	Undertakings related to Major Assets Reorganization
Party given the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> 1. After completion of the Major Assets Reorganization, GPLH and its controlled subsidiaries should avoid engaging in business and operations which substantially compete with those of the subsisting the Company after completion of the Major Assets Reorganization ("new GPC"), and avoid increasing investment in companies and enterprises, other than new GPC and its subsidiaries, which engages in business and operations which substantially compete with those of new GPC. GPLH will not and will procure its subsidiaries not 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 competition with new GPC if GPLH and its subsidiaries will bring unfair impact on new GPC in respect of market shares, business opportunities and allocation of resources. 2. 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. 3. 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	The undertaking was given on 29 February 2012 and is valid permanently.
Valid period for performance	Being performed
Whether timely and strictly performed	N/A
Specification	Yes

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

(4) Regulating connected transactions

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

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

(5) Restricting the sale of shares

Item	Content
Background of the undertakings	Undertakings related to Major Assets Reorganization
Party given the undertaking	Controlling shareholder
Undertakings	Within 36 months from the registration date of such shares, GPLH and its 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 the undertaking	The undertaking was given on 29 February 2012 and remains valid until it has been fully performed.
Valid period for performance	The Company completed the registration of its newly issued shares on 5 July 2013 with its share registrar, and the performing period is up to 5 July 2016.
Whether timely and strictly performed	Being performed
Specification	Yes

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

(6) Undertakings related to trademark

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

Major Events

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

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

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

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

(7) Undertakings related to properties with legal defects

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

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

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

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

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

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

Item	Content
	<p>Upon the original undertakings, GPLH made further undertaking:</p> <ol style="list-style-type: none">1. The transfer of all those trademarks to GYBYS will be completed within 3 years from the date of this undertaking letter was issued. The GPLH ensures that GYBYS can use these trademarks without having to pay consideration before the transfer of those trademarks;2. If the transfer of those trademarks has not been completed by the end of the abovementioned undertaking period, the GPLH will pay compensation to GYBYS in cash within 10 working days according to the valuation of the trademarks which has not been transferred (in accordance with the Asset valuation on the properties and trademarks held by GPLH intended to be acquired through private placement of additional shares by Guangzhou Pharmaceutical Company Limited (Zhong Tian Heng Ping Ping Zi [2012] No. 26) issued by China Valuer International Co., Ltd.)."3. to fully indemnify the Company and other third parties in cash in respect of the losses incurred by the Company and other third parties within two days from the date on which such losses actually incurred, if due to any reasons, the Company cannot use the above trademarks without paying any consideration or if those trademarks cannot be transferred to the Company, including but not limited to all economic losses incurred from any civil, administrative and criminal liabilities.

Major Events

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

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

Item	Content
Time and period of the undertaking	The original undertaking was given on 28 June 2012. GPLH gave a supplemental undertaking in respect of the relevant contents on 23 April 2014. The undertaking remains valid until it has been fully performed.
Valid period for performance	Performance period is up to 23 April 2017
Whether timely and strictly performed	Basically Fully performed
Specification	Yes

(9) Undertakings related to trademarks

Item	Content
Background of the undertakings	Undertakings related to Major Assets Reorganization
Party given the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none"> GPLH undertakes that, within two years from the date of satisfaction of any one of the conditions set out below, it will legally transfer the trademarks in Wang Lao Ji series (25 in total) and 4 other trademarks (comprising trademarks with registration numbers of 125321, 214168, 538308 and 5466324) to the Company according to the requirements of laws and regulations then in force: (i) Upon the expiry on 1 May 2020, or earlier when the license agreement and its supplemental agreement were invalidated/void/terminated as determined by the arbitration institution, or earlier when the agreement was terminated or released as agreed between the parties; or (ii) Hung To (Holdings) Company Limited (鴻道(集團)有限公司) legally ceases to own the right of pre-emption

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

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

Item	Content
	<p>2. On the basis of the original undertaking letter, GPLH has further made the promise as follows: After all of the legal disputes regarding the trademark of Wang Lao Ji have been resolved and within two years commencing from the transferable day, GPLH shall, pursuant to the provisions of the effective laws and regulations then and after the relevant procedures regarding the reporting for approval have been processed, legally transfer to the Company such 29 trademarks of the series of "Wang Lao Ji" together with such other trademarks related to Wang Lao Ji and 4 trademarks obtained and owned in legal manner by Guangzhou Pharmaceutical Holdings Limited after the Execution Day (inclusive of today) for the "Supplementary Agreement to the Agreement of Trademark Custody". The Company may obtain such by cash or by issuing shares for purchasing assets wherein the transfer price shall be legally confirmed based on such appraisal value as issued by an appraisal institute possessing the professional qualification of engaging in securities and as confirmed in the asset appraisal report verified by the State-owned assets authority.</p>
Time and period of the undertaking	The original undertaking was given on 29 February 2012. GPLH gave a supplemental undertaking in respect of the relevant contents on 15 June 2012. The undertaking remains valid until it has been fully performed.
Valid period for performance	No
Whether timely and strictly performed	<p>In December 2014, the Company received the Letter of Amendment to the Undertakings of Injection of Wang Lao Ji Trademark Series from GPLH, which proposed to amend the performance period of the former undertakings to "two years since the commencing date of the judgment on the law case of red can decoration", due to the disputes of red can decoration.</p> <p>As approved by the 8th meeting of the sixth session of the Board of the Company, the resolution on the amendment to the performance period of injection of Wang Lao Ji trademark series was submitted to the first extraordinary general meeting in 2015 held on 13 March 2015 and approved.</p>
Specification	No

Major Events

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

(10) Undertakings related to General Institute

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

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

(11) APPOINTMENT AND RESIGNATION OF AUDITORS

Re-appointment of accounting firm: NO

	Appointed
Certified Public Accountants	BDO China Shu Lun Pan CPAs LLP
The remuneration of domestic Certified Public Accountants (RMB'000)	1,963
Including: Expenses on audit financial report (RMB'000)	1,583
Expenses on review financial report (RMB'000)	380
Maximum number of years of services provided by overseas Certified Public Accountants	2
Overseas Certified Public Accountants	/
The remuneration of overseas Certified Public Accountants (RMB'000)	/
Fixed number of years of overseas Certified Public Accountants	/

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

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

Explanatory notes on the appointment of auditors

- As approved at the 1st meeting of the Audit Committee in 2014, BDO China Shu Lun Pan CPAs LLP was appointed as the auditor of the Company for year 2014.
- The 2nd meeting of the sixth session of the Board passed the resolution in relation to the appointment of BDO China Shu Lun Pan CPAs LLP as the auditor of the Company for year 2014, and proposed the general meeting of shareholders to authorize the Board to determine their remuneration.
- Pursuant to the approval given in the annual general meeting of 2013, BDO China Shu Lun Pan CPAs LLP was appointed as the auditor of the Company for year 2014.

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

(13) AS AT THE END OF THE REPORT PERIOD, THE CONSTRUCTION AND EQUIPMENT COMMITMENTS THAT WERE CONTRACTED BY THE GROUP BUT NOT PROVIDED FOR WAS RMB263,048,000. THE LEASE COMMITMENTS WHICH WERE CONTRACTED BUT NOT PROVIDED FOR AMOUNTED TO RMB117,372,000.

Major Events

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

(15) IMPACT ON THE CONSOLIDATED FINANCIAL STATEMENTS WITH THE IMPLEMENT OF THE NEW ACCOUNTING STANDARDS

√ Applicable □ Not applicable

(i) Impact on the consolidated financial statements with changes of long-term equity investment standard

Invested units	Basic information	Equity attributable to the shareholders of parent company as at 1 January 2013 (+/-)(RMB)	As at 31 December 2013		
			Long-term equity investment (+/-)(RMB)	Financial assets available for sale (+/-)(RMB)	Equity Attributable to the shareholders of parent company (+/-)(RMB)
Shanghai Jiuhe Tang Chinese Medicine Co., Ltd.	proportion of shareholding: 9.53%	–	(547,193.71)	547,193.71	–
Qi Xing Ma Zhong Pharmaceutical Co., Ltd. ^{note}	proportion of shareholding: 40%	–	(362,826.38)	362,826.38	–
Indonesia San You Industrial Co., Ltd. ^{note}	proportion of shareholding: 50%	–	–	–	–
Guangzhou Pharmaceutical Products Company Bei Jing Road Pharmaceutical Products Store ^{note}	proportion of shareholding: 20%	–	(218,399.05)	218,399.05	–
Guangzhou Yu Fa Medical Instrument Co., Ltd.	proportion of shareholding: 10%	–	–	–	–
Bank of Guangzhou Co., Ltd	–	–	(100,000.00)	100,000.00	–
Beijing Imperial Court Cultural Development Company Ltd.	proportion of shareholding: 10%	–	(200,000.00)	200,000.00	–
South China Innovative Pharmaceutical Co., Ltd of Guangdong	proportion of shareholding: 11.12%	–	(10,000,000.00)	10,000,000.00	–
Shenzhou Zhong Lian Guang Shen Pharmaceutical Group Co., Ltd.	proportion of shareholding: 0.3001%	–	(312,077.00)	312,077.00	–
Guangzhou China – UK Cambridge Technology Venture Park Co., Ltd.	proportion of shareholding: 9.97%	–	–	–	–

(15) IMPACT ON THE CONSOLIDATED FINANCIAL STATEMENTS WITH THE IMPLEMENT OF THE NEW ACCOUNTING STANDARDS (Continued)

(i) Impact on the consolidated financial statements with changes of long-term equity investment standard (Continued)

Invested units	Basic information	Equity	As at 31 December 2013		Equity
		attributable to the shareholders of parent company as at 1 January 2013 (+/-)(RMB)	Long-term equity investment (+/-)(RMB)	Financial assets available for sale (+/-)(RMB)	Attributable to the shareholders of parent company (+/-)(RMB)
Northeast Pharmaceutical General Factory	-	-	-	-	-
Wuhan Pharmaceutical Inc.	proportion of shareholding: 2.8%	-	-	-	-
Securities of Corporate Events Centre	-	-	-	-	-
Guangzhou Dong Nin Pharmaceutical Co., Ltd.	proportion of shareholding: 5%	-	-	-	-
Guangzhou Nan Xin Pharmaceutical Co., Ltd.	proportion of shareholding: 13%	-	(7,677,876.51)	7,677,876.51	-
Baxter Healthcare (Guang Zhou) Co., Ltd.	proportion of shareholding: 12.5%	-	(82,338,800.00)	82,338,800.00	-
Total	-	-	(101,757,172.65)	101,757,172.65	-

Note: The Group was not engage in the operation and management of Qi Xing Ma Zhong Pharmaceutical Co., Ltd., Indonesia San You Industrial Co., Ltd. and Guangzhou Pharmaceutical Products Company Bei Jing Road Pharmaceutical Products Store and does not exert significant influence on them. Accordingly, those shareholdings have been re-classified from long-term equity investment to financial assets available for sale.

According to the requirements of the China Accounting Standards for Business Enterprise No.2 long-term equity investments (revised), equity investments held by the Group in investees with no control, common control or significant impact for which there are no quotations in the active market and the fair value of which cannot be reliably measures will be transferred to the item of "financial assets available for sale" from the item of "long-term equity investments", with retroactive adjustment made to the opening amount of the year. This involved an adjusted amount of RMB101,757,172.65 in the consolidated financial statements, which has no impact on the owners' equity and net profits of the current and previous years.

(ii) Impact resulting from other changes of the standards

Applicable Not applicable

(16) EXPLANATORY NOTES ON OTHER MAJOR EVENTS

As the Company was preparing for the non-public issue of shares, the A shares of the Company listed on the SSE and the H shares of the Company listed on the HKEx were suspended since 3 December 2014. During the suspension of trading, the Company actively pushed ahead the matters related to the non-public issue and performed the information disclosure obligation timely. The Company also provided an update at the interval of every five trading days.

The Company convened the 8th meeting for the sixth session of the Board on 12 January 2015 at which the non-public issue of A shares of the Company and the relevant matters were approved. The announcement related to the non-public issue of shares was published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and on the website of the SSE (www.sse.com.cn) on 13 January 2015 and on the website of the HKEx (www.hkex.com.hk) on 12 January 2015.

“Notice of the First Extraordinary General Meeting in 2015”, “Notice of the First Class Meeting of Holders of Domestic Shares in 2015” and “Notice of the First Class Meeting of Holders of Overseas Listed Foreign Capital Shares in 2015” were published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and on the website of the SSE (www.sse.com.cn) on 20 January 2015 and on the website of the HKEx (www.hkex.com.hk) on 19 January 2015.

The circulars were dispatched to the holders of H shares of the Company on 26 February 2015.

The Company held the first extraordinary general meeting in 2015, the first class meeting of holders of domestic shares in 2015 and the first class meeting of holders of overseas listed foreign capital shares in 2015 (collectively referred to as the “General Meetings”) on 13 March 2015. The announcements on the resolutions passed at the General Meetings were published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and on the website of the SSE (www.sse.com.cn) on 18 March 2015 and on the website of the HKEx (www.hkex.com.hk) on 17 March 2015.

Changes in Share Capital and Shareholders

(1) CHANGES IN SHARE CAPITAL

(i) There was no changes in the capital structure of the Company during the Reporting Period.

(ii) Change of shares with selling restrictions

Name of holders	Number of shares with selling Restrictions at the beginning of the Reporting Period	Number of shares released from selling restrictions	Number of additional shares with selling restrictions for the Reporting Period	Number of shares with selling restrictions at the end of the Reporting Period	Reasons for selling restrictions	The date on which shares will be released from selling restrictions
	(share)	(share)	(share)	(share)		
GPHL	34,839,645	0	0	34,839,645	Note	5 July 2016

Note: According to "Agreement on Purchase of Assets by Issue of Shares" and the relevant supplementary agreements, the 34,839,645 shares held by GPHL shall not be listed for trading or transferred within the 36 months from 5 July 2013, being the date on which those shares were listed and circulated.

(2) INTERNAL STAFF SHARES

The Company did not have any internal staff shares.

(3) INFORMATION ON SHAREHOLDERS

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

As at 31 December 2014, there were 87,063 shareholders in total, out of which 87,034 were holders of domestically listed Reminbi-denominated ordinary shares (A Shares) and 29 were holders of overseas listed shares (H shares).

As at 13 March 2015, there were 73,328 shareholders in total, out of which 73,299 were holders of domestically listed Reminbi-denominated ordinary shares (A Shares) and 29 were holders of overseas listed shares (H Shares).

Changes in Share Capital and Shareholders

(3) INFORMATION ON SHAREHOLDERS (Continued)

(ii) As at 31 December 2014, the top ten shareholders of the Company are set out as follows:

Shareholders	Class of shares	Number of shares held as at the end of the Reporting Period (share)	Approximate % of the total issued share capital (%)	Number of shares subject to selling restrictions (share)	Number of shares pledged or locked up (share)
GPHL	A Shares	584,228,036	45.24	34,839,645	Nil
HKSCC Nominees Limited	H Shares	219,547,479	17.03	Nil	Unknown
Refinance securities subsidiary accounts of Citic securities	A Shares	9,829,145	0.76	Nil	Unknown
Zhao Xuguang	A Shares	6,733,817	0.52	Nil	47,500
The national social security fund – Combination One-Two	A Shares	4,999,669	0.39	Nil	Unknown
China Construction Bank – Hua Xia Dividend hybrid open securities investment funds	A Shares	4,301,239	0.33	Nil	Unknown
Agricultural bank of China co., Ltd – Guo Tai Guo Zheng healthcare industry index classification securities investment funds	A Shares	4,138,636	0.32	Nil	Unknown
ICBC – Guo Tou Rui Yin core enterprise equity securities investment funds	A Shares	3,557,784	0.28	Nil	Unknown
The investment authority of Kuwait government – Equity fund	A Shares	3,545,002	0.27	Nil	Unknown
PICC Property and Casualty Company Limited – Tradition-Return portfolio	A Shares	2,799,912	0.22	Nil	Unknown

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

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

Changes in Share Capital and Shareholders

(3) INFORMATION ON SHAREHOLDERS *(Continued)*

(ii) As at 31 December 2014, the top ten shareholders of the Company are set out as follows: *(Continued)*

The top ten shareholders of the Company with selling restrictions

Name of the holder with selling restrictions	Number of shares with selling restrictions (share)	Information on the listing of the shares with selling restrictions		The agreed selling restrictions
		Date on which listing and trading are permitted	Number of additional shares of which listing and trading are permitted (share)	
GPHL	34,839,645	5 July 2016	34,839,645	Note

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

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

As at 31 December 2014, the interests and short positions held by the persons (not being the directors, supervisors and senior management of the Company) in the shares and underlying shares of the Company which were required to be notified to the Company and the HKEx pursuant to Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required maintained by the Company under Section 336 of the SFO were as follows:

Shareholder	Class of shares	Long Positions			
		Number of shares held (share)	Capacity	Approximate % of the total issued A Shares (%)	Approximate % of the total issued H Shares (%)
GPHL	A Shares	584,228,036	Beneficial owner	54.53	—

As far as the Directors are aware, as at 31 December 2014, other than those listed above, there was no other person or corporation having an interest or short position in the shares and underlying shares of the Company which were required to be notified to the Company and the HKEx pursuant to Divisions 2 and 3 of Part XV of the SFO and as recorded in the register maintained by the Company under Section 336 of the SFO.

Changes in Share Capital and Shareholders

(4) INFORMATION ON CHANGES OF THE COMPANY'S CONTROLLING SHAREHOLDER AND ITS ACTUAL CONTROLLER

(i) Controlling shareholder

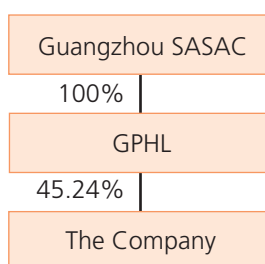
Name of shareholder	Guangzhou Pharmaceutical Holdings Limited
Legal representative	Li Chuyuan
Date of establishment	7 August 1996
Organization code	23124735-0
Registered capital	RMB1,252.8 million
Business scope	To invest in and manage State-owned assets, to sell and manufacture Chinese and western medicine, Chinese raw medicine, bio-tech products, medical apparatus, packing materials for pharmaceutical products, health drinks and food, hygienic materials and pharmaceutical related merchandise; to undertake medicine related import and export affairs and to develop real estate.
Operating results	The Company recorded an income from sales (unaudited) of RMB47.976 billion and net profit (unaudited) of RMB1.418 billion in 2014.
Financial position	As at 31 December 2014, the unaudited total assets was RMB27.955 billion and net assets was RMB10.361 billion.
Cash flow and future development strategy	Upon the completion of listing, all assets from the pharmaceuticals manufacturing of GPLH were incorporated into the Group. Without violating the independence maintained by the Group and avoidance of competitions among the peers, GPLH will fully utilize its advantages in branding, resources and financial condition while at the same time GPLH, according to the market principles, will nurture the business or assets which will be suitable for the development of the Group but not yet for implementation. When GPLH transfers the matured business operations, the Group will be given the right of pre-emption under the same conditions.
Shareholding information of other domestic and overseas listed companies during the Reporting Period	N/A

Changes in Share Capital and Shareholders

(4) INFORMATION ON CHANGES OF THE COMPANY'S CONTROLLING SHAREHOLDER AND ITS ACTUAL CONTROLLER *(Continued)*

(ii) Actual controller

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



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

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

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

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

(8) PUBLIC FLOAT

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

(9) PRE-EMPTIVE RIGHTS

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

Information on Preferred Shares

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

(1) PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) Executive directors

Mr. Li Chuyuan, aged 49, holds a bachelor degree, EMBA degree, senior economist and is a senior engineer of professor grade. Mr. Li is a national labour model and enjoys special government allowances from the State Council, top ten innovative characters of Guangdong province, the deputy chairman of the Science and Education, Sanitation and Sport Committee of Guangdong Political Consultative Conference, committee member of Guangdong Province Political Consultative Conference, a member of Guangzhou Municipal People's Congress and a representative of Guangzhou party congress and Outstanding City Management Expert of Guangzhou City. Mr. Li started his career since July 1988 and had been deputy director of operation department of Baiyunshan General Factory, deputy general manager of Baiyunshan and general manager, vice chairman, deputy secretary of the Party Committee of GPHL, and vice chairman of the Company. Mr. Li has been a director of the Company since 28 June 2010. Mr. Li has extensive experience in the fields of corporate management and marketing.

Mr. Chen Mao, aged 51, holds a bachelor degree in Medicine and is a pharmaceutical engineer. Mr. Chen started his career since November 1985, and served as the chairman of Pharmaceutical Technology, general manager of Baiyunshan, chairman of Guang Hua, factory manager of Baiyunshan General Factory and deputy general manager of GPHL. Mr. Chen has been the vice-chairman of the Company since January 2014, is the general manager, vice-chairman and deputy secretary of the party committee of GPHL, deputy secretary of the party committee and vice-chairman of the Company, chairman of Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. and chairman of WLJ Great Health. Mr. Chen has extensive experience incorporate management and marketing.

Ms. Liu Juyan, aged 50, holds a master degree and a doctorate degree in medicine and is a senior engineer of professor grade. Ms. Liu started her career since July 1990 and served as chairman and general manager of Guangzhou Han Fang and director of technology and quality department of GPHL. Ms. Liu has served as chief engineer of GPHL since August 2005 and chief technical officer of the Company, deputy general manager of GPHL since January 2011. Ms. Liu has served as chairman of Guangzhou Gang Yao Yi Gan Biological Product Co., Ltd. since January 2012 and served as chairman of Guangzhou Pharmaceutical Research Institute since May 2013 and the director of the Company since December 2013. She is also member of the thirteenth session of the People's Congress of Guangzhou City, Outstanding City Management Experts of Guangzhou City and a Guangzhou "121" reserved talent. Ms. Liu has extensive experience in scientific research and development, technological management and co-ordination management.

Directors, Supervisors, Senior Management and Staff

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

(1) Executive directors *(Continued)*

Ms. Cheng Ning, aged 49, is of tertiary education, is a PRC certified public accountant and PRC certified tax consultant. Ms. Cheng started her career in August 1986 and has served as an officer of the finance section of Guangzhou Baiyunshan Pharmaceutical General Factory, a deputy section chief of the finance section of Guangzhou Baiyunshan Bao De Pharmaceutical Factory, and a chief of the finance section of Guangzhou Baiyunshan Veterinary Medicines Factory, a accounting and cashier of the settlement center of Baiyunshan, a deputy manager of the finance department of Baiyunshan, a member and secretary of the Supervision Committee of Baiyunshan, a deputy manager, and a director of the financial resources department and a director of the finance department of Guangzhou Baiyunshan Enterprise Group and a deputy manager of finance department of GPLH. Ms. Cheng has been a financial controller and manager of the finance department of GPLH since May 2010. Ms. Cheng has been a director of the Company since 19 September 2012, deputy general manager of GPLH, convenor of the board of directors of Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited and supervisor of GP Corp. at present. Ms. Cheng has extensive experiences in finance management and internal control of enterprises.

Mr. Ni Yidong, aged 43, holds a master degree and a doctorate degree in medicine and is a senior engineer. Mr. Ni started his career since July 1994 and served as the director of market planning department of GPLH, the chairman of Zhong Yi and secretary of the party committee. He has been the director of the Company since January 2014, is the deputy general manager, director of the grand health office and chief officer of grand health plate of GPLH and standing vice-chairman of WLJ Great Health. Mr. Ni has extensive experience in corporate management and marketing.

Mr. Wu Changhai, aged 49, has served as a Director since 28 June 2010. Mr. Wu has been a vice general manager of the Company since 12 January 2015. He is an undergraduate and holds a master's degree, and is an economist. He graduated from Tongji University in July 1989 and started his career in the same year, and studied as graduate student in world economics at Sun Yat-sen University from September 1997 to October 1999 and received a master's degree of EMBA from Sun Yat-sen University in December 2012. He has been a deputy general manager, acting general manager, general manager, chairman and secretary of the Party Committee of Zhong Yi, chairman of Xing Qun, chairman of WLJ Great Health. Mr. Wu is currently a member of Guangzhou Municipal People's Congress, vice chairman of WLJ Great Health, director of Chen Li Ji, Xing Qun and Zhong Yi. Mr. Wu has served as the general manager of the Company from 21 May 2010 to 28 January 2014. He has extensive experience in operational management, marketing and scientific research.

Mr. Wang Wenchu, aged 48, has been the vice-chairman of the Company since 28 January 2014. He holds a bachelor degree and is an assistant engineer and economist. Mr. Wang started his career since July 1988 and served as deputy factory manager of Baiyunshan General Factory and general manager of Baiyunshan. He is the executive director and deputy general manager of the Company, chief of Grand Southern TCM plate of GPLH, the standing deputy factory manager of Guangzhou Baiyunshan Pharmaceutical General Factory, chairman of Guang Hua, chairman of Baiyunshan Pharmaceutical Technology Development and chairman of Jing Xiu Tang. Mr. Wang has extensive experience in corporate management and marketing.

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

2. Independent non-executive directors

Professor Patrick Wong Lung Tak, B.B.S., JP, aged 67, has been an independent non-executive Director since 28 June 2010. He is a Certified Public Accountant (Practising) in Hong Kong, a Chartered Secretary, Certified Tax Adviser in Hong Kong and the executive director of Patrick Wong CPA Limited. He has over 30 years experience in the accountancy profession. Prof. Wong obtained a Doctor of Philosophy Degree in Business and was awarded a Badge of Honour by the Queen of England. He has been appointed as a Justice of the Peace and was awarded a Bronze Bauhinia Star (B.B.S.) by the Government of the Hong Kong Special Administrative Region. He was appointed as Adjunct Professor, School of Accounting and Finance of the Hong Kong Polytechnic University from 2002 to 2013. Professor Wong participates in many types of community services and is holding posts in various organisations and committees in government and voluntary agencies. Professor Wong is an independent non-executive director of China Precious Metal Resources Holdings Co., Ltd., C C Land Holdings Limited, Galaxy Entertainment Group Limited, Water Oasis Group Limited, Real Nutraceutical Group Limited, Sino Oil and Gas Holdings Limited, National Arts Entertainment and Culture Group Limited, Winox Holdings Limited and Excel Development (Holdings) Limited, all are listed on the HKEx.

Mr. Qiu Hongzhong, aged 58, a master degree postgraduate and professor, has served as an independent non-executive Director since 28 June 2010. He graduated in 1981 with a degree in clinical medicine and was a master degree postgraduate in 1988. He was a senior visiting scholar of anthropology of the Sun Yat-sen University and completed courses of strategic management training class in Party School of the Central Committee of the Chinese Communist Party. Mr. Qiu had been the head of the Medical Department of the Eighth Engineering Bureau, ministry of Water Conservancy of DongJiang Hospital, deputy director of Department of Social Science of Guangzhou University of Traditional Chinese Medicine, deputy head of Huodao Town, Gaoyao County of Guangdong Province, standing vice president, president and the secretary of the Communist Party Committee of School of Economic and Management of Guangzhou University of Traditional Chinese Medicine. Mr. Qiu is currently the president, tutor of Ph.D. students, professor and chief physician of School of Economic and Management of Guangzhou University of Traditional Chinese Medicine, and is also a member of the Medicine Teaching and Guidance Committee of Higher Education Institution under the Ministry of Education of China, deputy director of Psychology of TCM in Chinese Medical Association of Guangdong Province, editor of the national core journal – Journal of Medicine and Philosophy, standing director of the Society of Chinese Medicine and Health Economics, deputy officer of the hygiene policy committee, Society of Hygiene Economics of Guangdong Province, standing vice-chairman of School of Management of Hospital of Traditional Chinese Medicine of Guangdong Provincial Association of Chinese Medicine. Mr. Qiu has extensive experience in economic management and pharmaceutical industry.

Directors, Supervisors, Senior Management and Staff

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

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

Mr. Chu Xiaoping, aged 59, holds a PhD in management and is a professor and a tutor of doctorate candidate. Mr. Chu graduated from Xi'an Jiaotong University. He was a lecturer, associate professor, professor, associate dean and dean of Business School, Shantou University, Guangdong, and a visiting scholar of the University of Hong Kong. He has been an independent director of Guangdong Shengyi Technology Co., Ltd. (廣東生益科技有限公司) for 6 years. He is currently a professor and a tutor of doctorate candidate of Lingnan College of Sun Yat-sen University. Mr. Chu has extensive experience in organisation, leadership, innovation and sustainable development of enterprises.

Mr. Jiang Wenqi, aged 57, is a master degree postgraduate, second-grade professor and tutor of Ph.D. students. Mr. Jiang graduated from medical science of Shanghai Medical University in 1982 and graduated as a master degree postgraduate of oncology of SunYat-sen University of Guangzhou in 1988. He was a physician, medical superintendent and the deputy head of medical department of the affiliated cancer hospital of Sun Yat-sen University of Guangzhou, and dean of the school of medicine of Shenzhen University. Mr. Jiang was the head of medical department of the cancer affiliated hospital of Sun Yat-sen University of Guangzhou, and deputy director of the institute of clinical pharmacology of SunYat-sen University. Mr. Jiang has comprehensive knowledge and understanding in the medical industry and health sectors.

3. Supervisors

Mr. Xian Jiaxiong, aged 55, holds a bachelor degree and a master degree in Business Administration, economist and senior political engineer. Mr. Xian started his career in September 1976 and had been a general secretary of the party committee of Guangzhou Grandbuy Co., Ltd. and assistant to the deputy manager and the secretary of the disciplinary committee of Guangzhou Department Store Enterprises Group Co., Ltd.. Mr. Xian has been the deputy secretary of the party committee and secretary of the disciplinary committee of the Company since October 2013. He is currently the secretary of the disciplinary committee and party committee of GPL, and the secretary of disciplinary Committee and deputy secretary of the Party Committee of the Company. Mr. Xian has extensive experience in economic management and party affairs.

Directors, Supervisors, Senior Management and Staff

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

3. Supervisors *(Continued)*

Mr. Wu Quan, aged 58, is an undergraduate, senior political engineer, and a member of people's congress of Liwan District. Mr. Wu started his career in February 1976. Mr. Wu acted as chief officer of Cannon Camp and vice company commander of Guangdong Independent Division, advisor at deputy company commander level and advisor at company commander level for military equipment section under the command of Guangdong Zhangjiang Military Sub-area, advisor at a deputy battalion level, advisor at a battalion level, deputy section chief and section chief for military equipment section under the command of Guangdong Military Area, deputy secretary of the Party Committee, secretary of the Discipline Commission and secretary of the Party Committee of Cai Zhi Lin and Minister of the Ministry of Personnel (Organization Department) between June 2006 to March 2011. Mr. Wu is currently secretary of the Discipline Commission of the Company, director and secretary of the Party Committee of Guang Hua.

Ms. Wu Yan, aged 46, graduated from Murdoch University in Australia with a master degree in business administration. Ms. Wu is currently the vice president of the Guangdong University of Foreign Studies Audiovisual Press, and office director, party branch committee member and chairlady of labour union.

4. Senior management

Mr. Zhang Chunbo, aged 38. He holds a master degree of EMBA from Lingnan (University) College of Sun Yat-Sen University and is a druggist. Mr. Zhang was graduated from China Pharmaceutical University in July 2000 and started his career in the same year. In December 2010, he received a master degree of EMBA from Lingnan (University) College of Sun Yat-Sen University. He has served as the marketing officer and OTC manager of Guangzhou Baiyunshan Chinese Medicine Factory, the vice manager of second zone of Guangzhou Baiyunshan Chinese Medicine Factory, the vice manager of second zone, the assistant manager of sales department, the vice general manager of sales department, the vice general manager of operation department, the manager of sales department, the vice director of marketing department of HWBYS, the vice manager and the vice general manager of Zhong Yi. Mr. Zhang is currently served as the vice general manager of the Company, the chairman and the general manager of Zhong Yi. Mr. Zhang has extensive experience in corporate management and marketing.

Mr. Chen Jing, aged 31, served the secretary to the Board of the Company since 28 January 2014. He graduated from the School of Management of Huazhong University of Science and Technology in July 2008 with a master degree of accounting; once served in the Investment Banking Department of Guotai Junan Securities Co., Ltd.

Directors, Supervisors, Senior Management and Staff

(2) INFORMATION ON THE SHARES (A SHARE) HELD BY CURRENT AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN SHARES (A SHARES) OF THE COMPANY AS AT THE END OF THE REPORTING PERIOD

All directors, supervisors and senior management of the Company received the annual total emoluments from the Group, the Company's shareholder or other connected company amounted to RMB10,755,030 in 2014.

Name	Position (Notes)	Sex	Age	Commencement date of term of office	Ending date of term of office	Shares held			Reason for change	Emoluments	Emoluments
						as at the beginning of the Reporting Period (share)	Shares held as at the end of the Reporting Period (share)	Change in shares during the Reporting Period		received from the Company During the Reporting Period (RMB'000) (before tax)	received from the Company's shareholder During the Reporting Period (RMB'000)
1. Information on the shares (A Share) held by current directors, supervisors and senior management of the Company											
Li Chuyuan	Chairman	male	49	2010-06-28	2017-01-28	0	0	0	/	0	1,193.16
Chen Mao	Vice chairman	male	51	2014-01-28	2017-01-28	0	0	0	/	0	1,058.10
Liu Juyan	Executive director	female	50	2014-01-28	2017-01-28	0	0	0	/	0	962.44
Cheng Ning	Executive director	female	49	2012-09-19	2017-01-28	0	0	0	/	0	956.14
Ni Yidong	Executive director	male	43	2014-01-28	2017-01-28	0	0	0	/	0	975.51
Wu Changhai	Executive director	male	49	2010-06-28	2017-01-28	0	0	0	/	966.37	0
Wang Wenchu	Executive director, deputy general manager	male	48	2014-01-28	2017-01-28	0	0	0	/	883.09	0
Wong Lung Tak Patrick	Independent non-executive director	male	67	2010-06-28	2017-01-28	0	0	0	/	80.00	0
Qiu Hongzhong	Independent non-executive director	male	58	2010-06-28	2017-01-28	0	0	0	/	80.00	0
Fang Shuting	Independent non-executive director	male	67	2014-01-28	2015-03-17	0	0	0	/	73.33	0
Chu Xiaoping	Independent non-executive director	male	59	2014-01-28	2017-01-28	0	0	0	/	73.33	0
Jiang Wenqi	Independent non-executive director	male	57	2015-03-17	2017-01-28	0	0	0	/	0	0
Xian Jiaxiong	Chairman of the Supervisory Committee	male	55	2014-01-28	2017-01-28	0	0	0	/	0	922.21
Wu Quan	Supervisor	male	58	2007-06-15	2017-01-28	0	0	0	/	738.31	0
Wu Yan	Supervisor	female	46	2014-01-28	2017-01-28	0	0	0	/	27.50	0
Zhang Chunbo	Deputy general manager	male	38	2015-01-12	2017-01-28	0	0	0	/	781.37	0
Chen Jing	Secretary to the Board	male	31	2014-01-28	2017-01-28	0	0	0	/	402.24	0

Directors, Supervisors, Senior Management and Staff

(2) INFORMATION ON THE SHARES (A SHARE) HELD BY CURRENT AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN SHARES (A SHARES) OF THE COMPANY AS AT THE END OF THE REPORTING PERIOD (Continued)

Name	Position (Notes)	Sex	Age	Commencement date of term of office	Ending date of term of office	Shares held			Reason for change	Emoluments	Emoluments
						as at the beginning of the Reporting Period (share)	Shares held as at the end of the Reporting Period (share)	Change in shares during the Reporting Period		received from the Company During the Reporting Period (RMB'000)	received from the Company's shareholder During the Reporting Period (RMB'000)
2. Information on the shares (A Share) held by resigned directors, supervisors and senior management of the Company											
Liu Jinxiang	Independent non-executive director	male	74	2007-06-15	2014-01-28	0	0	0	/	6.67	
Li Shanmin	Independent non-executive director	male	52	2007-06-15	2014-01-28	0	0	0	/	6.67	
Zhang Yonghua	Independent non-executive director	male	56	2007-06-15	2014-01-28	0	0	0	/	6.67	
Yang Xiuwei	Chairlady of the Supervisory Committee	female	56	2007-06-15	2014-01-28	0	0	0	/	-	
Zhong Yugan	Supervisor	male	59	2004-03	2014-01-28	0	0	0	/	2.50	
Su Guangfeng	Deputy general manager	male	50	2005-06	2014-01-28	0	0	0	/	360.38	
Pang Jianhui	Secretary to the Board	male	42	2008-07	2014-01-28	0	0	0	/	199.04	
Total	/	/	/	/	/	0	0	0	/	4,687.47	6,067.56

Notes:

- The emoluments of Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning and Mr. Ni Yidong for the Year were the emoluments they received from the Company's shareholder included the remuneration for 2014, clearing amounts of annual salaries in the previous year and special rewards granted by the government department.
- The emoluments of Mr. Wu Changhai, Mr. Wu Quan and Mr. Su Guangfeng for the Year was the total emoluments be received from the Company and subsidiaries of the Company.
- The emoluments of Mr. Liu Jinxiang, Mr. Wong Lung Tak Patrick, Mr. Li Shanmin, Mr. Zhang Yonghua, Mr. QiuHongzhong, Mr. Zhong Yugan, and Mr. Pang Jianhui for the Year were the emoluments they received from the Company.
- The emoluments of Mr. Zhang Chunbo for the Year was the total emoluments he received from the Company and subsidiaries of the Company.

(ii) INFORMATION ON THE EQUITY INCENTIVE GIVEN TO THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Applicable Not applicable

Directors, Supervisors, Senior Management and Staff

(2) INFORMATION ON THE SHARES (A SHARE) HELD BY CURRENT AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN SHARES (A SHARES) OF THE COMPANY AS AT THE END OF THE REPORTING PERIOD *(Continued)*

(iii) INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2014, 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.

(3) INFORMATION ON THE OFFICE HOLDING OF CURRENT AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

(1) Situation of service in the Company's shareholder

Name	Shareholder	Position in shareholder	Commencement date of term of office	Ending date of term of office
Li Chuyuan	GPHL	Chairman	July 2013	/
		Secretary of the party committee	June 2013	/
Chen Mao	GPHL	Vice chairman, general manager, deputy secretary of the party committee	July 2013	/
Liu Juyan	GPHL	Deputy general manager	January 2011	/
		Chief engineer	August 2005	/
Cheng Ning	GPHL	Deputy general manager	July 2012	/
		Chief Financial Officer	May 2010	/
Ni Yidong	GPHL	Deputy general manager	July 2012	/
Xian Jiaxiong	GPHL	Deputy secretary of the party committee, secretary of discipline committee	November 2012	/

(2) Information on emoluments of directors, supervisors and senior management of the Company

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

(4) THE APPOINTMENT OR RESIGNATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE REPORTING PERIOD AND AFTER THE REPORTING PERIOD

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

Each of them will have a term of office commencing from his date of election up to the date when members of the new session of the Board and Supervisory Committee are elected.

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

- (ii) The 1st meeting of sixth session of the Board held on 28 January 2014 resolved to elect Mr. Li Chuyuan as the chairman of the Company and Mr. Chen Mao as the vice chairman.

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

Each of them will have a term of office commencing from his date of election up to the date when members of the new session of the Board are elected.

- (iii) In the first meeting of sixth session of the Board held on 28 January 2014, the Board resolved to approve Mr. Pang Jianhui's resignation as the joint company secretary with effect from 28 January 2014. Ms. Lee Mei Yi, the other joint company secretary of the Company, would act as the sole company secretary of the Company. Ms. Lee Mei Yi meets the requirement to be the sole company secretary. Mr. Chen Jing served as the internal contact person of the Company.
- (iv) The first meeting of sixth session of the Board resolved to elected Mr. Xian Jiaxiong as the chairman of the sixth session of the of Supervisory Committee. His term of office commencing from his date of election up to the date when members of the new session of the Supervisory Committee are elected.
- (v) On 24 December 2014, Mr. Fang Shuting, an independent non-executive Director applied for resignation from the position of independent non-executive Director and the members of the committees of the Board. Mr. Fang Shuting's resignation will come into effect the new independent non-executive director was elected.

Directors, Supervisors, Senior Management and Staff

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

- (vi) The 1st meeting of sixth session of the Board resolved to elected Mr. Wu Changhai, Mr. Wang Wenchu and Mr. Zhang Chunbo as the deputy general manager of the Company, each of them will have a term of office which was the same as the members of the sixth session of the Board, commencing from 12 January 2015 up to the date when new members of the new session of the Board are elected.
- (vii) The first extraordinary general meeting in 2015 held on 13 March 2015 resolved to elected Mr. Jiang Wenqi as the independent non-executive director of the Company. His term of office commencing from 17 March 2015 up to the date when members of the new session of the Board are elected. The 9th meeting of sixth session of the Board resolved to appoint Mr. Jiang Wenqi as a member of each of the Audit Committee, Nomination and Remuneration Committee and Budget Committee. Mr. Fang Shuting's resignation came into effect at the same day.

(5) SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors and supervisors of the sixth session has entered into a written service contract with the Company. The contract term commenced from 28 January 2014 (the contract term of Mr Jiang Wenqi commenced from 17 March 2015) up to the date when members of the seventh session of the Board are elected.

Directors and Supervisors of the Company will have a term of office commencing from his date of election up to the date when members of the new session of the Board are elected. The term of each session of the Board or the Supervisory Committee is three years. All directors and supervisors are eligible to offer themselves for re-election.

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

(6) INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS

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

(7) 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 enquiries to all the directors and supervisors, the Company confirmed that its directors and supervisors had fully complied with the standards relating to directors' and supervisors' dealing in securities as set out in the above code and criteria during the Reporting Period.

Directors, Supervisors, Senior Management and Staff

(8) EMPLOYEES OF THE GROUP

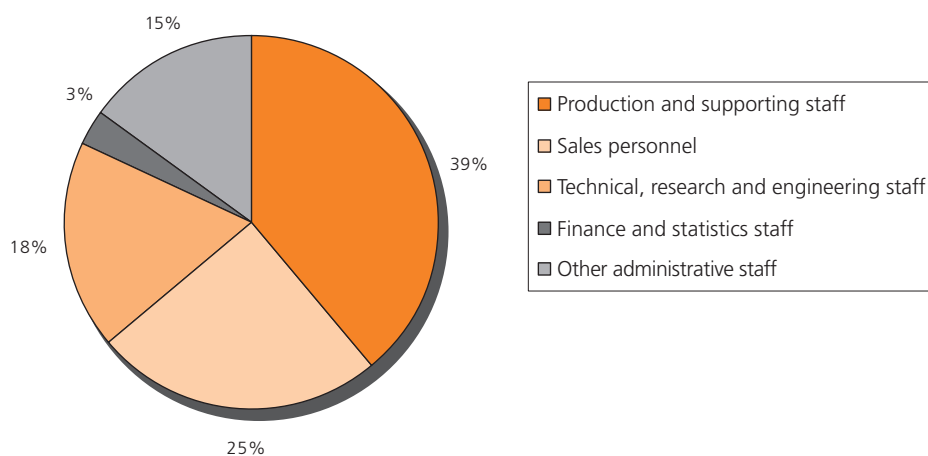
(i) Information on the employees

Employees of the Company	171
Employees of the major subsidiaries	12,025
Total	12,196
Retired workers of the Company and major subsidiaries whose expenses were assumed by the Company and major subsidiaries	8,947
Gross payroll of the Group	RMB1,139 million

Category	Component	Number
Production staff		4,829
Sales personnel		3,000
Technical staff		2,184
Finance staff		325
Administrative staff		1,858
Total		12,196

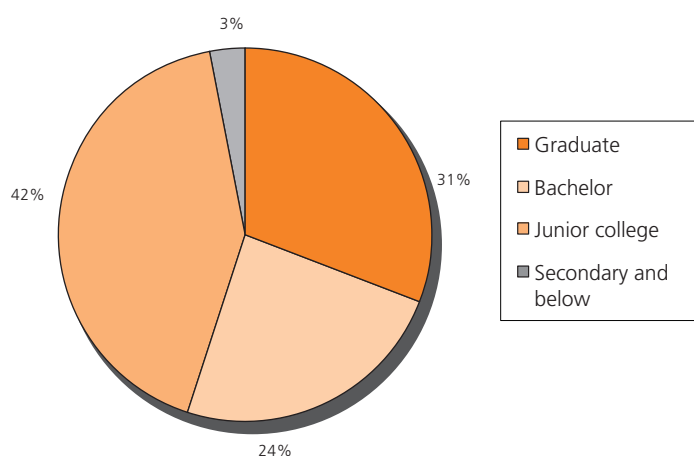
Category	Educational Level	Number
Graduate		327
Post-Bachelor		3,759
Junior college		2,986
Secondary and below		5,124
Total		12,196

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



(8) EMPLOYEES OF THE GROUP (Continued)

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



(ii) Emolument policy

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

(iii) Training program

The Group realised the great importance to improving the overall quality of its staff and has formulated various plans for talent training, thereby constantly enhancing corporate management standards and market competitiveness. In 2014, the Group carried out relevant training in accordance with the integrated management system and ensured the normal operation of various systems as required.

In line with the development needs of the Group to implement the knowledge update project for professional and technical personnel, strengthen enterprise management and comprehensively improve the overall quality, in 2015, the Group will, on the basis of corporate needs, leveraging on innovative methods and take quality improvement as its goal to continue to widen training channels, promote coordinated development of the scale, quality and efficiency of training. Firstly, the Group will thoroughly carry out training for high level operation management talents based on the actual needs of the enterprise. Secondly, the Group will train all staff and carry out pre-job training for college graduates to enhance the awareness of the staff in teamwork and improve work standards. Thirdly, the Group will improve its internal trainer team and build a continuing education platform for professionals to promote staff development through multiple channels.

(1) CORPORATE GOVERNANCE AND INSIDERS REGISTRATION MANAGEMENT

- (i) The Company has been strictly complying with the Company Law of the PRC, the Securities Law of the PRC, related laws and regulations of the CSRC and the Listing Rules of the SSE and the HKEx to continuously improve the management structure, strengthen the work of information disclosure and regulate the operations of the Company.

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

During the Reporting Period, the Company complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules ("CG Code") and the code provisions of the CG Code except that (i) former independent non-executive directors, namely Mr. Liu Jingxiang and Mr. Li Shanmin, were unable to attend the extraordinary general meeting due to other important matters which constituted a deviation from code provision A.6.7, and (ii) an independent non-executive director, namely Mr. Qiu Hongzhong, was unable to attend the general meeting in 2013 due to other important matters which constituted a deviation from code provision A.6.7.

The Board keep monitoring and reviewing the Company's corporate governance practices continuously 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 Chinese and western patent medicine, chemical active pharmaceutical ingredients (API), natural medicine, biological medicine and chemical API intermediates; (2) wholesale, retail and import and export of western and Chinese pharmaceutical products and medical apparatus; (3) research and development, production and sales of great health products; and (4) investment in health industry with healthcare, health management and health nursing, etc. 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 2014 is set out in the section headed "Report of the Board" in this annual report.

(ii) Establishment and implementation of insider information management

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

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

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

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

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

(2) SHAREHOLDERS AND GENERAL MEETINGS OF SHAREHOLDERS

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

Shareholders of the Company enjoy the following rights according to the Articles of Association and the Rules of Procedures of the General Meetings of the Company:

- (1) Shareholders can convene the general meeting of shareholders at 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 are entitled to information, 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 announcing 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 included in the agenda of the meeting.

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

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

- (1) Shareholders should direct their questions about their shareholdings to the Company's share registrar (H share) or to the designated securities branch (A share);
- (2) Shareholders and investors may request for the Company's information at any time;
- (3) The Company shall provide the designated contact person, e-mail address and enquiry channels of the Company to the shareholders and investors, so as to facilitate them to make reasonable enquires to the Company.

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

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

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

Information on the general meetings held during the Reporting Period is set out below:

Session and number of meeting	Date of meeting	Resolutions	Passed or not	Newspapers for publication of the resolutions	Disclosure date
The First Extraordinary General Meeting in 2014	28 January 2014	The resolution on proposed amendments to the Articles of Association of the Company; The resolution in relation to the amendment to the Rules of Procedures for the Board of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited; The resolution in relation to the election by cumulative voting of Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong, Mr. Wu Changhai, Mr. Wang Wenchu, Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong, Mr. Chu Xiaoping and Mr. Fang Shuting as members of the sixth session of the Board and Mr. Xian Jiaxiong, Ms. Wu Yan and Mr. Wu Quan as members of the sixth session of the Supervisory Committee of the Company; Provision of guarantees by the Company to secure bank loans amounted to RMB1 billion for Guangzhou Baiyunshan Pharmaceutical Hong Kong Company Limited, the wholly-owned subsidiary of the Company.	Passed	Shanghai Securities News, Securities Times, China Securities News, Securities Daily	29 January 2014

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

Session and number of meeting	Date of meeting	Resolutions	Passed or not	Newspapers for publication of the resolutions	Disclosure date
2013 Annual General Meeting	26 January 2014	Report of the board of directors (the "Board") of the Company for year 2013; Report of the supervisory committee for year 2013; Financial reports of the Company for year 2013; Auditors' reports of the Company for year 2013; Proposal for profit distribution and dividend payment of the Company for year 2013; Financial budget report of the Company for year 2013; Total service emoluments to be paid to the directors of the Company for year 2014; Total service emoluments to be paid to the supervisors of the Company for year 2014; Provision of guarantees by the Company to secure bank loans for its subsidiaries; Provision of guarantees by Guangzhou Baiyunshan Bai Di Bio-technology Co., Ltd., a subsidiary of the Company, to secure bank loans for Guangzhou Nuo Cheng Bio-technology Co., Ltd; Provision on the Company applying for the bank loans no more than RMB2 billion; Further appointment of BDO China Shu Lun Pan Certified Public Accountants LLP as auditors of the Company for year 2014, and the proposal to the shareholders' meeting to authorize the Board to determine their remuneration; Further appointment of BDO China Shu Lun Pan Certified Public Accountants LLP as auditors for the internal control of the Company for year 2014, and the proposal to the shareholders' meeting to authorize the Board to determine their remuneration; Daily connected transactions forecast of the Company and Guangzhou Wang Lao Ji Pharmaceutical Company; The resolution on proposed amendments to the Articles of Association of the Company; and Limited.; The resolution on proposed amendments to the Articles of Association of the Company; The resolution on proposed execution of Agreement on Compensation of Net Profit.			27 June 2014

Relationship between the Controlling Shareholder and the Company

GPHL, as the controlling shareholder of the Company, exercises its powers and undertakes its obligations in accordance with the laws, and has not acted beyond the general meetings to interfere directly or indirectly in the Company's operations. The Company and GPHL are separate 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 can operate independently.

(3) BOARD OF DIRECTORS

(1) Composition

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

The present Board is the sixth session since the establishment of the Company and is comprised of 11 members, including Mr. Li Chuyuan (chairman), Mr. Chen Mao (vice chairman), Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong, Mr. Wu Changhai and Mr. Wang Wenchu as executive directors, and Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong, Mr. Fang Shuting and Mr. Chu Xiaoping as independent non-executive directors. On 24 December 2014, Mr. Fang Shuting, an independent non-executive Director applied for resignation from the positions of independent non-executive director and the members of the committees of the Board.

Mr. Jiang Wenqi was elected as the independent non-executive director of the Company at the first extraordinary general meeting in 2015 held on 13 March 2015, each of the current directors (except Mr. Jiang Wenqi) will have a term of office commencing from 28 January 2014 up to the date when members of the new session of the Board are elected. Mr. Jiang Wenqi will have a term of office commencing from 17 March 2015 up to the date when members of the new session of the Board are elected.

The Board shall exercise the following powers:

- (1) convening general meetings of shareholders, and report to the general meetings;
- (2) implementing the resolutions of the general meeting;
- (3) formulating the business plan and investment scheme of the Company;
- (4) formulating the annual financial budget and financial accounting policy of the Company;
- (5) formulating the profit distribution policy and loss recovery policy of the Company;
- (6) formulating the policy of increase or reduction of registered capital and the policy on issue of corporate bonds of the Company;

(3) BOARD OF DIRECTORS *(Continued)*

(1) Composition *(Continued)*

- (7) formulating 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) employing and dismissing of the general manager of the Company; based on the recommendation of the general manager, employing and dismissing the deputy general managers, financial controller, other senior management personnel and secretary to the Board of the Company; and determining their remunerations;
- (10) formulating the basic management system of the Company;
- (11) formulating the proposal on amendments to the Articles of Association;
- (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) managing the disclosure of information of the Company;
- (15) proposing to the general meeting of shareholders on appointment or replacement of accounting firm responsible for the auditing of 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 terms of office. All independent non-executive directors are independent persons, and are not connected with the Company and its substantial shareholders. Their terms of office shall not exceed six years.

(3) BOARD OF DIRECTORS *(Continued)*

(1) Composition *(Continued)*

The role of the 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 by the Board. During the Reporting Period, the chairman of the Board is Mr. Li Chuyuan and the general manager is Mr. Wu Changhai. Mr. Wu Changhai ceased to be the general manager from 28 January 2014, the position of general manager has not been filled. The daily operation management of the Company would be supervised by executive directors and senior management.

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

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

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

The Board is responsible for performing the following corporate governance duties:

- (a) to formulate and review the Company's policies and practices on corporate governance;
- (b) to review and monitor the training and continuous professional development of Directors and senior management;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(3) BOARD OF DIRECTORS (Continued)

(1) Composition (Continued)

- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- (e) to review the Company's compliance with the Listing Rules and disclosure of Corporate Governance Report.

(2) Board Meetings

In 2014, seven Board meetings were held (of which four were physical meetings and three meetings were by way of written resolutions) at which the investment projects, connected transactions and financial matters of the Group were discussed. Effective discussions and prudent decisions were made at such meetings.

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

Directors	Independent directors	The attendance of Directors at Board meetings					The attendance of Directors at Shareholders' meetings		
		Meetings should attend	Meetings attended in person	Meetings attended by phone (note)	Meetings attended by proxy	Absence	Whether is unable to attend two consecutive meetings in person	Required meeting attendance for the Year	The independent directors of the Company relating to the proposed description is adopted
Li Chuyuan	No	7	6	1	0	0	No	2	2
Chen Mao	No	7	6	1	0	0	No	1	1
Liu Juyan	No	7	6	0	1	0		1	1
Cheng Ning	No	7	7	0	0	0	No	2	2
Ni Yidong	No	7	7	0	0	0	No	1	0
Wu Changhai	No	7	7	0	0	0	No	2	2
Wang Wenchu	No	7	6	0	1	0	No	1	0
Wong Lung Tak Patrick	Yes	7	5	2	0	0	No	2	2
Qiu Hongzhong	Yes	7	6	0	1	0	No	2	1
Fang Shuting	Yes	7	3	2	2	0	No	1	1
Chu Xiaoping	Yes	7	6	0	1	0	No	1	1
Liu Jinxiang	Yes	0	0	0	0	0	No	1	0
Li Shanmin	Yes	0	0	0	0	0	No	1	0
Zhang Yonghua	Yes	0	0	0	0	0	No	1	1

Note: Meetings attended by phone is regarded as attending in person.

(3) BOARD OF DIRECTORS *(Continued)*

(3) Independent non-executive directors

Currently, the Company has 4 independent non-executive directors, representing more than 1/3 of the total members of the Board. All the independent non-executive directors of the Company are familiar with the rights and obligations of directors and independent non-executive directors of listed companies. During the Reporting Period, the independent non-executive directors strictly complied with the provisions in the Company's Articles of Association, "Rules of Procedures of the Board", "System on Independent Directors" and "The Annual Reporting System of Independent Directors", faithfully and diligently discharging 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 the general meetings of shareholders and gave scope to their experience and strengths. They had done a lot of work to improve the Company's corporate governance and material decision-making, and had expressed impartial and objective opinions on relevant matters, thus effectively safeguarding the interests of the shareholders as a whole. All of the 4 independent non-executive Directors were members of the special committees formed under the Board.

During the Reporting Period, the independent non-executive Directors expressed their independent views on the connected transactions entered into 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 on the Board resolutions or otherwise.

The Board received from each of the independent non-executive Directors a confirmation letter with regard to his independence pursuant to Rule 3.13 of the Listing Rules of the HKEx. The Board considered that the existing independent non-executive Directors are independent in accordance with the requirements set out in Rule 3.13 of the Listing Rules of the HKEx.

Pursuant to the "Notice on preparation of the 2014 Annual Report in an orderly manner by Listed Companies" issued by SSE on 31 December 2014, the independent non-executive Directors studied the relevant requirements set out in the Notice seriously. The Company reported to the independent non-executive directors on production and operation issues and the progress of major events, and submitted an action plan in relation to the preparation of the 2014 annual report and auditing work and relevant information. After completion of the preliminary auditing work by the Company's accountants, the independent non-executive Directors communicated with the auditors regarding issues related to the auditing process.

(4) Loan or guarantee for loan granted to Directors

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

(4) COMMITTEES OF THE BOARD

(1) Audit Committee

In August 1999, the Company established the Audit Committee. Its principal responsibilities include: to review and monitor the quality, 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 sixth session of the Board comprised Mr. Wong Lung Tak Patrick (chairman of the Audit Committee), Mr. Qiu Hongzhong, Mr. Fang Shuting and Mr. Chu Xiaoping. It was approved at the ninth meeting of the sixth session of the Board held on 13 March 2015 that Mr. Fang Shuting be replaced by Mr. Jiang Wenqi as a member of the Audit Committee. As at the date of this summary, the Audit Committee comprised Mr. Wong Lung Tak Patrick (chairman of the Audit Committee), Mr. Qiu Hongzhong, Mr. Chu Xiaoping and Mr. Jiang Wenqi. All four of them were independent non-executive Directors and were qualified under the relevant requirements. Among whom, the term of office of Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong and Mr. Chu Xiaoping commenced from 28 January 2014 to the date of election of the new session of the Board. The term of office of Mr. Jiang Wenqi commenced from 17 March 2015 to the date of election of the new session of the Board.

The principal work finished by the Audit Committee in 2013 including:

- (1) held two meetings in 2014 to review the 2013 Annual Report and 2014 Interim Report of the Group as well as the recommendations on management issued by external auditors and the respective response by the management. Each of the members of the committee attended all the meetings;
- (2) reviewed the accounting policies adopted by the Group and the relevant issues regarding accounting practice;
- (3) advised the Board on the annual re-appointment of audit firm;
- (4) advised the Company on major events of the Company or reminded the management to be aware of relevant risks.

The work on the annual audit for 2014 and relevant jobs regarding the preparation of the Annual Report are as follows:

(4) COMMITTEES OF THE BOARD *(Continued)*

(1) Audit Committee *(Continued)*

In accordance with the issue of “Notice on preparation of the 2014 Annual Report in an orderly manner by Listed Companies” by SSE on 31 December 2014, all the members of the Audit Committee reviewed the relevant requirements seriously. The Audit Committee actively coordinate with the Company in respect of the audit for 2014 and the preparation of the annual report for 2014 in pursuance of the Rules on the Annual Report of the Audit Committee, including:

- (1) The Committee negotiated with the auditors of the Company and the Company’s Finance Department regarding the time line for audit and the relevant arrangements and set out the “Action plan for the Preparation of 2014 Annual Report” and reviewed the audit plan submitted by the auditors.
- (2) On 16 March 2015, the Audit Committee reviewed the draft of the financial reports prepared by the Company and issued written recommendations thereon.
- (3) After the auditors’ completion of the preliminary auditing work, the Audit Committee reviewed the financial reports again and issued written recommendations regarding the audit work. The Audit Committee believed that the 2014 financial reports of the Company reflected the state of affairs of the Company truly, accurately and fairly, and agreed to submit the reports to the Board for approval.
- (4) On 19 March 2015, the Audit Committee convened the first meeting in 2015 and considered and approved the 2014 Annual Report of the Company and the Company’s 2014 financial report and the re-appointment of auditor for year 2014 and the auditor on internal control for 2014. At the same time, the Audit Committee finalized its evaluation on the audit work of the auditor and believed 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 on time, as well as having issued fair and unbiased management recommendations to the management of the Company, and completed the audit work satisfactorily.

(4) COMMITTEES OF THE BOARD *(Continued)*

(2) Strategic Development and Investment Committee

In February 2001, the Company established the investment management committee, which was renamed as strategic development and investment committee as approved at the fourth Board meeting of the fourth session of the Board. Its principal responsibilities are to research and issue recommendations on the long-term strategic development and significant investment decisions of the Company and, with authorization from the Board, to examine and approve the proposed investment projects of the Company.

The strategic development and investment committee of the sixth session of the Board comprised Mr. Li Chuyuan (chairman of the committee), Mr. Chen Mao, Ms. Liu Juyan, Mr. Qiu Hongzhong and Mr. Chu Xiaoping. The terms of office of the aforementioned committee members commenced from the date of their appointments on 28 January 2014 to the date on which the members of the new session of the Board are elected. During the Year, the strategic development and investment committee held four meetings. All the committee members attended the meetings.

(3) Nomination and Remuneration Committee

In February 2002, the Company established the Remuneration & Evaluation Committee, which was renamed as Nomination and Remuneration Committee as approved at the fourth Board meeting of the fourth session of the Board. Its principal responsibilities are to study and examine the remuneration policies and proposals for 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 looking 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 recommendations to the Board.

The Nomination and Remuneration Committee of the sixth session of the Board comprised Mr. Chu Xiaoping (chairman of the committee), Mr. Ni Yidong, Mr. Wu Changhai, Mr. Wong Lung Tak Patrick and Mr. Fang Shuting. It was approved at the ninth meeting of the sixth session of the Board held on 13 March 2015 that Mr. Fang Shuting be replaced by Mr. Jiang Wenqi as a member of the Nomination and Remuneration Committee. Currently, the Nomination and Remuneration Committee of the sixth session of the Board comprised Mr. Chu Xiaoping, Mr. Ni Yidong, Mr. Wu Changhai, Mr. Wong Lung Tak Patrick and Mr. Jiang Wenqi. The terms of office of Mr. Chu Xiaoping, Mr. Ni Yidong, Mr. Wu Changhai, Mr. Wong Lung Tak Patrick commenced from 28 January 2014 to the date on which the members of the new session of the Board are elected. The terms of office of Mr. Jiang Wenqi commenced from 17 March 2015 to the date the members of the new session of the Board are elected.

(4) COMMITTEES OF THE BOARD *(Continued)*

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

During the Reporting Period, the Nomination and Remuneration Committee held one meeting at which resolution on the remuneration of the directors, supervisors and senior management for the year 2014 was approved. All members were present at the meeting.

The Company has formulated the Diversified Policies for the Board Members, which was approved at the Board meeting held on 26 September 2013 and had been implemented. Pursuant to the Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Board will consider to set measurable objectives to implement the Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

As of the end of the report Period, there was no trading of shares of the Company by insiders of the Nomination and Remuneration Committee based on any insider information before the disclosure of material price sensitive information.

(4) **Budget Committee**

In October 2007, the Company established the Budget Committee as approved at the fourth Board meeting of the fourth session of the Board. Its principal responsibilities are to provide guidance on the formulation of the annual budgeting plans and business objectives of the Company and to supervise and inspect their implementations.

The Budget Committee of the sixth session of the Board comprised Mr. Qiu Hongzhong (chairman of the Committee), Ms. Cheng Ning, Mr. Wang Wenchu, Mr. Wong Lung Tak Patrick and Mr. Fang Shuting. It was approved at the ninth meeting of the sixth session of the Board held on 13 March 2015 that Mr. Fang Shuting be replaced by Mr. Jiang Wenqi as a member of the Budget Committee. Currently, the Budget Committee of the sixth session of the Board comprised Mr. Qiu Hongzhong, Ms. Cheng Ning, Mr. Wang Wenchu, Mr. Wong Lung Tak Patrick and Mr. Jiang Wenqi. The terms of office of Mr. Qiu Hongzhong, Ms. Cheng Ning, Mr. Wang Wenchu, Mr. Wong Lung Tak Patrick commenced from 28 January 2014 to the date on which the members of the new session of the Board are elected. The term of office of Mr. Jiang Wenqi commenced from 17 March 2015 to the date on which the members of the new session of the Board are elected.

On 10 March 2014, the Budget Committee held the first meeting in 2014. All members were present at the meeting. Resolutions on the annual operational objective and budget scheme in 2014 of the Company and budget plan of the year 2014 were approved.

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

(5) SUPERVISORY COMMITTEE

1. During the Reporting Period, the Supervisory Committee monitored the convening of the Board meetings and shareholders' meetings and the resolutions passed thereat and the implementations of the resolutions passed at the shareholders' meetings by the Board. The Supervisory Committee has no dissenting view on the reports and resolutions submitted by the Board to the shareholders' meetings. The Supervisory Committee considered that the Company was operated in compliance of the Companies Law, the Securities Law, the respective listing rules of the two stock exchanges, the Articles of Association and other relevant rules and system, the Company has conscientiously implemented the relevant resolutions of the shareholders' meetings, has kept improving the internal management and control system, has established a sound internal management and control system. The Directors and the members of the senior management have conscientiously discharged their duties and have not breached any laws, rules, the Articles of Association or harmed the interest of the Company and the shareholders when discharging their duties.
2. During the Reporting Period, the Supervisory Committee held five meetings, all supervisors attended the meetings.
3. During the Reporting Period, the Supervisory Committee has conscientiously reviewed the financial statements and other financial information of the Company, and considered that the Company's financial statements were fairly presented, the auditing and financial management were in line with the relevant regulations and had not discovered any issues. The auditor issued their standard and unqualified auditor's reports after auditing the accounts of the Group and the Company for the year ended 31 December 2014, which reflected an objective, true and fair view of the financial status of the Company as at 31 December 2014 and the operations results of the Group for the year.
4. The Supervisory Committee has no dissenting views on the matters subject to their supervision during the Reporting Period.

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

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

(7) THE ESTABLISHMENT AND IMPLEMENTATION OF SUCH ASSESSMENT MECHANISM AND INCENTIVE MECHANISM FOR THE SENIOR MANAGEMENT OFFICERS DURING THE REPORTING PERIOD.

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

(8) OTHERS

1. Other stakeholders

The Company respected and safeguarded the interests of the stakeholders and realized the balance of interests among the shareholders, employees and the society. At the same time, the Company also pays attention on environmental protection, public welfare and other issues and economic to mutually promote the sustainable and sound development of the Company in economic activities.

2. Information disclosure and management of relationship with investors

The Company delegated the secretary to the Board with the responsibility for handling the Company's information disclosure, arranging company visits and answering enquiries from shareholders and investors and responding to correspondence from shareholders in a timely manner. The Company has designated Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報) and Securities Daily (證券日報) in the PRC to publish the Company's information and disclose such at websites designated by the SSE and the HKEx and the Company's website. The Company continues to disclose information in a truthful, accurate, comprehensive and timely manner in strict compliance with the relevant rules and regulations and the Code of Information Disclosure of the Company, and make preserve confidentiality before disclosure. The Company also ensures that all shareholders have fair and justice access to information relating to the Company.

Internal Control Systems

(1) INFORMATION ON THE ESTABLISHMENT OF THE INTERNAL CONTROL SYSTEMS

The Company has been committed to reinforcing the promotion of internal control and establishing of internal control system. According to the requirements of the “Basic Rules of Corporate Internal Control” and “Application Guideline for Corporate Internal Control” and taking into account the features of the Company’s operation and management needs, the Company has established a series of management systems in areas such as capital purchases, 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.

The Company absorbed and merged the Guangzhou Baiyunshan Pharmaceutical Co., Ltd. in 2013, formulated the Work Plan of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited for Implementation of the 2014 Internal Control supervision after Re-organization and Merged into Enterprises, which was required to carry out the enterprise internal control standard system synchronically, improved the internal control system. The Company compared the internal control standard, combined with the operating conditions, straightened up the business process comprehensively, made supplement and amendment to part of the system. During the Reporting Period, 65 new system were added and 70 were amended, all of which were enacted.

(2) DURING THE REPORT PERIOD, THE INTERNAL CONTROL ACTIVITIES CARRIED OUT BY THE COMPANY, INCLUDED:

- (1) The Company performed review on its internal control and fulfillment of social obligations for the year 2013 pursuant to the requirements of the “Notice on Preparation of the 2013 Annual Report in an orderly manner by Listed Companies” issued by the SSE. Accordingly, the Company prepared the “Self-assessment Report of the board of directors of the Company on Internal Control for 2013” and the “Report on Performance of Social Responsibilities for 2013”, both of which were disclosed after being considered and duly passed at the Board meeting held on 17 March 2014.
- (2) During the Reporting Period, the Company kept improving its internal control system and enhanced risk control, the works conducted by the Company included:
 - (i) The Company formulated the Work Plan of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited for Implementation of the 2014 Internal Control supervision after Re-organization and Merged into Enterprises, guided and assisted which was required to carry out the enterprise internal control standard system, redefine the framework of control standard process, formulated 101 standard business processes and amended the relevant contents of Internal Control Manual.

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

- (ii) The Company carried out the self-evaluation work synchronically in accordance with requirements of the Baseline Profile of Internal Control, Evaluation guidelines of Internal Control. During the Reporting Period, the Company formulated the Working Program on Evaluation of Internal Control for the Year 2014 of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited, organized the work on evaluation of internal control for the year 2014, evaluated the key control process of the Company and its subsidiaries through control testing and questionnaire, made rectification plan to the defects found in the evaluation of internal control and took the corrective action.
 - (iii) After the reorganization, the organizational structure and business structure of the Company had a significant change, the Company hired intermediary institutions to offer consultation services on the construction and improvement of internal control system, reorganize and improve the internal control process and system.
- (3) The Company amended the relevant provisions of the Articles of Association to improve the corporate governance structure. The institution was approved at the Board meeting held on 6 December 2013 and the extraordinary general meeting of 2014 held on 28 January 2014. Please refer to the circular dated 11 December 2013 for details of the amendments to the Articles of Association.
- (4) In order to further regulate the works on investor relation and to improve the structure of governance structure, the Company formulated the Working System of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited on Handling the Complaints from Investors, which was considered and approved at the Board meeting held on 16 April 2014.
- (5) In order to improve the system on returns to shareholders and dividend, the Company formulated the Plan of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited for Return Shareholders in the next Three Years (2014-2016), and revised relevant provisions in the Articles of Association. The above-mentioned system was carried out after it was considered and approved by the Board meeting held on 28 April 2014 and 2013 Annual General Meeting held on 26 June 2014, respectively. The details of revision were set out in the circular of the Company dated 9 May 2014.
- (6) After the Reporting Period, in order to enhance the management of investor relation, the Company formulated the Working System of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited for Investor.

(3) STATEMENT ON RESPONSIBILITIES FOR INTERNAL CONTROL

1. Statement of the Board on responsibilities for internal control

The objectives for internal control of the Company are to reasonably ensure that the operation and management of the Company are legal and in compliance with the law and regulations, assets are secured, financial reports and related information are true and complete so as to enhance the operation efficiency and efficacy, and assist the implementation of the 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 Rules 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 changes of internal and external environment.

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

- (1) the Board performed a self-evaluation on internal control for the year and formulated the Self-evaluation Report on Internal Control (full version is available on the website of the SSE) in accordance with the requirements of the “Notice on preparation of the 2014 Annual Report in an orderly manner by Listed Companies” issued by SSE on 31 December 2014.
- (2) The recommendation from the audit firm: BDO China Shu Lun Pan CPAs LLP considered that as at 31 December 2014, the Group has maintained effective internal control in its financial reporting in all material aspects, pursuant to the “Basic Rules of Corporate Internal Control” and relevant regulations.
- (3) The Company has appointed BDO China Shu Lun Pan CPAs LLP to review and assess on the Group’s internal control for the Year (full version is available on the website of the SSE).

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

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

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



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

Our Ref: XKSBZ[2015]No.410

Date: March 19, 2015

To the Board of Directors of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.:

We have audited the attached financial statements of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (hereinafter referred to as "the Company"), which comprise the balance sheet and consolidated balance sheet as at December 31, 2014, the income statement and consolidated income statement for the year then ended, the cash flow statement and consolidated cash flow statement for the year then ended, the statement of changes in equity and consolidated statement of changes in equity for the year then ended, as well as the notes to the financial statements.

I. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

II. AUDITOR'S RESPONSIBILITY

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

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

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



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

Our ref.: XinKuaiShiYueBaoZi[2015]No.410124

Date: 19 March 2015

III. OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2014, and the results of its operation and its cash flows for the year then ended in accordance with the Accounting Standards for Business Enterprises.

BDO CHINA SHU LUN PAN
Certified Public Accountants LLP

Shanghai, China

Chinese Certified Public Accountant
Zhang Ning

Chinese Certified Public Accountant
Zhang Xi

Consolidated Balance Sheet

As At 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	31 December 2014	31 December 2013
Current assets			
Cash at bank and on hand	5(1)	3,180,887,532.85	1,935,681,740.06
Financial assets at fair value through profit or loss	5(2)	4,686,023.00	3,362,667.20
Notes receivable	5(3)	1,465,748,952.32	1,326,353,755.90
Accounts receivable	5(5)	1,005,958,251.13	973,184,749.11
Advances to suppliers	5(7)	326,857,283.13	613,882,321.78
Interest receivable		–	–
Dividends receivable	5(4)	–	–
Other receivables	5(6)	306,276,760.40	181,145,718.26
Inventories	5(8)	2,578,594,687.08	2,245,829,748.05
Current portion of non-current assets		–	–
Other current assets	5(9)	20,039,514.77	19,347,581.15
Total current assets		8,889,049,004.68	7,298,788,281.51
Non-current assets			
Available-for-sale financial assets	5(10)	133,964,228.25	119,365,279.93
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments	5(11)	1,950,765,099.35	1,870,733,119.39
Investment properties	5(12)	235,751,593.75	246,309,245.37
Fixed assets	5(13)	1,824,151,461.75	1,731,881,945.85
Construction in progress	5(14)	441,809,706.14	335,422,694.18
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets	5(15)	395,201,774.39	368,856,694.63
Development costs	5(16)	4,252,391.49	3,716,517.68
Goodwill		–	–
Long-term prepaid expenses	5(17)	6,119,153.03	7,099,055.93
Deferred tax assets	5(18)	329,719,136.32	266,950,316.92
Other non-current assets		–	–
Total non-current assets		5,321,734,544.47	4,950,334,869.88
TOTAL ASSETS		14,210,783,549.15	12,249,123,151.39

Consolidated Balance Sheet

As At 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	31 December 2014	31 December 2013
Current liabilities			
Short-term borrowings	5(20)	560,530,090.45	509,651,500.77
Financial liabilities at fair value through profit or loss		–	–
Notes payable	5(21)	356,573,197.95	130,773,655.25
Accounts payable	5(22)	2,075,534,476.45	1,470,360,537.61
Advances from customers	5(23)	889,008,552.82	875,579,547.32
Employee benefits payable	5(24)	411,335,807.76	334,427,927.83
Taxes payable	5(25)	176,413,871.14	403,383,688.38
Interest payable	5(26)	236,666.66	675,414.98
Dividends payable	5(27)	46,931,687.19	113,513,301.13
Other payables	5(28)	1,544,962,787.77	1,211,712,507.04
Current portion of non-current liabilities		–	–
Other current liabilities		–	–
Total current liabilities		6,061,527,138.19	5,050,078,080.31
Non-current liabilities			
Long-term borrowings	5(29)	–	8,627,419.10
Debentures payable		–	–
Long-term payables	5(30)	22,361,807.40	22,215,752.40
Payables for specific projects	5(31)	19,058,160.00	19,058,160.00
Provisions	5(32)	500,191.19	500,191.19
Deferred income	5(33)	132,561,801.90	122,637,987.83
Deferred tax liabilities	5(18)	15,499,610.21	3,475,327.44
Long-term employee remuneration payable	5(34)	296,382.47	293,538.18
Total non-current liabilities		190,277,953.17	176,808,376.14
Total liabilities		6,251,805,091.36	5,226,886,456.45

Consolidated Balance Sheet

As At 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	31 December 2014	31 December 2013
Shareholders' equity			
Share capital	5(35)	1,291,340,650.00	1,291,340,650.00
Capital surplus	5(36)	2,486,283,953.95	2,486,910,770.01
Less: Treasury share		–	–
Other comprehensive Income	5(37)	11,878,304.70	(817,865.24)
Surplus reserve	5(38)	815,487,206.38	723,819,753.76
Undistributed profits	5(39)	3,134,310,417.34	2,330,514,583.35
Total equity attributable to shareholders of the Company		7,739,300,532.37	6,831,767,891.88
Minority interest	5(40)	219,677,925.42	190,468,803.06
Total shareholders' equity		7,958,978,457.79	7,022,236,694.94
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		14,210,783,549.15	12,249,123,151.39

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

Legal
representative: **Li Chuyuan**

Person in charge of
accounting function: **Wu Changhai**

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

Consolidated Income Statement

For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	For the year ended 31 December 2014	For the year ended 31 December 2013
1. Revenue	5(41)	18,799,880,604.61	17,608,193,312.31
Less: Cost of sales	5(41)	12,173,918,801.51	11,806,294,800.38
Taxes and surcharges	5(42)	154,481,898.08	148,250,638.48
Selling and distribution expenses	5(43)	3,942,791,257.58	3,485,311,357.52
General and administrative expenses	5(44)	1,265,267,891.95	1,227,255,352.75
Financial expenses	5(45)	1,719,825.32	28,305,296.93
Asset impairment losses	5(46)	61,172,466.77	12,914,064.93
Add: Profit arising from the changes in fair value	5(47)	1,323,355.80	486,747.20
Investment income	5(48)	160,983,192.15	219,725,064.77
Including: Share of profit of associates and jointly controlled entities		156,172,120.15	207,391,786.49
2. Operating profit		1,362,835,011.35	1,120,073,613.29
Add: Non-operating income	5(49)	182,072,994.55	125,847,060.45
Including: Gain on disposal of Non-current assets		240,591.74	115,668.82
Less: Non-operating expenses	5(50)	77,731,138.09	16,730,234.49
Including: Losses on disposal of non-current assets		8,962,017.61	3,776,158.49
3. Total profit		1,467,176,867.81	1,229,190,439.25
Less: Income tax expenses	5(51)	256,533,350.01	222,243,432.31
4. Net profit		1,210,643,517.80	1,006,947,006.94
– Attributable to owners' of the parent company		1,192,471,636.11	980,045,077.10
– Minority interest		18,171,881.69	26,901,929.84

Consolidated Income Statement

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	For the year ended 31 December 2014	For the year ended 31 December 2013
5. After-tax net income of other comprehensive income	5(36)	12,712,124.67	(1,517,010.51)
After-tax net income of other comprehensive income attributable to the parent company owner		12,696,169.94	(1,528,877.31)
– Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period		–	1,260,544.00
(1) Portion of items will not be classified into profit or loss when under equity method		–	1,260,544.00
– Items will be classified into profit or loss when satisfied with certain conditions at following accounting period		12,696,169.94	(2,789,421.31)
1) Portion of items will be classified into profit or loss when under equity method		233,768.27	(64,143.03)
2) Profit or loss arising from changes in fair value of available for sale financial assets		12,337,714.04	(1,634,656.82)
3) Differences arising from translation of foreign currency financial statements		124,687.63	(1,090,621.46)
After-tax net income of other comprehensive income attributable to minority shareholders equity		15,954.73	11,866.80

Consolidated Income Statement

For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	For the year ended 31 December 2014	For the year ended 31 December 2013
6. Total comprehensive income		1,223,355,642.47	1,005,429,996.43
(1) Total comprehensive income attributable to shareholders equity of parent company		1,205,167,806.05	978,516,199.79
(2) Total comprehensive income attributable to minority shareholders equity		18,187,836.42	26,913,796.64
7. Earnings per share			
(1) Basic earnings per share	5(52)(a)	0.923	0.768
(2) Diluted earnings per share	5(52)(b)	0.923	0.768

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

Legal
representative: **Li Chuyuan**

Person in charge of
accounting function: **Wu Changhai**

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

Consolidated Cash Flow Statement

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	For the year ended 31 December 2014	For the year ended 31 December 2013
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		18,383,074,240.87	16,271,441,218.47
Refund of taxes and surcharges		88,732,044.70	52,794,028.43
Cash received relating to other operating activities	5(53)(a)	439,889,890.67	299,465,582.00
Sub-total of cash inflows		18,911,696,176.24	16,623,700,828.90
Cash paid for goods and services		9,972,970,207.67	9,357,283,231.90
Cash paid to and on behalf of employees		2,883,702,814.78	2,414,203,686.86
Payments of taxes and surcharges		1,798,939,215.94	1,438,360,526.89
Cash paid relating to other operating activities	5(53)(b)	2,494,701,754.05	2,074,713,244.43
Sub-total of cash outflows		17,150,313,992.44	15,284,560,690.08
Net cash flows from operating activities	5(54)(a)	1,761,382,183.80	1,339,140,138.82
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		68,849,615.27	29,374,916.98
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		478,689.32	4,003,512.62
Cash received relating to other investing activities	5(53)(c)	5,830.38	257,916.74
Sub-total of cash inflows		69,334,134.97	33,636,346.34
Cash paid to acquire fixed assets, intangible assets and other long-term assets		353,647,623.56	350,345,602.25
Cash paid to acquire investments		–	4,050,000.00
Net cash paid to acquire subsidiaries		–	–
Cash paid relating to other investing activities	5(53)(d)	3,106,967.19	2,940,358.55
Sub-total of cash outflows		356,754,590.75	357,335,960.80
Net cash flows from investing activities		(287,420,455.78)	(323,699,614.46)

Consolidated Cash Flow Statement

For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	For the year ended 31 December 2014	For the year ended 31 December 2013
3. Cash flows from financing activities			
Cash received from capital contributions		15,265,919.00	7,151,685.03
Including: Cash received from capital contributions by minority shareholders of subsidiaries		14,465,919.00	5,800,000.00
Cash received from borrowings		753,177,412.19	587,332,488.38
Cash received relating to other financing activities		—	—
Sub-total of cash inflows		768,443,331.19	594,484,173.41
Cash repayments of borrowings		710,926,240.91	750,271,376.29
Cash payments for interest expenses and distribution of dividends or profits		420,611,623.65	55,901,780.51
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		10,762,428.02	19,102,518.85
Cash payments relating to other financing activities	5(53)(e)	903,862.86	—
Sub-total of cash outflows		1,132,441,727.42	806,173,156.80
Net cash flows from financing activities		(363,998,396.23)	(211,688,983.39)
4. Effect of foreign exchange rate changes on cash and cash equivalents		220,466.06	854,221.14
5. Net increase/(decrease) in cash and cash equivalents	5(54)(a)	1,110,183,797.85	804,605,762.11
Add: Cash and cash equivalents at beginning of year	5(54)(b)	1,918,952,286.86	1,114,346,524.75
6. Cash and cash equivalent at end of year	5(54)(b)	3,029,136,084.71	1,918,952,286.86

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

Legal representative: **Li Chuyuan**

Person in charge of accounting function: **Wu Changhai**

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

Item	Current period												
	Attributable to shareholders of the Company												Total shareholders' equity
	Other equity instruments				Capital surplus	Less: Treasury share	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Minority Shareholders' equity	
Share capital	Preferred shares	Sustainable debts	Others										
1. Balance at 31 December 2013	1,291,340,650.00	-	-	-	2,486,910,770.01	-	(817,865.24)	-	723,819,753.76	-	2,330,514,583.35	190,468,803.06	7,022,236,694.94
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Connections of prior year errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination involving enterprises under common control	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2014	1,291,340,650.00	-	-	-	2,486,910,770.01	-	(817,865.24)	-	723,819,753.76	-	2,330,514,583.35	190,468,803.06	7,022,236,694.94
3. Movements for the year ended 31 December 2014 (less: *)	-	-	-	-	(626,816.06)	-	12,696,169.94	-	91,667,452.62	-	803,795,833.99	29,209,122.36	936,741,762.85
(1) Total comprehensive income	-	-	-	-	-	-	12,696,169.94	-	-	-	1,192,471,636.11	18,187,836.42	1,223,355,642.47
(2) Capital contribution and withdrawal by shareholders	-	-	-	-	-	-	-	-	-	-	-	32,520,000.00	32,520,000.00
1. Common stock by shareholders	-	-	-	-	-	-	-	-	-	-	-	32,520,000.00	32,520,000.00
2. Capital contribution by owner of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment charged to equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	91,667,452.62	-	(388,675,802.12)	(21,631,477.08)	(318,639,826.58)
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	91,667,452.62	-	(91,667,452.62)	-	-
2. Appropriation to general risk provision	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	-	(297,008,349.50)	(21,631,477.08)	(318,639,826.58)
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer with in shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Current Appropriation	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Current apply	-	-	-	-	-	-	-	-	-	-	-	-	-
(6) Other	-	-	-	-	(626,816.06)	-	-	-	-	-	-	132,763.02	(494,053.04)
4. Balance at 31 December 2014	1,291,340,650.00	-	-	-	2,486,283,953.95	-	11,878,304.70	-	815,487,206.38	-	3,134,310,417.34	219,677,925.42	7,958,978,457.79

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

Item	Prior period												
	Attributable to shareholders of the Company												Total shareholders equity
	Other equity instruments				Capital surplus	Less: Treasury share	Other comprehensive income	Special reserve	Surplus reserve	General risk provision	Undistributed profits	Minority Shareholders equity	
Share capital	Preferred shares	Sustainable debts	Others										
1. Balance at 31 December 2013	810,900,000.00	-	-	-	1,695,458,308.24	-	711,012.07	-	787,731,574.82	-	2,271,551,430.93	189,611,229.10	5,755,963,555.16
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination involving enterprises under common control	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2014	810,900,000.00	-	-	-	1,695,458,308.24	-	711,012.07	-	787,731,574.82	-	2,271,551,430.93	189,611,229.10	5,755,963,555.16
3. Movements for the year ended 31 December 2014 (less: "-")	480,440,650.00	-	-	-	791,452,461.77	-	(1,528,877.31)	-	(63,911,821.06)	-	58,963,152.42	857,573.96	1,266,273,139.78
(1) Total comprehensive income	-	-	-	-	-	-	(1,528,877.31)	-	-	-	980,045,077.10	26,913,796.64	1,005,429,996.43
(2) Capital contribution and withdrawal by shareholders	480,440,650.00	-	-	-	795,936,263.43	-	-	-	(118,558,621.34)	-	(795,598,292.09)	5,800,000.00	370,020,000.00
1. Common stock by shareholders	480,440,650.00	-	-	-	795,936,263.43	-	-	-	(118,558,621.34)	-	(795,598,292.09)	5,800,000.00	370,020,000.00
2. Capital contribution by owner of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment charged to equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	55,083,461.99	-	(132,563,900.99)	(31,156,411.76)	(108,636,850.76)
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	55,083,461.99	-	(55,083,461.99)	-	-
2. Appropriation to general risk provision	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	-	(77,480,439.00)	(31,156,411.76)	(108,636,850.76)
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer within shareholders' equity	-	-	-	-	(4,643,606.69)	-	-	-	(436,661.71)	-	5,080,268.40	-	-
1. Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	(4,643,606.69)	-	-	-	(436,661.71)	-	5,080,268.40	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Current	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Current apply	-	-	-	-	-	-	-	-	-	-	-	-	-
(6) Other	-	-	-	-	159,805.03	-	-	-	-	-	-	(699,810.92)	(540,005.89)
4. Balance at 31 December 2014	1,291,340,650.00	-	-	-	2,486,910,770.01	-	(817,865.24)	-	723,819,753.76	-	2,330,514,583.35	190,468,003.06	7,022,236,694.94

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

Legal representative: **Li Chuyuan**

Person in charge of accounting function: **Wu Changhai**

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

Balance Sheet

As at 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	31 December 2014	31 December 2013
Current assets			
Cash at bank and on hand		760,953,902.80	462,902,261.84
Financial assets at fair value through profit or loss		4,686,023.00	3,362,667.20
Notes receivable		531,692,907.91	491,846,637.36
Accounts receivable	18(1)	115,396,194.29	134,987,242.57
Advances to suppliers		11,902,638.10	35,096,096.56
Interest receivable		–	–
Dividends receivable		239,842,960.38	213,565,667.45
Other receivables	18(2)	1,286,251,744.18	943,517,098.26
Inventories		417,737,175.23	372,106,673.49
Current portion of non-current assets		–	–
Other current assets		1,428,990.13	1,666,244.75
Total current assets		3,369,892,536.02	2,659,050,589.48
Non-current assets			
Available-for-sale financial assets		130,052,753.51	116,621,753.51
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments	18(3)	3,426,473,447.37	3,282,067,379.09
Investment properties		220,547,355.25	228,088,909.74
Fixed assets		509,020,867.81	458,451,623.08
Construction in progress		23,165,820.79	61,761,556.59
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets		276,928,145.01	266,747,080.35
Development costs		2,740,339.80	2,200,000.00
Goodwill		–	–
Long-term prepaid expenses		801,622.85	448,929.68
Deferred tax assets		38,813,158.39	36,608,854.15
Other non-current assets		–	–
Total non-current assets		4,628,543,510.78	4,452,996,086.19
TOTAL ASSETS		7,998,436,046.80	7,112,046,675.67

Balance Sheet

As at 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	31 December 2014	31 December 2013
Current liabilities			
Short-term borrowings		130,000,000.00	250,000,000.00
Financial liabilities at fair value through profit or loss		–	–
Notes payable		–	–
Accounts payable		226,935,320.01	210,276,551.36
Advances from customers		72,210,762.74	73,149,096.14
Employee benefits payable		81,845,401.01	60,386,689.87
Taxes payable		39,296,377.46	59,481,082.89
Interest payable		236,666.66	675,414.98
Dividends payable		90,193.02	77,540,856.01
Other payables		917,490,082.52	475,829,440.43
Current portion of non-current liabilities		–	–
Other current liabilities		–	–
Total current liabilities		1,468,104,803.42	1,207,339,131.68
Non-current liabilities			
Long-term borrowings		–	8,627,419.10
Debentures payable		–	–
Long-term payables		7,802,224.39	7,802,224.39
Payables for specific projects		–	–
Provisions		500,191.19	500,191.19
Deferred income		39,602,337.13	37,507,212.17
Deferred tax liabilities		5,166,449.94	3,301,646.15
Long-term employee remuneration payable		–	–
Total non-current liabilities		53,071,202.65	57,738,693.00
Total liabilities		1,521,176,006.07	1,265,077,824.68

Balance Sheet

As at 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	31 December 2014	31 December 2013
Shareholders' equity			
Share capital		1,291,340,650.00	1,291,340,650.00
Capital surplus		2,451,263,923.51	2,452,289,028.77
Less: Treasury share		—	—
Other comprehensive income		16,302,172.41	4,652,054.14
Surplus reserve		442,878,771.78	351,211,319.16
Undistributed profits		2,275,474,523.03	1,747,475,798.92
Total shareholders' equity		6,477,260,040.73	5,846,968,850.99
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		7,998,436,046.80	7,112,046,675.67

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

Legal
representative: **Li Chuyuan**

Person in charge of
accounting function: **Wu Changhai**

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

Income Statement

For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	The year ended 31 December 2014	The year ended 31 December 2013
1. Revenue	18(4)	2,988,427,575.93	1,691,217,530.23
Less: Cost of sales	18(4)	1,680,449,978.13	1,022,989,924.63
Taxes and surcharges		34,013,106.45	19,029,456.08
Selling and distribution expenses		455,292,519.91	179,575,086.16
General and administrative expenses		351,315,701.80	236,171,957.63
Financial expenses		21,209,811.12	19,032,419.65
Asset impairment losses		19,998,482.93	506,256.18
Add: Profit arising from changes in fair value		1,323,355.80	486,747.20
Investment income	18(5)	554,598,570.30	413,437,475.35
Including: Share of profit of associates and jointly controlled entities	18(5)(c)	94,337,405.27	140,571,475.14
2. Operating profit		982,069,901.69	627,836,652.45
Add: Non-operating income		11,678,246.40	6,363,731.17
Including: Gain on disposal of non-current assets		19,464.53	79,565.18
Less: Non-operating expenses		6,450,805.39	2,144,771.94
Including: Losses on disposal of non-current assets		1,429,948.32	753,924.80
3. Total profit		987,297,342.70	632,055,611.68
Less: Income tax expenses		70,622,816.47	81,220,991.79
4. Net Profit		916,674,526.23	550,834,619.89

Income Statement

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	The year ended 31 December 2014	The year ended 31 December 2013
5. Other comprehensive income		11,650,118.27	(1,296,968.03)
– Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period		–	–
– Items will be classified into profit or loss when satisfied with certain conditions at following accounting period		11,650,118.27	(1,296,968.03)
(1) Portion of items will be classified into profit or loss when under equity method		233,768.27	(64,143.03)
(2) Profit or loss arising from changes in fair value of available for sale financial assets		11,416,350.00	(1,232,825.00)
6. Total comprehensive income		928,324,644.50	549,537,651.86
7. Earnings per share			
(1) Basic earnings per share		0.710	0.432
(2) Diluted earnings per share		0.710	0.432

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

Legal representative: **Li Chuyuan**

Person in charge of accounting function: **Wu Changhai**

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

Cash Flow Statement

For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	The year ended 31 December 2014	The year ended 31 December 2013
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		1,784,935,659.00	1,957,266,099.53
Refund of taxes and surcharges		-	-
Cash received relating to other operating activities		395,379,967.45	315,478,444.29
Sub-total of cash inflows		2,180,315,626.45	2,272,744,543.82
Cash paid for goods and services		433,380,477.63	1,530,056,761.01
Cash paid to and on behalf of employees		610,410,682.05	334,865,661.47
Payments of taxes and surcharges		340,296,225.03	163,462,947.12
Cash paid relating to other operating activities		324,400,330.51	136,638,818.07
Sub-total of cash outflows		1,708,487,715.22	2,165,024,187.67
Net cash flows from operating activities	18(6)	471,827,911.23	107,720,356.15
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		531,813,669.04	162,998,723.12
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		33,321.80	3,742,258.11
Cash received relating to other investing activities		516,750,697.46	714,516,256.41
Sub-total of cash inflows		1,048,597,688.30	881,257,237.64
Cash paid to acquire fixed assets, intangible assets and other long-term assets		48,596,818.42	61,710,117.51
Cash paid to acquire investments		91,860,000.00	6,000,000.00
Net cash paid to acquire subsidiaries		-	-
Cash paid relating to other investing activities		782,687,003.85	445,801,896.91
Sub-total of cash outflows		923,143,822.27	513,512,014.42
Net cash flows from investing activities		125,453,866.03	367,745,223.22

Cash Flow Statement

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

Item	Note	The year ended 31 December 2014	The year ended 31 December 2013
3. Cash flows from financing activities			
Cash received from capital contributions		–	1,351,685.03
Including: Cash received from capital contributions by minority shareholders of subsidiaries		–	–
Cash received from borrowings		220,000,000.00	8,033,905.10
Cash received relating to other financing activities		283,300,000.00	105,373,400.60
Sub-total of cash inflows		503,300,000.00	114,758,990.73
Cash repayments of borrowings		348,627,418.40	242,000,000.00
Cash payments for interest expenses and distribution of dividends or profits		388,160,060.01	12,519,467.78
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		–	–
Cash payments relating to other financing activities		116,830,462.29	14,014,288.88
Sub-total of cash outflows		853,617,940.70	268,533,756.66
Net cash flows from financing activities		(350,317,940.70)	(153,774,765.93)
4. Effect of foreign exchange rate changes on cash and cash equivalents		2,269.82	(21,206.09)
5. Net increase/(decrease) in cash and cash equivalents		246,966,106.38	321,669,607.35
Add: Cash and cash equivalents at beginning of year	18(6)	462,902,261.84	141,232,654.49
6. Cash and cash equivalent at end of period		709,868,368.22	462,902,261.84

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

Legal representative: **Li Chuyuan**

Person in charge of accounting function: **Wu Changhai**

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

Item	Current period										
	Other equity instruments				Capital surplus	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profits	Total shareholders' equity
	Share capital	preferred stock	Sustainable debt	Others							
1. Balance at 31 December 2013	1,291,340,650.00	-	-	-	2,452,289,028.77	-	4,652,054.14	-	351,211,319.16	1,747,475,798.92	5,846,968,850.99
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
2. Balance at 1 January 2014	1,291,340,650.00	-	-	-	2,452,289,028.77	-	4,652,054.14	-	351,211,319.16	1,747,475,798.92	5,846,968,850.99
3. Movements for the year ended 31 December 2014	-	-	-	-	(1,025,105.26)	-	11,650,118.27	-	91,667,452.62	527,998,724.11	630,291,189.74
(1) Total comprehensive income	-	-	-	-	-	-	11,650,118.27	-	-	916,674,526.23	928,324,644.50
(2) Capital contribution and withdrawal by shareholders	-	-	-	-	-	-	-	-	-	-	-
1. Common stock by shareholders	-	-	-	-	-	-	-	-	-	-	-
2. Capital contribution by owner of other equity instruments	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment charged to equity	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	91,667,452.62	(388,675,802.12)	(297,008,349.50)
Appropriation to surplus reserves	-	-	-	-	-	-	-	-	91,667,452.62	(91,667,452.62)	-
Appropriation to general risk provision	-	-	-	-	-	-	-	-	-	(297,008,349.50)	(297,008,349.50)
Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer within shareholders' equity	-	-	-	-	-	-	-	-	-	-	-
Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-	-	-
Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-
Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-
Current appropriation	-	-	-	-	-	-	-	-	-	-	-
Current apply	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	(1,025,105.26)	-	-	-	-	-	(1,025,105.26)
4. Balance at 31 December 2014	1,291,340,650.00	-	-	-	2,451,263,923.51	-	16,302,172.41	-	442,878,771.78	2,275,474,523.03	6,477,260,040.73

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

Item	Prior period										Total shareholders' equity
	Other equity instruments										
	Share capital	Preferred shares	Sustainable debts	Others	Capital surplus	Less: Treasury share	Other comprehensive income	Special reserves	Surplus reserve	Undistributed profits	
1. Balance at 31 December 2013	810,900,000.00	-	-	-	1,089,466,476.03	-	5,949,022.17	-	296,127,857.17	1,329,205,080.02	3,531,648,435.39
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior year errors	-	-	-	-	-	-	-	-	-	-	-
Business combination involving enterprises under common control	-	-	-	-	-	-	-	-	-	-	-
Others	810,900,000.00	-	-	-	1,089,466,476.03	-	5,949,022.17	-	296,127,857.17	1,329,205,080.02	3,531,648,435.39
2. Balance at 1 January 2014	480,440,650.00	-	-	-	1,362,822,552.74	-	(1,296,968.03)	-	55,083,461.99	418,270,718.90	2,315,320,415.60
3. Movements for the year ended 31 December 2014 (less: *)	-	-	-	-	-	-	(1,296,968.03)	-	-	550,834,619.89	549,537,651.86
(1) Total comprehensive income	480,440,650.00	-	-	-	1,362,822,552.74	-	-	-	-	-	1,843,263,202.74
(2) Capital contribution and withdrawal by shareholders	480,440,650.00	-	-	-	1,362,822,552.74	-	-	-	-	-	1,843,263,202.74
Common stock by shareholders	-	-	-	-	-	-	-	-	-	-	-
Capital contribution by owner of other equity instruments	-	-	-	-	-	-	-	-	-	-	-
Share-based payment charged to equity	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	55,083,461.99	(132,563,900.99)	(77,480,439.00)
Appropriation to surplus reserves	-	-	-	-	-	-	-	-	55,083,461.99	(55,083,461.99)	-
Appropriation to general risk provision	-	-	-	-	-	-	-	-	-	-	-
Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	(77,480,439.00)	(77,480,439.00)
Others	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer within shareholders' equity	-	-	-	-	-	-	-	-	-	-	-
Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-	-	-
Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-
Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	-	-	-	-
Current appropriation	-	-	-	-	-	-	-	-	-	-	-
Current apply	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	-	-	-	-	-	-	-
4. Balance at 31 December 2014	1,291,340,650.00	-	-	-	2,452,289,028.77	-	4,652,054.14	-	351,211,319.16	1,747,475,798.92	5,846,968,850.99

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

Legal representative: **Li Chuyuan**

Person in charge of accounting function: **Wu Changhai**

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

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

1 GENERAL INFORMATION

(1) Summarization of the Company

Approved by the Circular Ti Gai Sheng [1997] No.139 issued by the State Commission for Restructuring the Economic Systems, Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (the "Company") was founded by Guangzhou Pharmaceutical Holdings Limited ("GPHL"). The 8 Chinese Patent Medicine ("CPM") manufacturing companies and 3 pharmaceutical trading companies under GPHL were restructured and the stated-owned equity interest in the assets of these companies were injected in the Company. The Company obtained business license on 1 September 1997 and the registered number is 440101000005674.

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

The Company executed and completed the material assets reorganization transaction, which includes: (1) The Company issued an addition of 445,601,005 A shares by way of share swap to absorb and merger Baiyunshan Co., Ltd. (Baiyunshan), a subsidiary of GPHL, in May 2013. (2) The Company issued an addition of 34,839,645 A shares to GPHL as consideration payment, to acquire the buildings and trademarks which are owned by GPHL or GPHL has the right to dispose of, and 100% equity interest of the subsidiary of GPHL, Guangyao Baiyunshan (Hong Kong) Co., Ltd. ("Guangyao Baiyunshan (Hong Kong)") (Previously named "Polian Development Co., Ltd.") and 12.5% equity interest of Baxter Healthcare Co., Ltd. ("Baxter Healthcare") held by GPHL, The Company completed the registration of share on 5 July 2013. After the above-mentioned assets reorganization was completed, the Company's total number of shares in issue was 1,291,340,650. The stock abbreviation is BYS.

The parent company is GPHL, and the ultimate holding company is Guangzhou State-owned Assets Supervision and Administration Commission.

The Company and its consolidated subsidiaries (together, the "Group") are principally engaged in the manufacture of (1) Western and Chinese patent drug,, chemical raw material medicine, natural medicine, biological medicine, research and development for intermediate product of API, manufacturing and sales. (2) The wholesale, retail, import and export of western pharmaceutical products, CPM and medical apparatus and the wholesale. (3) Research, development, manufacturing and sales of Great Health products. (4) Investment of medical, health management and youth preservation.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

1 GENERAL INFORMATION (Continued)

(1) Summarization of the Company (Continued)

The major CPM products of the Group include Xiao Ke Pill (“消渴丸”), Xia Sang Ju (“夏桑菊”), Wu Ji Bai Feng Pill (“烏雞白鳳丸”), Hua Tuo Zai Zao Pill (“華佗再造丸”) and Mi Lian Chuan Bei Pi Pa Jelly (“蜜煉川貝枇杷膏丸”), Qing Kai Ling Tonic (“清開靈口服液”), Xiao Chai Hu Chong Ji (“小柴胡沖劑”) etc. The major western medicine products of the Group include cefathiamidine, amoxicillin and ceftriaxone sodium. The major pre-packaged food of the Group are Wang Lao Ji Herbal Tea (“王老吉涼茶”), etc.

The Group’s current structure mainly include 11 CPM manufacturing companies, 2 western medicine manufacturing companies, 1 chemical raw materials manufacturing company, 1 pre-packaged food manufacturing company, 3 pharmaceutical research and development companies and 4 pharmaceutical trading companies.

These financial statements were approved for issue by the Board of Directors on 19 March 2015.

(2) Scope of consolidated financial statements

As at 31 December 2014, subsidiaries in the scope of consolidated financial statements are as below:

Name of subsidiary	Control
Guangzhou Baiyunshan Xingqun (Pharmaceutical) Holdings Co., Ltd.(Xing Qun)	Direct subsidiary
Guangzhou Baiyunshan Zhongyi Pharmaceutical Co., Ltd. (Zhong Yi)	Direct subsidiary
Guangzhou Baiyunshan Chenliji Pharmaceutical Factory Co., Ltd. (Chenliji Pharmaceutical Factory)	Direct subsidiary
Guangzhou Baiyunshan Hanfang Modern Pharmaceutical Co., Ltd. (Han Fang Pharmaceutical)	Direct subsidiary
Guangzhou Qi Xing Pharmaceutical Factory Co.,Ltd.	Direct subsidiary
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. (Jing Xiu Tang)	Direct subsidiary
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (Pan Gao Shou)	Direct subsidiary
Guangzhou Cai Zhi Lin Pharmaceutical Co.,Ltd. (Cai Zhi Lin)	Direct subsidiary

Notes to the Financial Statements

For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

1 GENERAL INFORMATION *(Continued)*

(2) Scope of consolidated financial statements *(Continued)*

Name of subsidiary	Control
Guangzhou Pharmaceutical Import & Export Co., Ltd. (Pharmaceutical Import & Export)	Direct subsidiary
Guangzhou Baiyunshan Bai Di Bio-Technology Co., Ltd.(Bai Di)	Direct subsidiary
Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. (WLJ Great Health)	Direct subsidiary
Guangxi Ying Kang Co., Ltd. (Guangxi Ying Kang)	Direct subsidiary
Guangzhou Guang Yao Yi Gan Biological Product Co.,Ltd.	Direct subsidiary
Guangzhou Baiyunshan Xingzhou Pharmaceutical Co., Ltd. (Xing Zhou)	Direct subsidiary
Guangzhou Baiyunshan Medical and Health Industry Investment Co., Ltd. (Baiyunshan Medical and Health)	Direct subsidiary
Guangzhou Baiyunshan Chemical Medicine Technology Co., Ltd.	Direct subsidiary
Zhejiang Guangkang Hospital Co., Ltd.	Indirect subsidiary
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. (Qi Xing)	Indirect subsidiary
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.	Indirect subsidiary
Guangzhou Pan Gao Shou Natural Healthcare Products Co., Ltd	Indirect subsidiary
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Indirect subsidiary
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Indirect subsidiary
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese raw medicine Co., Ltd.	Indirect subsidiary
Guangzhou Ao Ma Medical Apparatus Co., Ltd.	Indirect subsidiary
Tibet Lin Zhi Guangyao Development Co., Ltd.	Indirect subsidiary

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

1 GENERAL INFORMATION *(Continued)*

(2) Scope of consolidated financial statements *(Continued)*

Name of subsidiary	Control
Guangzhou Pan Gao Shou Food Beverage Co., Ltd	Indirect subsidiary
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary
Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary
Jingyuxian Dong E Guangyao Chinese Raw Medicine Development Co., Ltd	Indirect subsidiary
Heilongjiang Sengong Guangyao Raw Medicine Development Co., Ltd.	Indirect subsidiary
Chongqing Guangyao Raw Medicine Development Co., Ltd. (Chongqing Guangyao)	Indirect subsidiary
Wang Lao Ji Great Health (Yaan) Co., Ltd.	Indirect subsidiary
Guangzhou Baiyunshan Guanghua Health Products Co., Ltd. (Guanghua Health)	Indirect subsidiary
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. (Tian Xin)	Direct subsidiary
Guangzhou Baiyunshan GuangHua Pharmaceutical Co., Ltd. (Guang Hua)	Direct subsidiary
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (Ming Xing)	Direct subsidiary
Baiyunshan Weiling Pharmaceutical Co.,Ltd. (Wei Ling)	Direct subsidiary
Guangzhou Baiyunshan Pharmaceutical Technological Development Co.,Ltd. (BYS Pharmaceutical Technological)	Direct subsidiary
Guangzhou Guangyao Baiyunshan Great Health Hotel Co., Ltd. (Great Health Hotel)	Direct subsidiary
Guangyao Baiyunshan (Hong Kong) Limited	Direct subsidiary

Changes on the scope of consolidated financial statements at current period refer to note 6 and note 7.

Notes to the Financial Statements

For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

2 PREPARATION OF FOUNDATION OF THE FINANCIAL STATEMENTS

(1) Basis of preparation

Based on going concern and actual transactions and events, the Company prepared financial statements in accordance with the basic and specific standards of the Accounting Standards for Business Enterprises, the Application Guidance for Accounting Standard for Business Enterprises, interpretations of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance (hereinafter collectively referred to as "CAS"), and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 – General Provisions on Financial Reporting issued by the China Securities Regulatory Commission.

(2) Going concern

The Company has ability for continuous operation and there are no significant events which affect the ability for continuous operation since current period within at least 12 months.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

The financial statements of the Company for the year ended 31 December 2014 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position as of 31 December 2014 and the operating results, cash flows and other information for the year ended 31 December 2014 of the Group and the Company.

(2) Accounting period

Accounting year starts on 1 January and ends on 31 December. The financial statements cover the period from 1 January 2014 to 31 December 2014.

(3) Business period

The business period of the Company is 12 months.

(4) Recording currency

The recording currency is renminbi ("RMB").

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

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

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

(a) Business combinations involving entities under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (capital premium). If the capital surplus (capital premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings.

Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction fees of equity securities or debt securities issued for a business combination are included in the initially recognised amount of equity securities or debt securities.

(b) Business combinations involving entities not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current year.

Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction fees of equity securities or debt securities issued for a business combination are included in the initially recognised amount of equity securities or debt securities.

(6) Preparation of consolidated financial statements

(a) Scope of combination

The scope of consolidated financial statements shall be determined on the basis of control, all subsidiaries (including entities which controlled by the Company) are included in the consolidated financial statements.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(6) Preparation of consolidated financial statements *(Continued)*

(b) Procedure of combination

The consolidated financial statements shall be prepared by the Company based on the financial statements of the Company and its subsidiaries, and using other related information. When preparing consolidated financial statements, the Company shall consider the entire group as an accounting entity, adopt uniform accounting policies and apply the requirements of Accounting Standard for Business Enterprises related to recognition, measurement and presentation. The consolidated financial statements shall reflect the overall financial position, operating results and cash flows of the Group.

Accounting policies and accounting period adopted by the subsidiaries which included in the consolidated scope of financial statements are the same as that of the Company, if not, should make necessary adjustments to the when preparing consolidated financial statements. For the subsidiaries acquired from business combinations involving entities not under common control, its financial statements shall be adjusted based on fair value of identifiable net assets at the acquisition date. For the subsidiaries acquired from business combinations involving entities under common control, its financial statements shall be adjusted based on carrying amount of its assets, liabilities (including goodwill arising from when ultimate controlling party purchased the subsidiary) in the financial statements of ultimate controlling party.

Portion of owner's equity, current net profit or loss and current comprehensive income attributable to minority shareholders shall be solely presented in owner's equity of consolidated balance sheet, net profit of consolidated income statements and comprehensive income. When the amount of loss for the current period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess shall be allocated against the minority interests.

(1) *Acquisition of subsidiaries or business*

Where the Company has acquired a subsidiary or business during the reporting period through a business combination involving enterprises under common control, the subsidiary's revenue, expenses and profit, from the beginning to end of the reporting period in which the combination take places, shall be included in consolidated income statement; cash flows of the subsidiaries or business from the beginning to end of the reporting period shall be included in consolidated cash flow statement, in addition, relevant items in the comparative statement shall be adjusted as if the reporting entity after the combination has been in existence since the date the ultimate controlling party first obtained control.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(6) Preparation of consolidated financial statements *(Continued)*

(b) Procedure of combination *(Continued)*

(1) *Acquisition of subsidiaries or business (Continued)*

When an enterprise becomes capable of exercising control over an investee under common control due to additional investment or other reasons, it shall be adjusted as if each party involving combination has been in existence since the date the ultimate controlling party first obtained control. The equity investments held before obtaining control right to combined party, and the recognized relevant profit or loss, other comprehensive income as well as changes on other net assets at the later date between obtaining equity and combined party under common control allocated against the opening retained earnings in comparative statements or current profit or loss respectively.

When a subsidiary or business has been acquired through a business combination not involving entities under common control, or by other means, the revenue, expenses and profit of that subsidiary or business from the acquisition date to the end of the reporting period shall be included in the consolidated income statement, opening amount of consolidated balance sheet shall be not adjusted; the cash flows of that subsidiary or business from the acquisition date to the end of the reporting period shall be included in the consolidated cash flow statement.

When an enterprises becomes capable of exercising control over an investee not under common control due to additional investment or other reasons, when preparing the consolidated financial statements, the acquirer shall remeasure its previously held equity interest in the acquire to its fair value at the acquisition date. The differences between the fair value and the carrying amount shall be recognized as investment income for the period when the acquisition takes place, When the previously-held equity investment is accounted for under the equity method, any other comprehensive income and the changes on owner's equity other than net profit or loss, other comprehensive income and distribution of profit previously recognized in relation to the acquiree's equity changes shall be transferred to investment income for the current period when the acquisition takes place, except for the other comprehensive income arising from the changes on net liabilities or net assets of defined benefits plan remeasured by investee.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(6) Preparation of consolidated financial statements *(Continued)*

(b) Procedure of combination *(Continued)*

(2) *Disposing of subsidiaries or business*

① General treatment

When disposing of subsidiaries or business at reporting period, the revenue, expenses and profit of that subsidiary or business from the beginning of reporting period to disposal date shall be included in the consolidated income statement; the cash flows of that subsidiary or business from the beginning of reporting period to disposal date shall be included in the consolidated cash flow statement.

If an enterprise loses control of an investee due to the disposal of a portion of an equity investment or other reasons, the remaining equity investment shall be re-measured at its fair value in the consolidated financial statements at the date when control is lost. The difference between the total amount of consideration received from the transaction that resulted in the loss of control and the fair value of the remaining equity investment and the share of net assets of the former subsidiary calculated continuously from the acquisition date or the combination date based on the previous shareholding proportion, shall be recognized as investment income for the current period when control is lost., and the goodwill related to the subsidiary shall be derecognized. The amount previously recognized in other comprehensive income in relation to the former subsidiary's equity investment should be transferred to investment income for the current period when control is lost. Any other comprehensive income and the changes on owner's equity other than net profit or loss, other comprehensive income and distribution of profit previously recognized in relation to the acquiree's equity changes shall be transferred to investment income for the current period when the acquisition takes place, except for the other comprehensive income arising from the changes on net liabilities or net assets of defined benefits plan remeasured by investee.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(6) Preparation of consolidated financial statements *(Continued)*

(b) Procedure of combination *(Continued)*

(2) *Disposing of subsidiaries or business (Continued)*

② Disposal in stages for subsidiaries

Where a parent loses control of a subsidiary in multiple transactions in which it disposes of its subsidiary in stages. In determining whether to account for the multiple transactions as a single transaction, a parent shall consider all of the terms and conditions of the transactions and their economic effects. One or more of the following may indicate that the parent should account for the multiple arrangements as a single transaction:

- i. Arrangements are entered into at the same time or in contemplation of each other;
- ii. Arrangements work together to achieve an overall commercial effect;
- iii. The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement;
- iv. One arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements.

If each of the multiple transactions forms part of a bundled transaction which eventually results in loss of control of the subsidiary, these multiple transactions should be accounted for as a single transaction. In the consolidated financial statements, the difference between the consideration received and the corresponding proportion of the subsidiary's net assets in each transaction prior to the the loss of control shall be recognized in other comprehensive income and transferred to the profit or loss when the parent eventually loses control of the subsidiary.

If each of the multiple transactions does not form part of a bundled transaction which eventually results in loss of control of the subsidiary, these multiple transactions should be accounted for as a single transaction before the loss of control; when lost control, account for as general treatment for disposal of subsidiaries.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(6) Preparation of consolidated financial statements *(Continued)*

(b) Procedure of combination *(Continued)*

(3) *Purchasing minority equity of subsidiaries*

The difference between the long-term equity investments from the purchasing of minority equity and the corresponding portion of net assets of the subsidiary calculated continuously from the acquisition date or the combination date related to the disposal of the long-term equity investments shall be adjusted to the capital reserve in the consolidated financial statements. If the balance of the capital reserve is not sufficient, any excess shall be adjusted against retained earnings.

(4) *Disposal in stages for the long-term equity investment of subsidiaries without loss of control*

Where the parent disposes of a portion of the long-term equity investments in a subsidiary without loss of control, the difference between the amount of the consideration received and the corresponding portion of net assets of the subsidiary calculated continuously from the acquisition date or the combination date related to the disposal of the long-term equity investments shall be adjusted to the share premium of capital reserve in the consolidated balance sheet. If the share premium of capital reserve is not sufficient, any excess shall be adjusted against retained earnings.

The Group start to include it in the scope of combination from the date of acquiring actual control to subsidiaries; stop to include it in the scope of combination from the date of losing actual control to subsidiaries. For the subsidiaries acquired from business combination involving entities under common control, the Group includes it in the scope of combination from the date when controlled by the same ultimate controlling party with the Company, and presented the net profit achieved before combination date in the consolidated income statement.

(7) Classification of accounting method and the joint arrangements

A joint arrangement is classified as either a joint operation or a joint venture.

When the Company is a joint operator of joint arrangement, which means the Company have rights to the assets, and obligations for the liabilities, relating to the arrangement.

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(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(7) Classification of accounting method and the joint arrangements *(Continued)*

The company recognizes the following items in relation to its interest in a joint operation, and method for them in accordance with relevant accounting standards:

- (1) The Company's solely-held assets, and the Company's share of any assets held jointly;
- (2) The Company's solely-assumed liabilities, and the Company's share of any liabilities incurred jointly;
- (3) The Company's revenue from the sale of its share of the output arising from the joint operation.
- (4) The Company's share of the revenue from the sale of the output by the joint operation; and
- (5) Its solely-incurred expenses and the Company's share of any expenses incurred jointly.

As at 31 December 2014, there are no joint operations.

Accounting policies for joint venture investment refer to note 3 (14) "Long-term equity investments."

(8) Cash and cash equivalents

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

(9) Foreign currency translation

(a) Foreign currency transactions

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

Notes to the Financial Statements

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(9) Foreign currency translation *(Continued)*

(a) Foreign currency transactions *(Continued)*

At the balance sheet date, monetary items denominated in foreign currency are translated into RMB using the spot rate of the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current year, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition, construction or production of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currency that are measured in terms of historical cost are translated into RMB at the balance sheet date using the spot rate at the date of the transactions. The effect of changes in exchange rate of cash and cash equivalent is separately disclosed in the cash flow statement. Non-monetary items denominated in foreign currency that are measured at fair value are translated into RMB using the spot rate on the date when fair value is determined and the exchange differences arising from which are recognised in profit or loss or capital surplus in the current year.

(b) Translation of foreign currency financial statements

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

(10) 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.

Notes to the Financial Statements

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(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(10) Financial Instruments *(Continued)*

(a) Financial assets *(Continued)*

(i) Classification *(Continued)*

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

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(10) Financial Instruments *(Continued)*

(a) Financial assets *(Continued)*

(ii) *Recognition and measurement*

Financial assets are recognised at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current year. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initial recognition amounts.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Receivables and held-to-maturity investments are measured at amortised cost using the effective interest method.

Gain or loss arising from change in the fair value of financial assets at fair value through profit or loss is recognised in profit or loss. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognised in profit or loss for the current year.

Gain or loss arising from a change in fair value of an available-for-sale financial asset is recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from the translation of monetary financial assets. When such financial asset is derecognised, the cumulative gain or loss previously recognised directly in equity is reclassified to profit or loss for the current year. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognised as investment income, which is recognised in profit or loss for the period.

Notes to the Financial Statements

For the year ended 31 December 2014

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(10) Financial Instruments *(Continued)*

(a) Financial assets *(Continued)*

(iii) *Impairment of financial assets*

The Group assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that the financial assets are impaired, the Group shall determine the amount of impairment loss.

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

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

The standard of fair value decrease is not temporary: 12 months in a row fell. Computing method of investment cost: consideration of payment at acquisition (net of cash dividends declared but not yet paid or due but unpaid interest on bonds) and the relevant transaction cost are recognized as the investment cost. Determination basis of: Falling or downturn continued during the rally up less than 20% margin. Rebound duration not more than six months are treated as continue decrease period.

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

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

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(10) Financial Instruments *(Continued)*

(a) Financial assets *(Continued)*

- (iv) *The basis and measurement for the transfer of financial assets and the derecognition of financial assets*

When the Group transfers financial assets, the financial assets should be derecognised when all the risks and rewards of ownership of the financial asset have been substantially transferred. The financial assets shall not be derecognised if the Group substantially retains all the risks and rewards of ownership of the financial asset. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but ceases the control over the financial asset, the financial asset shall be derecognised.

In addition to two circumstances of the derecognition mentioned above, a financial assets shall be derecognised when the contractual rights to receive the cash flows from the financial assets have ceased.

On derecognition of a financial asset, the difference between the carrying amount and the aggregate consideration received and the accumulative amount of the changes of fair value originally recorded in the shareholders' equity is recognised in profit or loss.

(b) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. The financial liabilities in the Group mainly comprise other financial liabilities, including payables, borrowings and debentures payable.

Payables comprise accounts payable and other payables, etc, which are recorded initially at fair value and measured subsequently at amortised cost using the effective interest method.

Borrowings and debentures payable are recorded initially at fair value, net of transaction costs incurred, and subsequently carried at amortised costs using the effective interest method.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(10) Financial Instruments *(Continued)*

(b) Financial liabilities *(Continued)*

Other financial liabilities with maturities no more than one year (including one year) are classified as current liabilities. Other financial liabilities with maturities over one year (including one year) but are due within one year at balance sheet date are classified as the current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability shall be derecognised or partly derecognised when the present obligation is discharged or partly discharged. The difference between the carrying amount of the derecognised portion of the financial liability and the consideration paid shall be recognised in profit or loss.

(c) Determination of the fair value of the financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument for which the market is not active is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis. When a valuation technique is used to establish the fair value of a financial instrument, it makes the maximum use of observable market inputs and relies as little as possible on specific inputs related to the Group.

(11) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recorded at fair value of the contractual payments from the buyer or service recipients.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(11) 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).
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.

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

Basis for determination of groups is as follow:

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

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(11) Receivables *(Continued)*

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

Method for provision by groups are summarised as followed:

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

Ratios of provision for bad debts used in the aging analysis method for groups are as follows:

Ageing	Ratios for provision for bad debts
Within 1 year	1%
1 to 2 years	10%
2 to 3 years	30%
3 to 4 years	50%
4 to 5 years	80%
Over 5 years	100%

- (c) Receivables which are individually insignificant but subject to separate provision

For individually insignificant receivables with specific credit risk characteristics, if there is objective evidence that the receivables are impaired and the provision for bad debts using aging analysis method cannot reflect the actual circumstances, such receivables shall be subject to separate impairment assessment. The impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the asset below the carrying amount.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(12) Inventories

(a) Classification of inventories

Inventories include goods in transit, raw materials, work in progress, semi-finished goods, finished goods, low-value consumables, packaging materials, goods in processing contract, goods on consignment and commodity stocks.

(b) Cost of inventories

Inventories are measured at actual cost at the time of acquisition.

Cost is determined using the weighted average method. The cost of finished goods, commodity stocks and work in progress comprises raw materials, direct labour and an allocation of all production overhead expenditures incurred that are systematically determined based on normal operating capacity.

(c) Basis for the determination of net realizable value and the method of provision for impairment of inventories

Provisions for declines in the value of inventories are determined at the excess amount of the carrying value of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

(d) Inventory system

The Group adopts the perpetual inventory system.

(e) Amortisation of low-value consumables and packaging materials

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

Notes to the Financial Statements

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(13) Classified as assets held for sale

The Company recognizes component (or non-current assets) which meet the following conditions as assets held for sale:

- (a) The component must be under the current conditions only according to the usual terms of the sale of such part, then sell immediately;
- (b) The Company has been offered a resolution with disposition of the components (or non-current assets). If regulation need to be approved by shareholders, it has approved by the general meeting of shareholders or relevant authority;
- (c) The Company has entered into agreement on irrevocable transformation with the transferee.
- (d) Transformation will be completed within 1 year.

(14) Long-term equity investments

(a) Criteria for control, joint control and significant impact

Control exists when the investor has all the following: power over the investee; exposure, or rights to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns.

Joint control is the contractually agreed sharing of control to an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Company's joint venture is investee, which the Company and other joint operators implement joint control to investee and have rights to the net assets.

Significant impact is the right to participate the decisions of finance and operating policies of investee but is not able to control or jointly control those policies. Where the Company is able to exert significant impact to the investee, which is associates of the Company.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

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

(b) Initial recognition

(i) *Long-term equity investment arising from business combination.*

Business combination involving enterprises under common control: Consideration arising from paying cash, transformation of non-cash assets or assumption of liabilities, and issuance of non-equity investments is recognized as the initial cost for long-term equity investment in accordance with the portion of carrying amount presented in consolidated financial statements of ultimate control of owner's equity for absorbing party at combination date. As an increment of investment and other reasons, implement of control to a business combination involving investees under common control is recognized as the initial cost for long-term equity investment in accordance with the portion of carrying amount presented in consolidated financial statements of ultimate control of net assets for absorbing party at combination date. Differences between initial cost for long-term equity investment and the sum of carrying amount of long-term equity investment before combination plus carrying amount of further acquired consideration of new shares shall be adjusted to capital premium, if the balance of capital premium is not sufficient, any excess shall be written-down to retained earnings.

Business combination involving enterprises not under common control: The cost at combination date is recognized as the initial cost for long-term equity investments. As an increment of investment and other reasons, implement of control to a business combination involving investees not under common control is recognized as the initial cost for long-term equity investments in accordance with cost method by using carrying amount of equity investments plus cost of increased investments.

(ii) *Long-term equity investments acquired through other method*

For a long-term equity investment acquired by paying cash, initial cost shall be recognized by actual purchase price.

For a long-term equity investment acquired by the issuance of equity securities, initial cost shall be recognized by the fair value of equity securities issued.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

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

(b) Initial recognition *(Continued)*

(ii) *Long-term equity investments acquired through other method (Continued)*

The exchange of non-monetary assets with commercial nature and the fair value of the assets received or surrendered can be reliably measured, under the circumstance, for a long-term equity investment acquired through an exchange of non-monetary assets according to the fair value of the assets surrendered and shall pay the relevant taxes to determine its initial cost, unless there is convincing evidence that the fair value of the assets received is more reliable. Exchange of non-monetary assets that do not meet the above premise is recognized as initial cost for long-term equity investments by carrying amount of exchanged assets and taxes payable.

For a long-term equity investment acquired through a debt restructuring, initial cost shall be recognized by the basis of fair value.

(c) Subsequent measurement and recognition for profit or loss

(i) *Long-term equity investments measured at cost method*

Long-term equity investments to the subsidiaries shall be measured at cost method. In addition to the price for actually paid, or the cash dividends or profits that are included in the consideration which has been declared but not yet paid, the Company recognized current investment income in accordance with the cash dividends or profits that have been declared to issue.

(ii) *Long-term equity investments measured at equity method*

Long-term equity investments for associates and joint venture shall be measured at equity method. Where initial cost exceeds the balance of a investor's interest in the fair value of an investee's identifiable net assets at the acquisition date, no adjustment shall be made. Where initial cost less than the balance of the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, it shall be charged into profit or loss at current period.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

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

(c) Subsequent measurement and recognition for profit or loss *(Continued)*

(ii) *Long-term equity investments measured at equity method (Continued)*

The Company respectively recognizes investment income and other comprehensive income by the portion of investee's net profit or loss, as well as the portion of investee's other comprehensive income, and adjusts carrying amount of long-term equity investments accordingly. The carrying amount of the investments shall be reduced by the portion of any profit distributions or cash dividends declared by the investee that is attributable to the Company. Movements on owner's equity of investees other than net profit or loss, other comprehensive income and distribution of profit shall be adjusted for carrying amount of the investments and charged into owner's equity.

The portion for net profit or loss of investees shall be adjusted based on the investees' fair value of identifiable net assets through investees' net profit and recognized in accordance with accounting policies and accounting period of the Company. During the period of holding investment, the invested entity of preparing consolidated financial statements, with net profit and other comprehensive income presented in the consolidated financial statements and other changes in the owner's equity attributable to the accounting on the basis of the amount of invested entity.

The unrealized profit or loss resulting from transactions between the Company and its associates or joint venture shall be eliminated in portion to the investor's equity interest of investee, based on which investment income or loss shall be recognized. Any losses resulting from transactions, which are attributable to impairment of assets, shall be fully recognized. Transactions of the assets casted and sold that are able to constitute an agreement between the Company and associates, joint venture shall be dealt with in accordance with Note 3 (5) "Accounting method for business combination involving enterprises under common control and not under common control" and Note 3 (6) "Preparation of consolidated financial statements".

Notes to the Financial Statements

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

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

(c) Subsequent measurement and recognition for profit or loss *(Continued)*

(ii) Long-term equity investments measured at equity method *(Continued)*

Loss arising from the sharing with investees is dealt with the following orders: Firstly, to write down the carrying amount of long-term equity investments. Secondly, when the carrying amount of long-term equity investments is not enough to offset, loss on investments is continually recognized through the other carrying amount of long-term equity investments for investees' net investment, to write down the carrying amount of long-term receivables etc. Finally, through the above treatment, according to the investment contract or contracted obligations and additional ones in agreement, which shall be recognized into current loss on investments.

(iii) Disposal for long-term equity investments

When disposing of a long-term equity investment, differences between carrying amount and actual obtained price shall be recognized in profit or loss at current period.

For the disposal for long-term equity investments measured at equity method, it shall be dealt with by the basis of same relevant assets or liabilities directly disposed by investees and the part of other comprehensive income calculated through related portion. The recognized owner's equity as a result of changes other than net profit or loss, other comprehensive income and distribution of profit shall be transferred into current profit or loss in portion, except for the other comprehensive income arising from the changes on the re-measured net liabilities for defined benefit plans and net assets by investees.

The losing of joint control or significant impact to investees as a result from the disposal for the part of equity, the remaining equity after disposal shall be accounted at standard of financial instruments, which differences between fair value at the date of losing joint control or significant impact and carrying amount shall be charged into profit or loss at current period. The other comprehensive income measured at equity method of original equity investments shall be dealt with the same basis to the directly disposed assets or liabilities by investees when terminating to measure at equity method. Owner's equity recognized as a result of changes other than net profit or loss, other comprehensive income and distribution of profit by investees shall be transferred into current profit or loss when terminating to measure at equity method.

Notes to the Financial Statements

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

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

(c) Subsequent measurement and recognition for profit or loss *(Continued)*

(iii) Disposal for long-term equity investments *(Continued)*

The losing of control power to investees as a result from the disposal for the part of equity, when preparing financial statements, the remaining equity after disposal that are able to implement joint control or significant impact to investees shall be measured at equity method, and adjusted through equity method when obtained: the remaining equity after disposal that are not able to implement joint control or significant impact to investees shall be dealt with in accordance with the recognition and measurement for financial instruments, which differences between fair value at the date of losing joint control or significant impact and carrying amount shall be charged into profit or loss at current period.

The remaining of disposed equity as a result of increasing investment through business combination shall be measured at cost method or equity method when preparing financial statements, the other comprehensive income and other owners' equity of equity investment held before purchasing date that are measured at equity method shall be carried forward in portion,: the remaining of disposed equity shall be dealt with in accordance with the recognition and measurement for financial instruments, other comprehensive income and other owners' equity shall be carried forward.

(15) Investment properties

Investment properties, which are properties held to earn rental or capital appreciation or both, including land use rights that have already been leased out, land use rights that are held for the purpose of sale after capital appreciation, buildings that have been already been leased out and buildings that are in construction or developed for the purpose of being leased out in the future, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property is included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and its cost can be reliably measured; otherwise, the expenditures are 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.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(15) Investment properties *(Continued)*

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

The estimated useful life, net residual value of the investment property and the depreciation (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 at current period

(16) Fixed assets

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

Fixed assets are tangible assets that are held for producing goods, rendering of services, leasing out to other parties or administrative purposes, with useful life more than one year.

Fixed asset is 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.

Notes to the Financial Statements

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(16) Fixed assets (Continued)

(b) Depreciation method of different categories of fixed assets

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

Category	Estimated useful lives	Estimated residual value	Annual depreciation rate
Buildings	10-70 years	0%~10%	1.29%~10%
Machinery and equipment	4-18 years	0%~10%	5%~25%
Motor vehicles	5-10 years	0%~10%	9%~20%
Electronic equipment	5-10 years	0%~10%	9%~20%
Office equipment	4-8 years	0%~10%	11.25%~25%
Decoration and fixtures	5 years	0%	20%

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

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. The leased asset shall be recorded at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments shall be accounted for as unrecognised finance charge.

Fixed assets held under a finance lease are depreciated on a basis consistent with the depreciation policy which the Group adopts for self-owned fixed assets. If it can be reasonably determined that at the end of the lease term the ownership of the leased asset will be transferred, the leased asset is depreciated over the estimated useful lives; if not, the leased asset is depreciated over the shorter period of the lease term and the estimated useful lives.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(16) Fixed assets (Continued)

(d) Other specification

Disposal of fixed assets

A fixed asset is 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.

(17) Construction in progress

Constructions in progress are accounted for by individual projects.

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use.

Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. When construction in progress is ready for its intended use but has not completed the final accounts, it is transferred to fixed assets using an estimated cost on the day when it is ready for intended use and depreciation is made accordingly pursuant to the Group's depreciation policy. The estimated cost can be based on project budget, project price or actual construction cost. The estimated cost is adjusted by the actual cost after the completion of the final accounts.

(18) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time of acquisition and construction for its intended use commence to be 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.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(18) Borrowing costs *(Continued)*

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

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

(19) Intangible assets

(a) Recognition and measurement of intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Group, including land use rights, industrial property and patent technology, and non-patent technology etc. An intangible asset is 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.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(19) Intangible assets *(Continued)*

(c) Intangible asset with an indefinite useful life

An intangible asset is regarded by the Group as having an indefinite useful life when based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

The Company owns trademarks including Baiyunshan, Xingqun, Zhongyi, Pangaoshou, Chenliji, Jingxiutang, Qixing, which are identified as indefinite useful life due to expected economic interest in future. The Company reviews the indefinite useful life of intangible assets at every accounting period. The reviewed useful life of above intangible assets is indefinite.

(d) Research and development

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

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

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

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

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:

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(19) Intangible assets *(Continued)*

(d) Research and development *(Continued)*

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

Other development expenditures that do not meet the conditions above are 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.

(20) Impairment of long-term assets

Long-term equity investment, long-term assets such as investment properties measured at cost, fixed assets, construction in progress and intangible assets are tested for impairment at the balance sheet date. When the recoverable amount of an asset is less than its carrying amount, impairment loss shall be recognized accordingly. The recoverable amount of an asset is the higher of the asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is difficult to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs to is determined. A group of assets is the smallest group that is able to generate independent cash inflows.

Goodwill shall be tested for impairment at the end of each accounting period.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(20) Impairment of long-term assets *(Continued)*

The Company tests goodwill for impairment, the carrying amount of goodwill which arising from business combination shall be legitimately apportioned to relevant group of assets, where it is difficult to, it shall be apportioned to the relevant group of assets. When doing those apportionments, the carrying amount is apportioned in a ratio of fair value for each group of assets and a set of group of assets of the total of fair value. For the fair value that are difficult to reliably calculated, it is apportioned in a ratio of carrying amount for each group of assets and a set of group of assets of the total of carrying amount.

When testing relevant group of assets or a set of group of assets which including goodwill for impairment, if there are any indications that the group of assets or a set of group of assets related to goodwill are impaired, the group of assets or a set of group of assets which excluding goodwill are tested for impairment firstly, then calculate its recoverable amount, loss of impairment shall be recognized by comparing with relevant carrying amount, furthermore, tests group of assets or a set of group of assets which including goodwill for impairment and compares the carrying amount of group of assets or a set of group of assets with its recoverable amount, loss of impairment on goodwill shall be recognized if its recoverable amount is lower than its carrying amount.

The loss of impairment is no longer carried forward at subsequent accounting period once recognized.

(21) Long-term prepaid expenses

Long-term prepaid expenses include the expenditure for improvements to fixed assets under operating leases, and other expenditures that have been made but shall be 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.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(22) Employee benefits

(a) Method for short-term benefits

The actual occurred short-term benefits arising from the accounting period when personnel who have entered into an employment contract shall be recognized as liabilities and charged in profit or loss at current period or relevant cost of asset.

The Group recognised amount of employee benefits in accordance with regulated basis and ratio by the social insurance, housing funds, expenses of labor union and employee education at the accounting period when personnel who have entered into an employment contract.

Employee welfare shall be measured at fair value if it is non-monetary and can be measured reliably.

(b) Method for post-employee benefits

(i) *Defined contribution plans*

Basic retirement security and unemployment security that are paid according to related regulations for employees at accounting period when personnel who have entered into an employment contract shall be recognized as liabilities and charged in profit or loss at current period or relevant cost of asset.

Most domestic enterprises of the Group set up enterprise annuity plans as well as basic retirement security in accordance with relevant regulations and policies. The amount of annuity according to total remuneration shall be recognized as liabilities and charged in profit or loss at current period or relevant cost of asset.

The Group provides contributions of mandatory provident fund for qualified employees of Guangyao Baiyunshan Hong Kong Company in accordance with Mandatory Provident Fund Schemes. The cost of schemes shall be deducted in statement of profit and loss in relevant period. Assets of schemes are held by the fund that is independent managed and separately managed from the Company's assets. Meanwhile, the Group shall also provide contributions for qualified employees when they obtained long service payment at termination date in accordance with Hong Kong <The Employment Ordinance>. Provision for long service payment is made by Guangyao Baiyunshan Hong Kong Company, which is optimum estimated by the service payment of employees as at settlement date.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(22) Employee benefits *(Continued)*

(b) Method for post-employee benefits *(Continued)*

(ii) *Define benefits plans*

Benefit obligation arising from defined benefits plans is attributable to the period when personnel who have entered into an employment contract is charged into current profit or loss or relevant cost of assets in accordance with formula of estimated accumulated method.

Deficit or surplus arising from the differences of current value of defined benefits plans obligation minus fair value of defined benefits plans assets is recognized as net liabilities or net assets. When a defined benefits plan has surplus, the Company shall measure the net defined benefits plans assets at the lower of the surplus in the defined benefits plans and the ceiling of assets.

All defined benefits plans obligation, including obligation that are expected to be paid before 12 months after the end of the annual reporting period in period when personnel who have entered into an employment contract shall be discounted by reference to market yields at the balance sheet date on government bonds or on high quality corporate bonds in an active market, of which the term and currency are consistent with the term and currency of the defined benefit obligation.

Service costs arising from defined benefits plans and net interest on the net defined benefits plans liabilities or assets are correspond to the profit or loss at current period or the cost of relevant assets; changes as a result of re-measurements of the net defined benefit liabilities or assets shall be recognized in other comprehensive income and shall not reclassified to profit or loss at subsequent accounting period.

When the settlement occurs of defined benefits plans, it shall recognize the gain or loss on a settlement according to the differences between present value of the defined benefits plans obligation, as determined on the date of settlement and the settlement price.

As at 31 December 2014, there are no defined benefits plans in the Group.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(22) Employee benefits *(Continued)*

(c) Accounting method for termination benefits

The company shall recognize an employee benefits liability for termination benefits, with a corresponding charge to the profit or loss for the current period, at the earlier dates between the Company cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment and cost or expenses related to a restructuring that involves the payment of termination benefits.

(23) 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.

(24) Revenue

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group.

(a) Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the group entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(24) Revenue *(Continued)*

(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-portion 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.

(e) Dividend income

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

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(25) Government grants

(a) Classification

Government grants are the obtained monetary assets and non-monetary assets from the government freely, which are divided into assets-related government grants and income-related government grants.

The assets-related government grants refer to the obtained long-term assets with purchase, construction or otherwise formed, which include financial appropriation of the purchase on fixed assets or intangible assets and the financial discounts of special borrowings on fixed assets, etc. The profit-related government grants refer to the government grants other than the assets-related grants.

The specific standard of the asset-related grants: Government's documents defined the grants are used to purchase fixed assets or intangible assets, or the financial discounts of specific borrowing, or the grants is undefined by government's documents but is related to the form of long-term assets of the enterprise.

The specific standard of the income-related grants: It shall be defined to the income-related when not consistent with standard of asset-related grants.

Basis of the specific standard of grants when qualified objects are not defined: Unqualified Objects with sufficient evidence that the government grants related to long-term assets, recognized as asset-related government grants. The remaining shall be defined as income-related grants.

(b) Accounting treatment

The assets-related government grants shall be recognized as deferred income in accordance with the useful life of the constructed and purchased assets by stages.

The income-related government grants for compensation to the related expenses or loss of enterprise at subsequent periods shall be recognized as deferred income and current revenue from non-operation during the recognition of related expenses; in addition, it shall be directly recognized as current revenue from non-operation to compensate the related expenses incurred.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(25) Government grants *(Continued)*

(c) The point of recognition

Government grants shall be recognized and measured in accordance with the amount when actual amount received. Only if there is sufficient evidence to show that grants is allocated in accordance with fixed quotas and comply with the conditions of financial policies and is expected to receive supporting funds, the grants shall be recognized and measured by certain amount.

(26) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

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.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

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

Deferred tax assets and liabilities are offset when:

- The deferred taxes are related to the same tax payer within the Group and the same taxation authority;
- The tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

(27) Operating leases and finance leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

(a) Operating leases

Lease payments under an operating lease are recognised on a straight-line basis over the period of the lease, and are either capitalised as part of the cost of related assets, or charged as an expense for the current year.

(b) Finance leases

The leased asset is recorded at the amounts equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as unrecognised finance charge and is amortised using the effective interest method over the period of the lease. A long-term payable is recorded at the amount equal to the minimum lease payments less the unrecognised finance charge.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(28) Changes in significant accounting policies and accounting estimates

(a) Changes in accounting policies

The Ministry of Finance revised and issued 1 basic standard and 8 Accounting Standards for Business Enterprises.

The Group performed 5 of the above-mentioned standards in advance, which includes <Accounting Standards for Business Enterprises No.9 – Employee benefits>, <Accounting Standards for Business Enterprises No.30 – Presentation of financial statements> (revised), <Accounting Standards for Business Enterprises No.33 – Consolidated financial statements > (revised), <Accounting Standards for Business Enterprises No.39 – Fair value measurement >, <Accounting Standards for Business Enterprises No.40 – Joint arrangements>, the Ministry of Finance issued this 5 new and revised Accounting Standards for Business Enterprises in January and February 2014.

The Group performed 4 of the above-mentioned standards in year 2014, which includes <Accounting Standards for Business Enterprises – Basic Standard> (revised), <Accounting Standards for Business Enterprises No.2 – Long-term equity investments> (revised), <Accounting Standards for Business Enterprises No.37 – Presentation of financial instruments> (revised), <Accounting Standards for Business Enterprises No.41 – Disclosure of interests in other entities> (revised).

The Group classified 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 to available for sale financial assets in accordance with <Accounting Standards for Business Enterprises No.2 – Long-term equity investments> (revised) and made retroactive adjustments to it.

The effect of performance for the above-mentioned standards is as below:

Consolidated balance sheet:

Item	Opening balance before performance	Amount of retroactive adjustment	Opening balance after performance
Available for sale financial assets	17,608,107.28	101,757,172.65	119,365,279.93
Long-term equity investments	1,972,490,292.04	(101,757,172.65)	1,870,733,119.39

There is no significant effect to the financial statements of the Group by performance of the above Accounting Standards for Business Enterprises except for above ones.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(28) Changes in significant accounting policies and accounting estimates *(Continued)*

(b) Changes in accounting estimates

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

(29) Correction of prior period's accounting errors

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

(30) Other significant accounting policies

(a) Segment information

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

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

(b) Dividend distribution

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

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

(31) Critical accounting estimates and judgments

(a) Current and deferred income tax

The Group is subject to income taxes in the mainland of People's Republic of China and Hong Kong. Critical judgement 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 recognizes liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

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

Notes to the Financial Statements

For the year ended 31 December 2014

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4 TAXATION

(1) Major turnover tax and tax rate

Taxable item	Type	Tax rate
Sales of goods	Value-added tax ("VAT")	13%, 17%
Income from sales of materials	VAT	17%
Income from rendering of services	Business tax	5%
Rental income	VAT	6%
Rental income	Business tax	5%
Transferred Technology income	VAT	3%, 6%
Balance of owner-occupied real estates	Real-estate tax	1.2%
Rental income	Real-estate tax	12%
Interest income	Business tax	5%
Sales of wine products	Consumption Tax	10%
Turnover tax	City maintenance & construction tax	7%
Turnover tax	Education surcharge	3%
Turnover tax	Local education surcharge	2%

(2) Business income tax

The group companies in the PRC pays the enterprise income tax in accordance with "PRC Enterprise Income Tax Law" and "Implementation Rules of PRC Enterprise Income Tax Law" and the applicable enterprise income tax rate of these entities is 25%. Guangyao Baiyunshan (Hong Kong) Co., Ltd. of the Group, pays the corporation profits tax in accordance with "Hong Kong Inland Revenue Ordinance" at a the corporation profit tax rate of 16.5%.

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

The following subsidiaries of the Group enjoy preferential tax rate of 15%. Which include: the Company (No. GR201444000590), Zhongyi (No. GR201444000836), Hanfang (No. GR201444000631), Jingxiutang (No. GR201444001464), Qixing (No. GR201444001047), Chenlijij (No. GR201444001125), Tianxin (No. GR201444000895), Mingxing (No. GR201444001349), Guanghua (No. GR201244000497), Yingkang (No. GF201245000068).

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2014			31 December 2013		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash on hand -						
RMB			738,798.99			754,930.02
Hong Kong Dollars ("HKD")	-	Not applicable	-	3,587.38	0.7862	2,820.40
			738,798.99			757,750.42
Bank deposits						
RMB			3,105,297,216.42			1,878,374,679.49
US Dollars ("USD")	1,518,869.31	6.1190	9,293,961.31	3,151,972.60	6.0969	19,217,261.74
HKD	5,116,440.61	0.7889	4,036,206.51	2,463,147.39	0.7862	1,936,576.41
Euro (EUR)	0.27	7.4556	2.00	535,955.54	8.4189	4,512,156.10
Yen (JPY)	93,323,482.51	0.0514	4,794,120.62	10,000,002.00	0.0578	577,710.12
Great Britain Pound (GBP)	-	Not applicable	-	0.11	10.091	1.11
			3,123,421,506.86			1,904,618,384.97
Other deposits -						
RMB			56,692,510.81			30,271,005.98
HKD	44,007.49	0.7889	34,716.19	44,007.49	0.7862	34,598.69
			56,727,227.00			30,305,604.67
			3,180,887,532.85			1,935,681,740.06
Including: overseas account			15,559,870.07			22,331,740.52

Details of restricted cash are listed as follows:

	31 December 2014	31 December 2013
Cash deposit of notes payable	52,179,313.57	16,053,239.48
Blocked account	78,890,752.78	-
Cash deposit of construction	100,000.00	100,543.50
Housing fund	581,381.79	575,670.22
Deposit of direct commerce enterprise	20,000,000.00	-
	151,751,448.14	16,729,453.20

The blocked account refers to Note 14 (1), (2).

Notes to the Financial Statements

For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Financial assets at fair value through profit or loss

	31 December 2014	31 December 2013
Financial assets held for trading	4,686,023.00	3,362,667.20
Including: Investments in equity instruments	4,686,023.00	3,362,667.20

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

(3) Notes receivable

(a) Classification of notes receivable

	31 December 2014	31 December 2013
Bank acceptance notes	1,407,931,163.22	1,315,644,828.33
Commercial acceptance notes	57,817,789.10	10,708,927.57
	1,465,748,952.32	1,326,353,755.90

(b) As at 31 December 2014, there are no notes receivable that are being pledged of the Group. (As at 31 December 2013: RMB11,000 thousand)

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Notes receivable (Continued)

- (c) As at 31 December 2014, notes receivable that are not matured at balance sheet date but have been discounted or endorsed are summarised as follows:

	Ending amount (confirmed)	Ending amount (not confirmed)
Notes receivable that are not matured at balance sheet date but have been endorsed		
Bank acceptance notes	521,227,221.65	–
Commercial acceptance notes	5,746,073.06	–
	<hr/> 526,973,294.71	<hr/> –
Notes receivable that are not matured at balance sheet date but have been discounted		
Bank acceptance notes	86,750,987.88	–
Commercial acceptance notes	–	–
	<hr/> 86,750,987.88	<hr/> –

- (i) As at 31 December 2014, the bank acceptance notes receivable that are not matured but have been endorsed amounted to RMB521,227 thousand (As at 31 December 2013: RMB1,053,687 thousand), the top five of which are summarised as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2014-12-31	2015-1-9	22,033,200.00
Entity 2	2014-8-26	2015-2-26	5,100,000.00
Entity 3	2014-8-26	2015-2-26	5,100,000.00
Entity 4	2014-8-8	2015-2-6	5,006,564.58
Entity 5	2014-10-11	2015-4-9	4,898,055.83

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Notes receivable (Continued)

(c) (Continued)

(ii) As at 31 December 2014, the commercial acceptance notes that are not matured but have been endorsed amounted to RMB5,746 thousand (As at 31 December 2013: RMB7,698 thousand). The top five of which are summarised as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2014-11-28	2015-2-28	1,799,012.94
Entity 2	2014-12-23	2015-3-23	1,053,565.25
Entity 3	2014-11-11	2015-2-11	989,000.00
Entity 4	2014-12-23	2015-3-23	780,000.00
Entity 5	2014-10-25	2015-2-25	522,954.53

(iii) As at 31 December 2014, the bank acceptance notes that are not matured but have been discounted amounted to RMB86,751 thousand (As at 31 December 2013: RMB 114,178 thousand), and the top five of which are summarised as follows:

Issue Company	Date of issuance	Due date	Amount
Entity 1	2014-11-28	2015-5-28	9,000,000.00
Entity 2	2014-9-28	2015-3-28	5,000,000.00
Entity 3	2014-10-16	2015-4-16	4,858,400.00
Entity 4	2014-9-25	2015-3-24	3,500,000.00
Entity 5	2014-11-27	2015-5-27	3,250,000.00

(iv) As at 31 December 2014 and 31 December 2013, there are no commercial acceptance notes that are not matured but have been discounted.

(d) As at 31 December 2014, there are no notes receivable that are reclassified to accounts receivable due to inability of the companies of issuance. (As at 31 December 2013: RMB4,585 thousand).

(e) As at 31 December 2014, balance of notes receivable will expire on 30 June 2015.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Dividends receivable

Item	31 December 2013	Current increase	Current decrease	31 December 2014
Dividends receivable				
within 1 year aging	–	80,942,160.13	80,942,160.13	–
Including: HWBYS	–	40,000,000.00	40,000,000.00	–
Nuocheng Biological	–	40,942,160.13	40,942,160.13	

(5) Accounts receivable

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

(a) Accounts receivable by aging are analysed as follows:

	31 December 2014	31 December 2013
Within 1 year	944,813,755.81	961,563,413.82
1 to 2 years	78,706,663.12	21,462,412.04
2 to 3 years	6,868,859.64	5,779,861.24
3 to 4 years	5,239,589.65	871,321.18
4 to 5 years	788,470.95	4,836,377.21
Over 5 years	12,098,245.12	8,577,552.93
	1,048,515,584.29	1,003,090,938.42
Less: provision for bad debts	42,557,333.16	29,906,189.31
	1,005,958,251.13	973,184,749.11

Notes to the Financial Statements

For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

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

	31 December 2014				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	17,523,256.11	1.67%	11,254,884.31	64.23%	6,268,371.80
Subject to provision by groups: Group 1	1,025,707,611.29	97.82%	26,017,731.96	2.54%	999,689,879.33
Individually insignificant but subject to separate provision	5,284,716.89	0.51%	5,284,716.89	100.00%	-
	1,048,515,584.29	100.00%	42,557,333.16	4.06%	1,005,958,251.13

	31 December 2013				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	5,874,187.50	0.59%	5,391,750.00	91.79%	482,437.50
Subject to provision by groups: Group 1	991,218,442.23	98.81%	18,516,130.62	1.87%	972,702,311.61
Individually insignificant but subject to separate provision	5,998,308.69	0.60%	5,998,308.69	100.00%	-
	1,003,090,938.42	100.00%	29,906,189.31	2.98%	973,184,749.11

Classification of accounts receivable: refer to Note 3(11).

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

- (c) As at 31 December 2014, accounts receivable that are individually significant and subject to separate provision are analysed as follows:

	Carrying amount	Provision for bad debts	Ratio	Reason
Customer 1	5,028,313.75	2,514,156.88	50.00%	In the execution procedure, there is a possibility that the amount could not be recoverable.
Customer 2	4,410,202.06	2,205,101.03	50.00%	In the execution procedure, there is a possibility that the amount could not be recoverable.
Customer 3	3,296,987.50	2,891,750.00	87.71%	It is expected the amount could not be recovered in full due to significant delinquency in repayment by this customer.
Customer 4	1,500,000.00	1,500,000.00	100.00%	In the execution procedure, there is a possibility that the amount could not be recoverable.
Customer 5	1,228,100.00	614,050.00	50.00%	In the execution procedure, there is a possibility that the amount could not be recoverable.
Customer 6	1,059,652.80	529,826.40	50.00%	In the execution procedure, there is a possibility that the amount could not be recoverable.
Customer 7	1,000,000.00	1,000,000.00	100.00%	The execution procedure has been accepted, there is a possibility that the amount could not be recoverable.
	<u>17,523,256.11</u>	<u>11,254,884.31</u>	64.30%	

Notes to the Financial Statements

For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

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

	31 December 2014			31 December 2013		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	935,370,920.02	91.20%	9,353,709.23	960,108,483.73	96.85%	9,601,084.85
1 to 2 years	74,963,980.21	7.31%	7,496,398.03	21,462,412.04	2.17%	2,146,241.19
2 to 3 years	6,597,373.23	0.64%	1,979,211.97	3,393,212.69	0.34%	1,017,963.81
3 to 4 years	3,013,591.41	0.29%	1,506,795.73	458,736.15	0.05%	229,368.09
4 to 5 years	400,647.10	0.04%	320,517.68	1,370,624.76	0.14%	1,096,499.82
Over 5 years	5,361,099.32	0.52%	5,361,099.32	4,424,972.86	0.45%	4,424,972.86
	1,025,707,611.29	100.00%	26,017,731.96	991,218,442.23	100.00%	18,516,130.62

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

- (e) As at 31 December 2014, accounts receivable that are individually insignificant but subject to separate provision are analysed as follows:

	Carrying amount	Provision for bad debts	Ratio	Reason
Customer 1	508,889.00	508,889.00	100.00%	Although the company has won the lawsuit, there is a possibility that the amount could not be recoverable.
Customer 2	470,000.00	470,000.00	100.00%	It is expected that the amount could not be recovered.
Customer 3	467,462.40	467,462.40	100.00%	It is expected that the amount could not be recovered.
Customer 4	400,000.00	400,000.00	100.00%	The notes have transferred to accounts receivables, it is expected that the amount could not be recovered
Customer 5	315,508.74	315,508.74	100.00%	It is expected that the amount could not be recovered
Others	3,122,856.75	3,122,856.75	100.00%	It is expected that the amount could not be recovered.
	<u>5,284,716.89</u>	<u>5,284,716.89</u>	100.00%	

- (f) As at 31 December 2014 and 31 December 2013, there is no material accounts receivable which have past due but not impaired.
- (g) There are no other receivables that are subject to full provision or in large portionate but have been reversed or collected in the current period.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

- (h) There are no accounts receivable that have been collected by restructuring or other manners during the current period.
- (i) Accounts receivable amounted to RMB319 thousand that are written off during the current period are as below:

	Nature	Amount	Reason	Verification	Whether arising from connected transactions
Liaoning Kanglai Pharmaceutical Co., Ltd.	Payment	43,389.60	It is verified that the amount could not be recovered.	Approved by company procedure	No
Chongqing Central District Chinese Medicine Co.,Ltd.	Payment	50,004.18	It is verified that the amount could not be recovered.	Approved by company procedure	No
Zhang Li Internal Medicine Clinic	Payment	30,421.95	It is verified that the amount could not be recovered.	Approved by company procedure	No
Guangxi Medical Supplies	Payment	10,320.00	It is verified that the amount could not be recovered.	Approved by company procedure	No
Sihui Baiyunshan Pharmaceutical Co.,Ltd.	Payment	39,600.00	It is verified that the amount could not be recovered.	Approved by company procedure	No
China Zhengxin (Group) Co.,Ltd.	Payment	15,945.00	It is verified that the amount could not be recovered.	Approved by company procedure	No
Others	Payment	129,736.59	It is verified that the amount could not be recovered.	Approved by company procedure	No
Total		<u>319,417.32</u>			

- (j) As at 31 December 2014, accounts receivable from shareholders who hold more than 5% (including 5%) of the voting rights of the Company is account receivable of RMB2 thousand from GPLH.(As at 31 December 2013: account receivable of RMB11 thousand from GPLH)

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Accounts receivable (Continued)

(k) As at 31 December 2014, the top five of accounts receivable are analysed as follows:

	Relationship with the Group	Carrying amount	Aging	% of total balance	Ending balance of provision for bad debts
Customer 1	Third Party	137,401,696.92	Within 1 year, 1-2 years	13.10%	5,454,862.28
Customer 2	Third Party	56,087,565.40	Within 1 year	5.35%	560,875.65
Customer 3	Third Party	37,710,221.64	Within 1 year	3.60%	377,102.22
Customer 4	Third Party	28,999,320.93	Within 1 year	2.77%	289,993.21
Customer 5	Third Party	22,588,888.95	Within 1 year	2.15%	225,888.89
		<u>282,787,693.84</u>		<u>26.97%</u>	<u>6,908,722.25</u>

(l) As at 31 December 2014, accounts receivable from related parties accounted for 3.29% of total accounts receivable balance (As at 31 December 2013: 3.64%), refer to Note 12 for details.

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

(n) As at 31 December 2014, there are no securitizations that targeted at accounts receivable.

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

	31 December 2014			31 December 2013		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
USD	1,823,742.94	6.1190	11,159,483.05	2,258,215.76	6.0969	13,768,115.67
HKD	677,977.66	0.7889	534,836.23	7,003,374.71	0.7862	5,506,263.30
			<u>11,694,319.28</u>			<u>19,274,378.97</u>

Notes to the Financial Statements

For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables

	31 December 2014	31 December 2013
Petty cash	6,254,969.00	5,590,842.15
Deposits	126,228,677.34	29,838,619.79
Staff advances	35,141,181.23	28,921,124.81
Receivables due from external parties	102,930,989.29	80,899,440.84
Receivables due from related parties (Note 6(5))	39,885,630.08	22,753,002.38
Tax refund for exports	17,691,414.62	21,117,734.81
Taxes pending for customs registration	–	4,623,940.24
Others	6,987,227.43	5,265,491.20
	335,120,088.99	199,010,196.22
Less: provision for bad debts	28,843,328.59	17,864,477.96
	306,276,760.40	181,145,718.26

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

	31 December 2014			31 December 2013		
	Carrying amount	% of total balance	Provision for bad debts	Carrying amount	% of total balance	Provision for bad debts
Within 1 year	272,035,700.31	81.19%	10,544,658.84	144,239,141.72	72.48%	135,681.15
1 to 2 years	16,601,537.74	4.95%	94,218.88	7,931,234.15	3.99%	333,846.86
2 to 3 years	6,240,162.30	1.86%	851,166.74	5,348,410.41	2.69%	614,277.81
3 to 4 years	1,755,401.97	0.52%	436,154.10	5,023,200.99	2.52%	2,269,357.12
4 to 5 years	4,170,719.40	1.24%	2,217,862.98	1,878,996.56	0.94%	382,438.20
Over 5 years	34,316,567.27	10.24%	14,699,267.05	34,589,212.39	17.38%	14,128,876.82
	335,120,088.99	100.00%	28,843,328.59	199,010,196.22	100.00%	17,864,477.96

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

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

	31 December 2014				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	32,702,048.65	9.76%	22,273,282.65	68.11%	10,428,766.00
Subject to provision by groups:					
Group 1	16,048,953.54	4.79%	2,347,092.52	14.62%	13,701,861.02
Group 2	74,735,675.71	22.30%	–	0.00%	74,735,675.71
Group 3	39,885,630.10	11.90%	100,000.00	0.25%	39,785,630.10
Group 4	167,624,827.57	50.02%	–	0.00%	167,624,827.57
Individually insignificant but subject to separate provision	4,122,953.42	1.23%	4,122,953.42	100.00%	–
	335,120,088.99	100.00%	28,843,328.59	8.61%	306,276,760.40

	31 December 2013				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	10,870,395.15	5.46%	10,870,395.15	100.00%	–
Subject to provision by groups:					
Group 1	19,208,172.17	9.65%	2,211,869.09	11.52%	16,996,303.08
Group 2	77,145,826.05	38.76%	–	0.00%	77,145,826.05
Group 3	22,753,002.38	11.43%	100,000.00	0.44%	22,653,002.38
Group 4	64,350,586.75	32.35%	–	0.00%	64,350,586.75
Individually insignificant but subject to separate provision	4,682,213.72	2.35%	4,682,213.72	100.00%	–
	199,010,196.22	100.00%	17,864,477.96	8.98%	181,145,718.26

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

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

	Carrying amount	Provision for bad debts	Ratio	Reason
Other receivables 1	10,541,832.00	5,270,916.00	50.00%	In the execution procedure, there is a possibility that the amount could not be recoverable.
Other receivables 2	10,315,700.00	5,157,850.00	50.00%	In the execution procedure, there is a possibility that the amount could not be recoverable.
Other receivables 3	2,868,759.75	2,868,759.75	100.00%	As this company was ceased, it is expected that the amount could not be recovered
Other receivables 4	2,000,000.00	2,000,000.00	100.00%	The aging is too large and the project did not meet expected progress.
Other receivables 5	1,800,957.60	1,800,957.60	100.00%	As this company was ceased, it is expected that the amount could not be recovered
Others	5,174,799.30	5,174,799.30	100.00%	It is expected that the amount could not be recovered
	<u>32,702,048.65</u>	<u>22,273,282.65</u>	68.11%	

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

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

	31 December 2014			31 December 2013		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	11,589,282.67	72.21%	115,892.83	13,568,115.20	70.64%	135,681.15
1 to 2 years	942,188.79	5.87%	94,218.88	3,338,468.60	17.38%	333,846.86
2 to 3 years	1,711,272.62	10.66%	513,381.79	566,288.40	2.95%	169,886.52
3 to 4 years	287,166.11	1.79%	143,583.06	264,869.63	1.38%	132,434.82
4 to 5 years	195,136.97	1.22%	156,109.58	152,053.00	0.79%	121,642.40
Over 5 years	1,323,906.38	8.25%	1,323,906.38	1,318,377.34	6.86%	1,318,377.34
	16,048,953.54	100.00%	2,347,092.52	19,208,172.17	100.00%	2,211,869.09

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

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

	Carrying amount	Provision for bad debts	Ratio	Reason
Other receivables 1	85,500.00	85,500.00	100.00%	It is expected that the amount could not be recovered
Other receivables 2	78,580.00	78,580.00	100.00%	It is expected that the amount could not be recovered
Other receivables 3	71,739.00	71,739.00	100.00%	It is expected that the amount could not be recovered
Other receivables 4	65,846.20	65,846.20	100.00%	It is expected that the amount could not be recovered
Other receivables 5	60,080.00	60,080.00	100.00%	It is expected that the amount could not be recovered
Others	3,761,208.22	3,761,208.22	100.00%	It is expected that the amount could not be recovered
	<u>4,122,953.42</u>	<u>4,122,953.42</u>	100.00%	

- (f) There are other receivables that are subject to full provision or in large portionate but have been reversed or collected in the current period.
- (g) There are no other receivables that have been collected by restructuring or other manners in the current period.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

- (h) Other receivables amounted to RMB1,669 thousand that are written off during the current period are as below:

	Nature	Amount	Reason	Verification	Whether arising from connected transactions
Shipai Pharmacy	Current account	643,040.30	As this company was ceased, it is expected that the amount could not be recovered	Approved by company procedure	No
Guangdong Province Third Architectural Co., Ltd.	Project	1,025,878.50	It is verified that the amount could not be recovered	Approved by company procedure	No
		<u>1,668,918.80</u>			

- (i) As at 31 December 2014, other receivable from shareholders who hold more than 5% (including 5%) of the voting rights of the Company is RMB4,757 thousand from GPLH. (As at 31 December 2013: RMB842 thousand).

Notes to the Financial Statements

For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

- (j) As at 31 December 2014, the top five of the debt form the balance of other receivables is analysed as follows:

	Relationship with the company	Amount	Aging	% of total balance	Ending balance of provision for bad debts
Other receivables 1	Third party	83,403,387.00	Within 1 year	24.89%	-
Other receivables 2	Related party	19,480,981.55	Within 1 year, 1-2 years, over 5 years	5.81%	-
Other receivables 3	Third party	17,691,414.62	Within 1 year	5.28%	-
Other receivables 4	Third party	15,945,175.00	Within 1 year	4.76%	-
Other receivables 5	Related party	15,434,323.01	Within 1 year	4.61%	-
		<u>151,955,281.18</u>		<u>45.35%</u>	<u>-</u>

- (k) As at 31 December 2014, accounts receivable from related parties accounted for 11.90% of total other accounts receivable balance (as at 31 December 2013: 11.43%): refer to Note 12 for details.
- (l) There are no other receivables derecognised due to transfer of financial assets during the current period.
- (m) As at 31 December 2014, there are no securitizations that targeted at other receivables.
- (n) As at 31 December 2014, the other receivables denominated in foreign currencies are summarised as follows:

	31 December 2014			31 December 2013		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
HKD	1,647,250.27	0.7889	1,299,466.33	674,748.02	0.7862	530,507.14

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Advances to suppliers

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

	31 December 2014		31 December 2013	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	306,802,187.19	93.87%	564,108,967.87	91.89%
1 to 2 years	12,334,087.16	3.77%	45,971,995.32	7.49%
2 to 3 years	6,024,768.33	1.84%	899,375.16	0.15%
Over 3 years	1,696,240.45	0.52%	2,901,983.43	0.47%
	326,857,283.13	100.00%	613,882,321.78	100.00%

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

	Relationship with the Group	Amount	Aging	Reason of unsettlement
Supplier 1	Third party	63,426,052.12	Within 1 year	Normal purchases
Supplier 2	Third party	25,705,833.00	Within 1 year	Advertising
Supplier 3	Third party	18,440,000.00	Within 1 year	Normal purchases
Supplier 4	Third party	16,486,651.33	Within 1 year	Normal purchases
Supplier 5	Third party	9,129,662.84	Within 1 year	Normal purchases
		133,188,199.29		

(c) As at 31 December 2014 and 31 December 2013, there are no advances to shareholders who hold more than 5% (including 5%) of the voting rights of the Company.

(d) As at 31 December 2014, the advances to related parties accounted for 1.80% of the total balance of advances to suppliers (as at 31 December 2013: 1.42%): refer to Note 12 for details.

Notes to the Financial Statements

For the year ended 31 December 2014

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Advances to suppliers (Continued)

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

	31 December 2014			31 December 2013		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
USD	-	Not applicable	-	1,676,642.10	6.1346	10,286,671.47
HKD	-	Not applicable	-	30,976,632.30	0.8077	25,019,855.88
			-			35,306,527.35

(f) As at 31 December 2014 and 31 December 2013, there are no significant advances to suppliers with aging over one year.

(8) Inventories

(a) Classification of inventories:

	31 December 2014			31 December 2013		
	Ending balance	Provision for declines in value of inventories	Carrying amount	Ending balance	Provision for declines in value of inventories	Carrying amount
Goods in transit	-	-	-	6,259,476.04	-	6,259,476.04
Raw materials	591,029,018.87	1,422,529.11	589,606,489.76	596,252,876.34	1,163,784.28	595,089,092.06
Work in progress	128,122,286.28	-	128,122,286.28	156,376,261.67	-	156,376,261.67
Semi-finished goods	220,180,848.04	981,315.46	219,199,532.58	190,609,695.88	981,315.46	189,628,380.42
Finished goods	852,337,125.06	27,386,044.58	824,951,080.48	683,304,886.83	12,214,273.40	671,090,613.43
Low-value consumables	6,277,123.36	-	6,277,123.36	3,951,500.73	-	3,951,500.73
Packaging materials	110,227,829.84	89,844.93	110,137,984.91	104,359,501.34	-	104,359,501.34
Goods In processing contract	15,719,934.37	-	15,719,934.37	15,464,794.08	-	15,464,794.08
Commodity Stocks	693,374,087.14	9,398,536.19	683,975,550.95	503,727,260.88	558,931.62	503,168,329.26
Others	604,704.39	-	604,704.39	441,799.02	-	441,799.02
	2,617,872,957.35	39,278,270.27	2,578,594,687.08	2,260,748,052.81	14,918,304.76	2,245,829,748.05

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For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Inventories (Continued)

(b) Provisions for declines in the value of inventories

Item	31 December 2013	Current period additions	Current period reductions			31 December 2014
			Reversal	Write-off	Other reductions	
Raw materials	1,163,784.28	953,156.12	-	694,411.29	-	1,422,529.11
Work in progress	-	400,064.66	-	400,064.66	-	-
Raw materials	981,315.46	-	-	-	-	981,315.46
Finished goods	12,214,273.40	21,384,864.83	1,131,393.38	5,081,700.27	-	27,386,044.58
Low-value consumables	-	-	-	-	-	-
Packaging materials	-	89,844.93	-	-	-	89,844.93
Commodity stocks	558,931.62	9,884,592.09	-	1,044,987.52	-	9,398,536.19
	<u>14,918,304.76</u>	<u>32,712,522.63</u>	<u>1,131,393.38</u>	<u>7,221,163.74</u>	<u>-</u>	<u>39,278,270.27</u>

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

Item	Basis for provision	Reason for reversal	% of amount of reversal to the relevant inventory balance
Raw materials	The difference when net realisable value is less than carrying amount of raw material	No reversal	-
Finished goods	Carrying amount over net realisable value	Increase in market price	0.13%
Commodity stocks	Carrying amount over net realisable value	No reversal	-

Notes to the Financial Statements

For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) Other current assets

	31 December 2014	31 December 2013
Deductible Input VAT	16,754,059.56	19,142,497.23
Provisional Income Tax paid	3,285,455.21	205,083.92
	20,039,514.77	19,347,581.15

(10) Available-for-sale financial assets

(a) Details are as follows:

Item	Book balance	Ending balance		Carrying amount	Opening balance	
		Provision for impairment	Book balance		Provision for impairment	Book value
Available-for-sale equity instruments						
Including:						
measured at fair value	32,207,055.60	–	32,207,055.60	17,608,107.28	–	17,608,107.28
measured at cost	106,310,723.88	4,553,551.23	101,757,172.65	106,310,723.88	4,553,551.23	101,757,172.65
Total	138,517,779.48	4,553,551.23	133,964,228.25	123,918,831.16	4,553,551.23	119,365,279.93

(b) Available-for-sale financial assets measured at fair value at the end of period

Item	Available-for-sale equity instruments
Cost of equity instruments/amortized cost of liabilities	11,249,958.40
Fair value	32,207,055.60
Accumulated movement of fair value charged as other comprehensive income (written down related deferred income tax liabilities)	17,732,936.36
Accumulated movement of fair value charged as deferred tax liabilities	3,224,160.84
Impairment	–

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Available-for-sale financial assets (Continued)

(b) Available-for-sale financial assets measured at fair value at the end of period. (Continued)

Available-for-sale financial assets measured at fair value at the end of period are shares of listed companies, which fair value is recognized in accordance with the closing price at last transaction day.

(c) Available-for-sale financial assets measured at cost at the end of period.

Investee	Book balance				Provision for impairment				% Equity interest held	Current cash dividends
	Opening amount	Current increase	Current decrease	Ending amount	Opening amount	Current increase	Current decrease	Ending amount		
Shanghai Jiuhetang Chinese Medicine Co., Ltd	547,193.71	-	-	547,193.71	-	-	-	-	9.53%	-
Beijing Imperial Court Cultural Development Company Ltd.	200,000.00	-	-	200,000.00	-	-	-	-	10.00%	-
Qi Xing Ma Zhong Pharmaceutical Co., Ltd (Note 1)	362,826.38	-	-	362,826.38	-	-	-	-	40.00%	-
Indonesia San You Development Co., Ltd. (Note 1)	1,078,551.23	-	-	1,078,551.23	1,078,551.23	-	-	1,078,551.23	50.00%	-
Sales Store of Peking Road of Guangzhou Medicine Co., Ltd (Note 1)	218,399.05	-	-	218,399.05	-	-	-	-	20.00%	-
South China Innovative Pharmaceutical Co., Ltd of Guangdong	10,000,000.00	-	-	10,000,000.00	-	-	-	-	11.12%	-
Shenzhen Zhong Lian Guang Shen Pharmaceutical Group Co., Ltd.	312,077.00	-	-	312,077.00	-	-	-	-	-	12,344.32
Guangzhou Zhong Ying Cambridge Technology Co., Ltd.	300,000.00	-	-	300,000.00	300,000.00	-	-	300,000.00	9.97%	-
Dongbei Pharmaceutical Factory	750,000.00	-	-	750,000.00	750,000.00	-	-	750,000.00	-	-
Wuhan Pharmaceutical Co., Ltd.	2,000,000.00	-	-	2,000,000.00	2,000,000.00	-	-	2,000,000.00	2.80%	-
Securities of Enterprises Activities Center	50,000.00	-	-	50,000.00	50,000.00	-	-	50,000.00	-	-
Guangzhou Dong Ning Pharmaceutical Co., Ltd.	275,000.00	-	-	275,000.00	275,000.00	-	-	275,000.00	5.00%	-
Guangzhou Nan Xin Pharmaceutical Co., Ltd.	7,677,876.51	-	-	7,677,876.51	-	-	-	-	13.00%	-
Guangzhou Yu Fa Medical Instrument Co., Ltd.	100,000.00	-	-	100,000.00	100,000.00	-	-	100,000.00	10.00%	-
Baxter Healthcare	82,338,800.00	-	-	82,338,800.00	-	-	-	-	12.50%	4,500,000.00
Guangzhou Bank of Commerce	100,000.00	-	-	100,000.00	-	-	-	-	-	18,245.04
Total	106,310,723.88	-	-	106,310,723.88	4,553,551.23	-	-	4,553,551.23	-	4,530,589.36

Note: 1) The Group has not participated in the operation of Qi Xing Ma Zhong and Indonesia San You Development Co., Ltd. and Sales Store of Peking Road of Guangzhou Medicine Co., Ltd. No exercised significant influence on them, in which the investments were measured using the cost method.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

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

(10) Available-for-sale financial assets *(Continued)*

(d) Movement for impairment of available-for-sale financial assets at current period:

Classification	Available-for-sale equity instruments
Opening amount of impairment	4,553,551.23
Current provision	–
Including: reclassified from other comprehensive income	–
Current decrease	–
Including: reclassified from increment of fair value at subsequent periods	–
Ending amount of impairment	4,553,551.23

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

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 2013	Movement of investment	Profit or loss recognised of investment by equity method	Adjustment for other comprehensive income	Movement of other equity	Distributed cash dividends	Others	31 December 2014	Provision for impairment	Current provision for impairment	Current cash dividends
1. Jointly controlled entities												
GP Corp.	396,589,139.78	947,954,367.34	-	101,003,337.81	233,768.27	(1,025,105.26)	-	-	1,048,166,368.16	-	-	-
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. ("Wang Lao Ji")	102,035,124.44	450,506,289.82	-	(69,867,614.10)	-	-	-	-	380,638,675.72	-	-	-
Nuo Cheng	42,000,000.00	121,162,661.82	-	66,599,571.84	-	-	(40,942,160.13)	-	146,820,073.53	-	-	40,942,160.13
HWBYS	100,000,000.00	297,472,505.41	-	60,956,013.80	-	-	(40,000,000.00)	-	318,428,519.21	-	-	40,000,000.00
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. (Baxter Qiao Guang)	37,000,000.00	23,051,837.53	-	2,894,315.89	-	-	-	-	25,946,153.42	-	-	-
2. Associates												
Guangzhou Jinshen Medical Co., Ltd.	765,000.00	-	-	-	-	-	-	-	-	-	-	-
Hangzhou Zheda Han Fang Chinese Medical Info. Engineering Co., Ltd.	440,000.00	-	-	-	-	-	-	-	-	-	-	-
Golden Eagle Fund Management Co., Ltd.	50,000,000.00	28,565,457.47	-	241,144.51	-	-	-	-	28,806,601.98	-	-	-
Wei Yi Co., Ltd.	2,020,000.00	2,020,000.00	-	(61,292.67)	-	-	-	-	1,958,707.33	-	-	-
Subtotal	730,849,264.22	1,870,733,119.39	-	161,765,477.08	233,768.27	(1,025,105.26)	(80,942,160.13)	-	1,950,765,099.35	-	-	80,942,160.13

Wang Lao Ji's period of joint venture is for 10 years and expired on 25 January 2015. The Company applied for arbitration to Committee of South China International Economic and Trade Arbitration (Shenzhen International Court of Arbitration) ("Arbitration Committee"), required Tongxing Pharmaceutical Co., Ltd. to transfer 48.0465% of equity in Wang Lao Ji to the Company. Arbitration Committee has accepted it (case No. SHENT2014811). Pursuant to <Notice from Guangzhou Administration Bureau for Industry and Commerce in respect of Guangzhou Wang Lao Ji Pharmaceutical Holdings Co., Ltd.>(SGSF[2015] No.49) issued by Guangzhou Administration Bureau for Industry and Commerce on 27 February 2015, Wang Lao Ji should be in normal operation. As at the reporting date, Wang Lao Ji is still in continuous and normal operation.

(b) There are no limitation on transformation of funds between the Group and its investee.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Investment properties

(a) Investment properties measured at cost method:

	Buildings	Land use right	Total
1. Cost			
(1) Opening balance	365,691,923.75	18,344,900.69	384,036,824.44
(2) Current increase	21,285.29	–	21,285.29
(i) Outsourcing	–	–	–
(ii) Changes on exchange	21,285.29	–	21,285.29
(3) Current decrease	–	–	–
(4) Ending balance	365,713,209.04	18,344,900.69	384,058,109.73
2. Accumulated depreciation and amortization			
(1) Opening balance	130,116,617.42	7,610,961.65	137,727,579.07
(2) Current increase	10,203,758.92	375,177.99	10,578,936.91
(i) Provision or amortization	10,196,261.68	375,177.99	10,571,439.67
(ii) Changes on exchange	7,497.24	–	7,497.24
(3) Current decrease	–	–	–
(4) Ending balance	140,320,376.34	7,986,139.64	148,306,515.98
3. Provision for impairment			
(1) Opening balance	–	–	–
(2) Current increase	–	–	–
(3) Current decrease	–	–	–
(4) Ending balance	–	–	–
4. Book value			
(1) Ending book value	225,392,832.70	10,358,761.05	235,751,593.75
(2) Opening book value	235,575,306.33	10,733,939.04	246,309,245.37

- (i) Depreciation charges for the year ended 31 December 2014 amounted to RMB10,196 thousand. (for the year ended 31 December 2013: RMB8,770 thousand); Amortisation charges for the year ended 31 December 2014 amounted to RMB375 thousand (For the year ended 31 December 2013: RMB286 thousand).
- (ii) As for the year ended 31 December 2014, the decrease of original cost and accumulated depreciation of the investment properties arising from the fluctuations in exchange is RMB21 thousand and RMB7 thousand respectively. (As for the year ended 31 December 2013: RMB199 thousand and RMB67 thousand respectively.)
- (iii) The land use right among the investment properties is located in Mainland China, and the useful life is 10-50 years

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Fixed assets and accumulated depreciation

(a) Fixed assets

	Buildings	Machinery and equipment	Motor vehicles	Electronic equipment	Office equipment	Decoration of fixed assets	Total
1. Cost:							
(1) Opening balance	1,840,811,233.82	1,420,172,674.16	94,901,677.28	130,166,198.46	99,616,615.71	61,151,135.05	3,646,819,534.48
(2) Current increase	17,581,830.41	228,086,688.22	6,222,652.39	11,806,425.49	13,009,821.74	4,745,328.45	281,452,746.70
(i) Purchase	426,194.68	35,696,149.19	2,661,227.51	3,405,306.38	3,682,774.67	223,000.00	46,094,652.43
(ii) Reclassified from constructions in progress	17,132,158.49	177,633,639.03	3,559,086.41	8,401,119.11	9,324,752.29	4,522,328.45	220,573,083.78
(iii) Changes on exchange	23,477.24	-	2,338.47	-	2,294.78	-	28,110.49
(iv) Shareholder distribution	-	14,756,900.00	-	-	-	-	14,756,900.00
(3) Current decrease	22,253,503.44	54,893,021.76	9,609,788.22	13,812,706.13	3,690,098.53	2,920,275.11	107,179,393.19
(i) Disposal or scrap	22,253,503.44	54,893,021.76	9,609,788.22	13,812,706.13	3,690,098.53	2,920,275.11	107,179,393.19
(4) Ending balance	1,836,139,560.79	1,593,366,340.62	91,514,541.45	128,159,917.82	108,936,338.92	62,976,188.39	3,821,092,887.99
2. Accumulated depreciation							
(1) Opening balance	685,319,874.87	935,750,280.26	67,741,017.19	88,145,253.38	65,554,235.25	51,985,080.73	1,894,495,741.68
(2) Current increase	58,491,186.63	92,269,933.04	4,481,206.07	8,014,127.63	8,914,477.25	2,950,333.72	175,121,264.34
(i) Provision	58,485,175.86	90,519,268.34	4,478,867.60	8,014,127.63	8,912,668.05	2,950,333.72	173,360,441.20
(ii) Add to	-	1,750,664.70	-	-	-	-	1,750,664.70
(iii) Changes on exchange	6,010.77	-	2,338.47	-	1,809.20	-	10,158.44
(3) Current decrease	16,121,599.30	51,885,918.38	9,323,769.48	13,397,184.53	3,502,834.67	2,778,467.21	97,009,773.57
(i) Disposal or scrap	16,121,599.30	51,885,918.38	9,323,769.48	13,397,184.53	3,502,834.67	2,778,467.21	97,009,773.57
(4) Ending balance	727,689,462.20	976,134,294.92	62,898,453.78	82,762,196.48	70,965,877.83	52,156,947.24	1,972,607,232.45
3. Provision for impairment							
(1) Opening balance	9,818,341.35	8,819,651.52	158,224.47	1,642,783.23	2,846.38	-	20,441,846.95
(2) Current increase	-	3,973,006.92	-	-	-	-	3,973,006.92
(i) Provision	-	3,973,006.92	-	-	-	-	3,973,006.92
(3) Current decrease	-	77,735.61	-	2,924.47	-	-	80,660.08
(i) Disposal or scrap	-	77,735.61	-	2,924.47	-	-	80,660.08
(4) Ending balance	9,818,341.35	12,714,922.83	158,224.47	1,639,858.76	2,846.38	-	24,334,193.79
4. Book value							
(1) Ending book value	1,098,631,757.24	604,517,122.87	28,457,863.20	43,757,862.58	37,967,614.71	10,819,241.15	1,824,151,461.75
(2) Opening book value	1,145,673,017.60	475,602,742.38	27,002,435.62	40,378,161.85	34,059,534.08	9,166,054.32	1,731,881,945.85

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Fixed assets and accumulated depreciation (Continued)

(a) Fixed assets (Continued)

- (i) As for the year ended 31 December 2014, the fixed assets transferred from construction in progress amounted to RMB220,573 thousand (For the year ended 31 December 2013: RMB162,688 thousand).
- (ii) As for the year ended 31 December 2014, the increase of original cost and accumulated depreciation of fixed assets is due to fluctuations in exchange amounted to RMB28 thousand and RMB10 thousand respectively. (For the year ended 31 December 2013: RMB262 thousand and RMB90 thousand respectively)
- (iii) Depreciation expenses for the year ended 31 December 2014 amounted to RMB173,360 thousand in total (For the year ended 31 December 2013: RMB165,676 thousand), of which RMB106,484 thousand, RMB2,854 thousand and RMB64,022 thousand were charged to cost of sales, selling and distribution expenses and general and administrative expenses, respectively (For the year ended 31 December 2013: RMB114,280 thousand, RMB2,447 thousand and RMB48,949 thousand respectively).

(b) As at 31 December 2014, fixed assets are temporarily idle, which are analysed as follows:

	Cost	Accumulated depreciation	Provision for impairment	Carrying amount
Buildings	6,478,874.98	1,617,052.22	4,618,987.46	242,835.30
Machinery	41,417,993.13	29,685,998.81	11,286,311.75	445,682.57
Electrical equipment	147,897.48	69,184.00	78,713.48	–

(c) As at 31 December 2014, fixed assets which were lack of ownership certificate are summarised as follows:

	Carrying amount	Reason	Estimated date of obtaining the ownership certificate
Buildings	37,343,199.28	Procedures are not completed, certificates are not handled	Uncertain
Motor vehicles	104,437.50	Procedures are not completed, ownership cannot be transferred	Uncertain
	<u>37,447,636.78</u>		

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Fixed assets and accumulated depreciation (Continued)

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

	31 December 2014 Carrying amount	31 December 2013 Carrying amount
Buildings	<u>9,242,531.56</u>	<u>8,200,580.22</u>

(e) As at 31 December 2014, Guangyao Baiyunshan (Hong Kong) Limited, a subsidiary of the Company, acquired the comprehensive credit loan amounted to HKD300 thousand, letter of credit and the total amount of trust letter amounted to HKD100,000 thousand from Bank of China (Hong Kong) Co., Ltd., by the original value amounted to HKD8,893 thousand, the net value HKD6,545 thousand of the buildings of fixed assets and the original value amounted to HKD6,843 thousand, the net value amounted to HKD4,109 thousand of investment properties as a pledge, and the issued undue L/C amounted to USD179 thousand, and JPY131,858 thousand.

(14) Construction in progress

	31 December 2014			31 December 2013		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Construction in progress	<u>442,930,759.02</u>	<u>1,121,052.88</u>	<u>441,809,706.14</u>	336,543,747.06	1,121,052.88	<u>335,422,694.18</u>

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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 2013	Current increase	Current decrease		31 December 2014	Source of funds	% contribution in budget
				Transferred to Fixed assets	Other decrease			
Sewage Disposal Line of Zhongyi	1,076,307.00	304,757.56	-	304,757.56	-	-	Self-funded	68.48%
Yunpu New Equipment Project	8,500,000.00	1,882,681.16	371,126.18	2,133,754.61	27,918.80	92,133.93	Self-funded	117.00%
Pill Line	5,000,000.00	1,225,000.00	1,050,000.00	1,225,000.00	-	1,050,000.00	Self-funded	45.50%
Road works dormitory surrounding	1,630,000.00	401,999.84	1,527,075.03	-	297,991.50	1,631,083.37	Self-funded	100.07%
Near-infrared line detection Tendril-leaved Fritillary Bulb Dose	5,500,000.00	5,425,374.24	629.80	5,426,004.04	-	-	Self-funded	98.65%
Office Building	11,500,000.00	6,617,741.18	3,745,487.18	-	-	10,363,228.36	Self-funded	90.12%
Elevator Engineering of Saibakou OFFICE	11,500,000.00	-	6,132,810.57	-	-	6,132,810.57	Self-funded	53.33%
Research of Bio Vaccine & Industrialisation Platform	29,300,000.00	3,778,978.46	18,894,537.31	-	-	22,673,515.77	Self-funded	77.38%
Waalaoji anti-channel conflict equipment	5,500,000.00	-	815,384.60	-	-	815,384.60	Self-funded	14.83%
Wanglaoji herbal tea museum decoration	5,500,000.00	2,849,550.73	1,015,608.27	-	-	3,865,159.00	Self-funded	70.28%
Wanglaoji Yaan manufacturing project	298,000,000.00	1,092,423.00	118,247,046.17	2,800.00	-	119,336,669.17	Self-funded	47.49%
Removal of reconstruction (power supply room/boiler room/sewage station/cool warehouse of Zhongcun/ No.4 addition building)	5,530,000.00	-	2,471,342.21	-	-	2,471,342.21	Subsidy from government	44.69%
Pill Preparation Line Technological Transformation Project	8,000,000.00	2,480,683.77	511,366.32	2,992,050.09	-	-	Self-funded	53.43%
GMP improvement project of 4 workshops	6,920,000.00	2,759,174.94	1,299,657.75	217,727.35	88,119.66	3,752,985.68	Self-funded	72.70%
Chinese medicine treatment before extraction of the modernization of production	94,954,500.00	-	57,582,101.79	-	-	57,582,101.79	Self-funded	60.64%
Subpackage equipment for powder injection of General factory	69,700,000.00	26,114,188.45	4,343,239.97	30,457,428.42	-	-	Self-funded, subsidy from government	104.18%
General Factory Oral Cephalosporins Improvement	7,850,000.00	1,220,912.42	-	1,220,912.42	-	-	Self-funded	15.55%
GMP improvement of solid preparation workshop of No.1 manufacturing depart.	6,440,000.00	-	168,113.21	-	-	168,113.21	Self-funded	50.19%
Other installation equipments	5,110,000.00	-	2,612,135.29	-	-	2,612,135.29	Self-funded	51.12%
Chemical Factory Sterile APIs No.204 Workshop Technology Improvement	3,260,000.00	806,092.36	-	-	-	806,092.36	Self-funded	24.73%
Chemical Factory Cephalosporins Sterile APIs Line Improvement	48,381,100.00	21,347,851.22	7,743,521.01	29,091,372.23	-	-	Self-funded, loan	60.13%
Chemical Factory Oral API GMP Improvement	11,695,100.00	4,482,235.79	1,002,980.69	-	-	5,485,216.48	Self-funded	46.90%
CFO project	6,840,000.00	-	701.00	-	-	701.00	Self-funded	0.01%
Zhongliutan Wulonggang AB0807098-1block	169,750,000.00	1,355,800.00	1,592,749.00	-	-	2,948,549.00	Self-funded	14.27%
Eye drops workshop improvement	6,550,000.00	64,000.00	1,063,354.38	-	64,000.00	1,063,354.38	Self-funded	17.21%

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Construction in progress (Continued)

(a) Movement of construction in progress (Continued)

	Budget	31 December 2013	Current increase	Current decrease		31 December 2014	Source of funds	% contribution in budget
				Transferred to Fixed assets	Other decrease			
Adhesive plaster workshop improvement	2,121,000.00	60,000.00	565,127.19	-	-	625,127.19	Self-funded	84.26%
Tonghe cream improvement	5,450,000.00	1,069,404.71	134,063.16	-	-	1,203,467.87	Self-funded	22.08%
CM180 automatic packing machine	2,347,000.00	-	2,005,982.90	-	-	2,005,982.90	Self-funded	85.47%
FM160 sealing machine	3,060,000.00	-	2,615,384.60	-	-	2,615,384.60	Self-funded	85.47%
Tian Xin Powder Inj. Project	14,000,000.00	3,976,034.77	3,865,186.12	5,368,824.70	-	2,472,396.19	Self-funded	65.17%
Tian Xin Chemical Institute Project	25,500,000.00	19,318,385.23	5,874,549.15	22,114,567.38	-	3,078,367.00	Self-funded	123.02%
Tian Xin Wei D 2 Tartaric Acid Inj.	15,000,000.00	200,000.00	-	-	-	200,000.00	Self-funded	1.33%
Tian Xin Asepsis Water Inj Workshop	20,000,000.00	7,498,235.73	1,437,174.5	4,553,969.45	-	4,381,440.78	Self-funded	65.22%
Tian Xin Waste Water Recycling	1,200,000.00	329,845.00	-	-	-	329,845.00	Self-funded	27.49%
Tian Xin Powder Injector & Screw Arbor Line	19,800,000.00	1,757,128.42	-	1,143,025.86	-	614,102.56	Self-funded	8.87%
Tian Xin Cephalosporins Workshop Improvement	12,000,000.00	7,853,267.06	730,678.45	7,835,318.34	-	748,627.17	Self-funded	99.47%
Tian Xin Water Inj Workshop	15,900,000.00	10,292,744.70	6,434,815.17	12,140,482.87	-	4,587,077.00	Self-funded	139.99%
Penicillin GMP Improvement	12,900,000.00	8,211,350.94	2,479,021.98	4,355,751.65	-	6,334,621.27	Self-funded	82.87%
GMP Improvement	18,460,000.00	18,009,453.19	6,521,366.64	8,713,415.32	-	15,817,404.51	Self-funded, loan	132.89%
Purchasing import lamp inspection machine project	12,000,000.00	4,927,518.80	-	4,927,518.80	-	-	Self-funded	41.06%
Reconstruction of GMP for cephalosporin workshop	2,000,000.00	1,150,000.00	841,811.22	1,991,811.22	-	-	Self-funded	99.59%
Ming Xing Equipment Improvement	67,430,000.00	3,615,973.02	2,108,583.27	4,992,150.28	-	732,406.01	Self-funded	39.40%
Ming Xing Cong Hua Xing Zhou Workshop	9,710,000.00	2,186,959.32	-	2,186,959.32	-	-	Self-funded	95.24%
Ming Xing Workshop Improvement	16,100,000.00	3,587,066.55	-	3,587,066.55	-	-	Self-funded	66.89%
Ming Xing Decoration	17,200,000.00	10,711,493.57	1,088,117.62	3,673,176.50	-	8,126,434.69	Self-funded	77.50%
Ming Xing relocation improvement	340,000,000.00	79,407,091.41	906,924.53	-	-	80,314,015.94	Self-funded	23.62%
Lyophilized powder	30,000,000.00	16,257,514.07	8,714,756.65	15,419,017.05	-	9,553,253.67	Self-funded	83.24%
Welling new factory	59,587,236.69	33,033,204.50	6,616,112.12	-	-	39,649,316.62	Self-funded	66.54%
New factory equipment	11,581,000.00	-	3,474,300.00	-	-	3,474,300.00	Self-funded	30.00%
Production line of asepsis material	54,000,000.00	-	12,667.00	-	-	12,667.00	Self-funded	0.02%
Others	96,674,072.04	18,881,630.95	43,521,063.18	44,498,221.77	4,700,527.48	13,203,944.88	Self-funded	
		336,543,747.06	332,138,653.18	220,573,083.78	5,178,557.44	442,930,759.02		

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Construction in progress (Continued)

(b) Borrowing costs eligible for capitalization in current period are summarized as follows:

Name of construction	31 December 2013	Current increase	Transferred to fixed assets	Other decrease	31 December 2014	Ratio of capitalization of interests(%)
Improvement for cephalosporins production line of Chemical Pharmaceutical Factory	213,325.59	132,646.57	345,972.16	-	-	6.15
GMP improvement of injection and wter needle	503,407.76	653,573.66	-	-	1,156,981.42	7.02
Total	716,733.35	786,220.23	345,972.16	-	1,156,981.42	

(c) Provision for impairment of construction in progress

Item	31 December 2013	Current increase	Current decrease	31 December 2014	Reason
General factory veterinary drugs workshop GMP improvement	869,318.50	-	-	869,318.50	Project stopped
Guanghua sewage expansion project	251,734.38	-	-	251,734.38	Project stopped
Total	1,121,052.88	-	-	1,121,052.88	

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

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

(14) Construction in progress *(Continued)*

(d) Schedule of significant constructions in progress are as below:

	Progress
Office Building	Construction completed, pending for acceptance
Research of Bio Vaccine & Industrialisation Platform	Construction phase
Wanglaoji Yaan manufacturing project	Construction phase
Chinese medicine treatment before extraction of the modernization of production	
GMP the first stage project of technical transformation project	Construction phase
GMP Improvement	Construction phase
Ming Xing relocation improvement	Construction phase
Weiling new factory	Construction phase

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Intangible assets

(a) Details of intangible assets:

	Land use right	Industrial property & proprietary technology	Non-Patents	Trademark	Others	Total
1. Cost						
(1) Opening balance	308,366,706.42	15,520,091.28	12,119,201.20	159,360,537.74	12,210,410.86	507,576,947.50
(2) Current increase	22,065,183.30	-	15,075,000.00	-	2,221,755.96	39,361,939.26
(i) Purchase	22,065,183.30	-	14,850,000.00	-	2,221,755.96	39,136,939.26
(ii) Internal research and development	-	-	225,000.00	-	-	225,000.00
(3) Current decrease	3,785,811.95	-	-	4,585.00	895,105.00	4,685,501.95
(i) Disposal	3,785,811.95	-	-	4,585.00	895,105.00	4,685,501.95
(4) Ending balance	326,646,077.77	15,520,091.28	27,194,201.20	159,355,952.74	13,537,061.82	542,253,384.81
2. Accumulated amortization						
(1) Opening balance	81,704,514.56	7,141,122.21	8,347,222.00	32,678,667.92	7,331,109.90	137,202,636.59
(2) Current increase	7,124,241.40	529,205.49	1,617,090.08	16,540.44	2,352,286.25	11,639,363.66
(i) Provision	7,124,241.40	529,205.49	1,617,090.08	16,540.44	2,352,286.25	11,639,363.66
(3) Current decrease	2,592,216.11	-	-	4,585.00	711,205.00	3,308,006.11
(i) Disposal	2,592,216.11	-	-	4,585.00	711,205.00	3,308,006.11
(4) Ending balance	86,236,539.85	7,670,327.70	9,964,312.08	32,690,623.36	8,972,191.15	145,533,994.14
3. Provision for impairment						
(1) Opening balance	480,700.24	453,343.04	-	583,573.00	-	1,517,616.28
(2) Current increase	-	-	-	-	-	-
(3) Current decrease	-	-	-	-	-	-
(4) Ending balance	480,700.24	453,343.04	-	583,573.00	-	1,517,616.28
4. Book value						
(1) Ending book value	239,928,837.68	7,396,420.54	17,229,889.12	126,081,756.38	4,564,870.67	395,201,774.39
(2) Opening book value	226,181,491.62	7,925,626.03	3,771,979.20	126,098,296.82	4,879,300.96	368,856,694.63

In current period, the amortisation of intangible assets amounted to RMB11,639 thousand (for the year ended 31 December 2013: RMB6,883 thousand), which were recognized in profit or loss for the current period. The land use right of the intangible assets is located in Mainland China, and the useful life is 10-50 years.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Development costs

	31 December 2013		Current increase	Current transferred-out		31 December 2014
		Internal research expenses		Recognized in current profit or loss	Recognized as intangible assets	
Capitalised expenditures	3,716,517.68	765,339.80	–	4,465.99	225,000.00	4,252,391.49
Expensed expenditures	–	278,521,103.87	–	278,521,103.87	–	–
	<u>3,716,517.68</u>	<u>279,286,443.67</u>	<u>–</u>	<u>278,525,569.86</u>	<u>225,000.00</u>	<u>4,252,391.49</u>

(17) Long-term prepaid expenses

	31 December 2013	Current increase	Current amortisation	Other decrease	31 December 2014
Building decoration and fixtures	3,019,915.66	2,466,724.98	3,123,496.11	–	2,363,144.53
Basketball field construction	157,067.51	–	144,985.38	–	12,082.13
Identification code for production line of package	165,859.46	–	165,859.46	–	–
GMP improvement fee	409,474.17	220,039.43	115,799.35	–	513,714.25
Rain sewage diversion improvement	377,748.93	–	161,892.48	–	215,856.45
Zhongxin warehouse iron canopy improvement	335,154.15	–	123,755.46	–	211,398.69
GSP authentication network construction	336,762.95	–	336,762.95	–	–
Maintaining and decoration for outer wall of warehouse	–	550,666.67	–	–	550,666.67
Installation for electric wire of warehouse	–	380,735.24	15,867.00	–	364,868.24
Others	2,297,073.10	442,005.89	851,656.92	–	1,887,422.07
	<u>7,099,055.93</u>	<u>4,060,172.21</u>	<u>5,040,075.11</u>	<u>–</u>	<u>6,119,153.03</u>

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(18) Deferred tax assets and deferred tax liabilities

(a) Deferred income tax assets that are not offset

	31 December 2014	31 December 2013
Provision for impairment of construction in progress	168,157.94	168,157.94
Provision for declines in values of inventories	6,221,553.70	1,074,416.55
Provision for bad debts	15,580,139.77	6,983,793.01
Provision for impairment of fixed assets	3,065,502.47	2,481,650.45
Difference arising from accounting and tax depreciations of fixed assets	2,138,477.79	1,967,385.60
Changes in fair value of financial assets held for trading	123,802.85	322,306.22
Available for sale financial assets	587,551.22	587,551.22
Employee benefits payable	41,132,141.46	28,506,513.64
Estimated debts	75,028.68	75,028.68
Other payables	217,199,370.75	200,575,405.13
Other non-current liabilities	12,882,620.85	12,261,335.96
Deductible tax losses	2,743,465.26	2,358,525.18
Provision for impairment of intangible assets	120,175.06	120,175.06
Difference arising from accounting and tax amortizations of intangible assets	330,275.68	316,758.07
Elimination of unrealized profits arising from the inter-company transaction	26,206,826.61	9,151,314.21
Others	1,144,046.23	–
	329,719,136.32	266,950,316.92

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(b) Deferred income tax liabilities that are not offset

	31 December 2014	31 December 2013
Other receivables – rental	698,611.14	799,455.95
Changes in fair value of available-for-sale financial assets	3,224,160.84	978,881.29
Depreciation balance of fixed assets revaluation	323,359.20	337,501.80
Difference arising from accounting and tax depreciations of fixed assets	266,408.16	–
Compensation from relocation	9,568,129.08	–
Amortisation balance of intangible assets revaluation	1,324,629.60	1,359,488.40
Others	94,312.19	–
	15,499,610.21	3,475,327.44

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

	31 December 2014	31 December 2013
Deductible temporary differences	3,049,557.86	65,854,798.29
Deductible tax losses	80,054,433.45	81,775,442.10
	83,103,991.31	147,630,240.39

Notes to the Financial Statements

For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

	31 December 2014	31 December 2013
2014	–	20,651,753.02
2015	6,723,985.46	6,723,985.46
2016	10,551,329.14	10,573,746.33
2017	11,830,866.41	12,361,462.33
2018	27,107,057.22	31,464,494.96
2019	23,841,195.22	–
	80,054,433.45	81,775,442.10

- (e) Temporary differences correspond to assets or liabilities items of deferred income tax assets that are not offset

	31 December 2014	31 December 2013
Provision of impairment of construction in progress	1,121,052.88	1,121,052.88
Provision for declines in values of inventories	34,718,809.90	6,924,281.04
Provision for bad debts	70,013,905.81	34,576,196.17
Provision of impairment of fixed assets	20,436,683.15	16,544,336.31
Difference arising from accounting and tax depreciations of fixed assets	12,694,671.15	13,115,904.02
Changes in fair value of financial assets held for trading	825,352.30	2,148,708.10
Available-for-sale financial assets	3,610,204.88	3,610,204.88
Employee benefits payable	220,418,789.36	160,508,115.50
Other payables	945,404,508.86	890,213,675.30
Other non-current liabilities	84,157,887.47	81,608,906.39
Deductible tax losses	18,289,768.40	15,723,501.22
Elimination of unrealized profits arising from the inter-company transaction	158,825,480.08	58,447,970.75
Provision for impairment of intangible assets	480,700.24	480,700.24
Difference arising from accounting and tax amortizations of intangible assets	1,961,438.71	2,111,720.43
Estimated debts	500,191.19	500,191.19
Others	7,626,975.00	–
	1,581,086,419.38	1,287,635,464.42

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For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

- (f) Temporary differences correspond to assets or liabilities items of deferred income tax liabilities that are not offset

	31 December 2014	31 December 2013
Other receivables – rental	4,657,407.59	5,329,706.31
Changes in fair value of available-for-sale financial assets	20,957,097.20	6,398,173.42
Depreciation balance of fixed assets revaluation	2,155,728.00	2,250,012.00
Difference arising from accounting and tax depreciations of fixed assets	1,380,189.10	–
Compensation from relocation	38,272,516.31	–
Amortisation balance of intangible assets revaluation	8,830,864.00	9,063,256.00
Others	628,747.92	
	76,882,550.12	23,041,147.73

(19) Provision for impairment of assets

	31 December 2013	Current Increase	Other decrease			31 December 2014
			Reversal	Written-off	Other decrease	
Provision for bad debts	47,770,667.27	25,618,330.60	–	1,988,336.12	–	71,400,661.75
Provision for declines in value of inventories	14,918,304.76	32,712,522.63	1,131,393.38	7,221,163.74	–	39,278,270.27
Provision for impairment of available for sale financial assets	4,553,551.23	–	–	–	–	4,553,551.23
Provision for impairment of fixed assets	20,441,846.95	3,973,006.92	–	80,660.08	–	24,334,193.79
Provision for impairment of construction in progress	1,121,052.88	–	–	–	–	1,121,052.88
Provision for impairment of intangible assets	1,517,616.28	–	–	–	–	1,517,616.28
Provision for impairment of goodwill	475,756.92	–	–	–	–	475,756.92
	90,798,796.29	62,303,860.15	1,131,393.38	9,290,159.94	–	142,681,103.12

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(20) Short-term borrowings

	31 December 2014	31 December 2013
Credit borrowings	222,730,090.45	429,751,500.77
Pledge borrowings	283,300,000.00	9,900,000.00
Guaranteed borrowings	50,000,000.00	70,000,000.00
Discount of commercial acceptance notes	4,500,000.00	–
	560,530,090.45	509,651,500.77

- (a) As at 31 December 2014 and 31 December 2013, there are no overdue borrowings.
- (b) As at 31 December 2014, the pledged bank borrowings amounted to RMB283,300 thousand, which of accounts receivables amounted to RMB283,300 thousand. (As at 31 December 2013: the pledged bank borrowings amounted to RMB9,900 thousand, which of accounts receivables amounted to RMB11,000 thousand)
- (c) As at 31 December 2014, the weighted average interest rate of short-term borrowings is 5.0313% per annum (As at 31 December 2013: 6.0456% per annum).
- (d) As at 31 December 2014, the short-term borrowings including balance of foreign currency are summarized as follows:

	31 December 2014			31 December 2013		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
USD	–	Not applicable	–	1,290,000.00	6.1325	7,910,925.00

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(21) Notes payable

	31 December 2014	31 December 2013
Bank acceptance notes	167,591,115.01	93,173,655.25
Commercial acceptance notes	188,982,082.94	37,600,000.00
	356,573,197.95	130,773,655.25

As at 31 December 2014, notes payable amounted to RMB356,573 thousand were expected to be due within 1 year (as at 31 December 2013: RMB130,774 thousand).

(22) Accounts payable

(a) Details of accounts payable:

	31 December 2014		31 December 2013	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	2,014,544,777.60	97.06%	1,440,862,487.84	97.99%
Over 1 year	60,989,698.85	2.94%	29,498,049.77	2.01%
	2,075,534,476.45	100.00%	1,470,360,537.61	100.00%

(b) As at 31 December 2014 and 31 December 2013, 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 2014, the amount of accounts payable to related parties accounted for 0.54% of the total balance (As at 31 December 2013: 0.89%), refer to Note 12 for details.

(d) As at 31 December 2014 and 31 December 2013, there are no accounts payable that are individually significant which aging over 1 year.

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(22) Accounts payable

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

	31 December 2014			31 December 2013		
	Amount	Exchange rate	RMB	Amount	Exchange rate	RMB
USD	227,535.43	6.1190	1,392,289.27	873,224.05	6.0969	5,323,959.71
HKD	-	Not applicable	-	10,826.68	0.7862	8,512.25
			1,392,289.27			5,332,471.96

(23) Advances from customer

(a) Details of advances from customers:

	31 December 2014		31 December 2013	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	866,321,158.81	97.45%	852,478,967.90	97.36%
Over 1 year	22,687,394.01	2.55%	23,100,579.42	2.64%
	889,008,552.82	100.00%	875,579,547.32	100.00%

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For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) Advances from customer (Continued)

- (b) As at 31 December 2014 and 31 December 2013, there are no advances from shareholders who hold more than 5% (including 5%) of the voting rights of the Company.
- (c) As at 31 December 2014, advances from related parties accounted for 4.17% of the total balance (as at 31 December 2013: 2.23%): refer to Note 12 for details.
- (d) As at 31 December 2014 and 31 December 2013, there are no advances from customers that are individually significant which aging are over 1 year.
- (e) Advances from customers denominated in foreign currencies are summarised as follows:

	31 December 2014			31 December 2013		
	Amount	Exchange rate	RMB	Amount	Exchange rate	RMB
USD	283,743.90	6.1239	1,737,616.72	170,548.62	6.1705	1,052,365.24
HKD	1,991,565.30	0.7889	1,571,145.87	21,019.20	0.7923	16,653.51
			<u>3,308,762.59</u>			<u>1,069,018.75</u>

Notes to the Financial Statements

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(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(24) Employee benefits payable

	31 December 2013	Current increase	Current decrease	31 December 2014
1. Short-term employee benefits	334,220,870.16	2,752,239,796.76	2,675,623,257.80	410,837,409.12
Wages and salaries, bonuses, allowances and subsidies	308,123,235.52	2,396,948,657.05	2,318,355,437.50	386,716,455.07
Including: service fee	180,219,594.42	1,258,154,860.70	1,216,233,090.16	222,141,364.96
Staff welfare	951,946.99	92,422,387.33	92,473,186.40	901,147.92
Including: funds of bonus and welfare of Foreign Invested Enterprises	428,500.00	–	428,500.00	–
Social insurances	(11,924.37)	80,543,606.75	80,534,149.97	(2,467.59)
Including: Medical insurance	(4,834.90)	69,298,945.18	69,292,517.54	1,592.74
Work injury insurance	292.41	5,647,228.48	5,645,839.70	1,681.19
Maternity insurance	(7,381.88)	5,597,433.09	5,595,792.73	(5,741.52)
Housing funds	6,753.70	122,713,774.28	122,729,686.57	(9,158.59)
Labor union funds	2,993,705.13	21,832,580.62	21,488,208.50	3,338,077.25
Employee education funds	1,947,559.82	10,795,653.71	10,662,656.23	2,080,557.30
Non-monetary welfare	–	9,538.08	9,538.08	–
Housing allowance	18,878,462.80	18,944,250.38	21,089,665.54	16,733,047.64
Short-term paid absences	–	28,279.79	28,279.79	–
Other short-term benefits	1,331,130.57	8,001,068.77	8,252,449.22	1,079,750.12
2. Post-employment benefits	207,057.67	206,649,506.12	206,358,165.15	498,398.64
Defined contribution plans	207,057.67	206,649,506.12	206,358,165.15	498,398.64
Including: Basic pension insurance	4,834.45	147,028,734.36	147,015,319.88	18,248.93
Unemployment insurance	2,947.41	12,167,780.60	12,165,576.63	5,151.38
Annuity	199,275.81	42,348,118.54	42,072,396.02	474,998.33
Others	–	5,104,872.62	5,104,872.62	–
Defined benefits plans	–	–	–	–
3. Termination benefits	–	1,721,391.83	1,721,391.83	–
Compensation for lay-off	–	1,721,391.83	1,721,391.83	–
Others	–	–	–	–
4. Other long-term employee benefits	–	–	–	–
Long-term paid absences	–	–	–	–
Long-term disability benefits	–	–	–	–
Long-term profit-sharing scheme	–	–	–	–
Other long-term benefits	–	–	–	–
	<u>334,427,927.83</u>	<u>2,960,610,694.71</u>	<u>2,883,702,814.78</u>	<u>411,335,807.76</u>

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For the year ended 31 December 2014

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(24) Employee benefits payable (Continued)

As at 31 December 2014, employee benefits payable mainly include the wages, bonus and service fee of June 2014 which were accrued but have not been paid. No defaulted payables are included in the employee benefits and the balance is estimated to be used up in the year 2015.

(25) Taxes payable

	31 December 2014	31 December 2013
VAT	(59,233,084.42)	127,220,262.33
Business tax	1,323,416.64	1,185,744.57
City maintenance and construction tax	4,403,081.93	10,083,347.34
Education surcharge	1,887,878.21	4,335,021.46
Local education surcharge	1,258,306.50	2,922,209.28
Enterprise income tax	211,926,797.01	240,323,868.00
Individual income tax	9,459,915.44	9,234,519.98
Real-estate tax	615,886.39	1,033,448.20
Urban area embankment maintenance fee	3,821,135.08	6,381,581.35
Stamp duty	898,597.65	651,616.40
Others	51,940.71	12,069.47
	176,413,871.14	403,383,688.38

(26) Interest payable

Item	31 December 2014	31 December 2013
Interest payable of short-term borrowings	236,666.66	675,414.98

Notes to the Financial Statements

For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Dividends payable

Investor	31 December 2014	31 December 2013
Public shares	90,148.02	77,540,811.00
BYS Group	45.00	45.01
Minority shareholders	46,841,494.17	35,972,445.12
	<u>46,931,687.19</u>	<u>113,513,301.13</u>

(28) Other payables

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

	31 December 2014	31 December 2013
Within 1 year	1,408,787,387.46	1,075,363,506.40
Over 1 year	136,175,400.31	136,349,000.64
	<u>1,544,962,787.77</u>	<u>1,211,712,507.04</u>

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

	31 December 2014	31 December 2013
Deposits	100,436,496.92	84,113,878.93
Technology development expenses	764,522.49	1,032,360.91
Rental expenses	2,584,303.20	785,699.69
Payables to third parties	97,481,824.89	101,140,187.61
Amount due to employees	6,936,635.22	8,180,604.37
Payables to related parties (Note 12)	30,688,535.44	32,381,184.74
Accruals for purchase of fixed assets	2,905,527.50	7,530,558.54
Sales rebate	150,868,139.25	313,958,358.03
Accrued expenses	1,127,449,493.23	636,423,766.90
Others	24,847,309.63	26,165,907.32
	<u>1,544,962,787.77</u>	<u>1,211,712,507.04</u>

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For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(28) Other payables (Continued)

(c) Details of accrued expenses:

	31 December 2014	31 December 2013
Rental expenses	3,279,536.10	4,788,163.36
Agent fees	6,719,533.18	5,239,164.72
Advertising and promotional expenses	945,588,641.57	434,784,769.45
Utilities	3,147,953.57	2,931,629.82
Transportation expenses	105,653,916.15	116,858,313.12
Conference expenses	1,648,748.42	7,009,258.62
Research and development expenses	3,955,022.41	7,708,976.20
Marketing expenses	708,634.69	6,396,288.30
Travelling expenses	5,158,961.95	3,495,518.50
Consulting expenses	960,000.00	10,730,986.80
Trademark expenses	3,250,000.00	3,000,000.00
Others	47,378,545.19	33,480,698.01
	1,127,449,493.23	636,423,766.90

- (d) As at 31 December 2014, other payables to shareholders who hold more than 5% (including 5%) of the voting rights of the Company are other payables of RMB30,581 thousand to GPLH (As at 31 December 2013: RMB30,835 thousand to GPLH).
- (e) As at 31 December 2014, other payables to related parties accounted for 1.99% of the total balance (As at 31 December 2013: 2.67%): refer to Note 12 for details.
- (f) As at 31 December 2014 and 31 December 2013, significant other payables whose aging are over 1 year mainly include unsettled balance for purchase of fixed assets and intangible assets, and purchase deposit.

Notes to the Financial Statements

For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(28) Other payables (Continued)

- (g) As at 31 December 2014, all other payables are denominated in foreign currencies as follows:

	31 December 2014			31 December 2013		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
HKD	3,932,283.30	0.7889	3,102,060.33	2,626,071.75	0.7862	2,064,696.40

(29) Long-term borrowings

- (a) Classification of long-term borrowings:

Category of borrowings	31 December 2014	31 December 2013
Credit borrowings	–	8,627,419.10

(30) Long-term payables

	31 December 2014	31 December 2013
State fund	18,864,953.57	18,864,953.57
Department of Finance of Guangxi Zhuang Autonomous Region	2,264,426.47	2,264,426.47
State Pharmaceutical Administration	305,000.00	305,000.00
Others	927,427.36	781,372.36
	22,361,807.40	22,215,752.40

Notes to the Financial Statements

For the year ended 31 December 2014

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(31) Special payables

	31 December 2013	Current increase	Current decrease	31 December 2014	Reason
Compensation of relocation due to policies	19,058,160.00	-	-	19,058,160.00	Compensation of relocation due to policies

(32) Estimated liabilities

	31 December 2014	31 December 2013	Reason
Estimated loss of rejection on goods	500,191.19	500,191.19	Estimated by assets agreement, both parties have not yet settled.

(33) Deferred income

Item	31 December 2013	Current increase of grants	Current revenue from non-operation	For cooperation	Other movement	31 December 2014	Reason
Government grants related to assets: Including:							
Technology funds granted by government	42,240,533.54	2,342,819.16	5,796,729.58	-	-	38,786,623.12	Received appropriation from government
Relocation compensation	2,895,723.13	2,471,342.21	365,644.44	-	-	5,001,420.90	Received appropriation from government
Financial discount	1,952,686.11	174,818.00	246,684.92	-	-	1,880,819.19	Received appropriation from government
Special fund of environmental protection	5,599,809.14	43,200.00	976,372.38	-	-	4,666,636.76	Received appropriation from government
Innovating platform construction	4,222,595.60	1,000,000.00	373,511.32	-	-	4,849,084.28	Received appropriation from government
Special fund of environmental protection	-	10,453,300.00	174,221.70	-	-	10,279,078.30	Received appropriation from government
Others	3,436,300.96	408,000.00	957,083.92	-	-	2,887,217.04	Received appropriation from government

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(33) Deferred income (Continued)

Item	31 December 2013	Current increase of grants	Current revenue from non-operation	For cooperation	Other movement	31 December 2014	Reason
Government grants related to income:							
Including:							
Technology funds granted by government	55,671,770.17	35,694,152.23	25,454,330.29	6,865,350.00	(100,000.00)	58,946,242.11	Received appropriation from government
Compenstion of relocation	-	96,155,038.59	96,155,038.59	-	-	-	-
Special fund of technology exports	331,798.73	-	123,503.34	-	-	208,295.39	Received appropriation from government
Medical industrial research project	2,323,426.14	-	613,735.58	-	-	1,709,690.56	Received appropriation from government
Special fund of energy-saving improvement	733,950.00	104,000.00	116,600.00	-	-	721,350.00	Received appropriation from government
Special fund of innovative firms	423,378.21	1,486,500.00	1,898,267.69	-	-	11,610.52	Received appropriation from government
Subsidy of Service industrial	-	3,000,000.00	3,000,000.00	-	-	-	Received appropriation from government
Others	2,806,016.10	1,323,860.56	665,342.93	850,000.00	(800.00)	2,613,733.73	Received appropriation from government
Total	122,637,987.83	154,657,030.75	136,917,066.68	7,715,350.00	(100,800.00)	132,561,801.90	

(34) Long-term employee benefits payable

Item	31 December 2014	31 December 2013
Post-employment benefits – Provision for long-term service bonus	296,382.47	293,538.18

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(35) Share capital

	31 December 2013			Current increase (+) decrease (-)			31 December 2014		
	Amount	% of the total balance	Issued shares	Amount	% of the total balance	Issued shares	Amount	% of the total balance	Issued shares (%)
Shares with restriction of trading –									
State-owned shares	-	-	-	-	-	-	-	-	-
State-owned legal person shares	34,839,645.00	2.70	-	-	-	-	-	34,839,645.00	2.70
Other domestic shares	-	-	-	-	-	-	-	-	-
Including:									
Domestic non-state-owned legal person shares	-	-	-	-	-	-	-	-	-
Domestic natural person shares	-	-	-	-	-	-	-	-	-
Foreign shares	-	-	-	-	-	-	-	-	-
Including:									
Foreign legal person shares	-	-	-	-	-	-	-	-	-
Foreign natural person shares	-	-	-	-	-	-	-	-	-
Shares with restriction of trading – subtotal	34,839,645.00	2.70	-	-	-	-	-	34,839,645.00	2.70
Shares without restriction of trading:									
RMB ordinary shares	1,036,601,005.00	80.27	-	-	-	-	-	1,036,601,005.00	80.27
Foreign shares listed in the PRC	-	-	-	-	-	-	-	-	-
Foreign shares listed out of the PRC	219,900,000.00	17.03	-	-	-	-	-	219,900,000.00	17.03
Others	-	-	-	-	-	-	-	-	-
Shares without restriction of trading – subtotal	1,256,501,005.00	97.30	-	-	-	-	-	1,256,501,005.00	97.30
Total share capital	1,291,340,650.00	100.00	-	-	-	-	-	1,291,340,650.00	100.00

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(35) Share capital (Continued)

	31 December 2012			Current increase (+) decrease (-)			31 December 2013		
	Amount	% of the total balance	Issued shares	Amount	% of the total balance	Issued shares	Amount	% of the total balance	Issued shares (%)
Shares with restriction of trading –									
State-owned shares	-	-	-	-	-	-	-	-	-
State-owned legal person shares	-	-	34,839,645.00	-	-	-	34,839,645.00	34,839,645.00	2.70
Other domestic shares	-	-	-	-	-	-	-	-	-
Including:									
Domestic non-state-owned legal person shares	-	-	-	-	-	-	-	-	-
Domestic natural person shares	-	-	-	-	-	-	-	-	-
Foreign shares	-	-	-	-	-	-	-	-	-
Including:									
Foreign legal person shares	-	-	-	-	-	-	-	-	-
Foreign natural person shares	-	-	-	-	-	-	-	-	-
Shares with restriction of trading – subtotal	-	-	34,839,645.00	-	-	-	34,839,645.00	34,839,645.00	2.70
Shares without restriction of trading:									
RMB ordinary shares	591,000,000.00	72.88	445,601,005.00	-	-	-	445,601,005.00	1,036,601,005.00	80.27
Foreign shares listed in the PRC	-	-	-	-	-	-	-	-	-
Foreign shares listed out of the PRC	219,900,000.00	27.12	-	-	-	-	219,900,000.00	17.03	
Others	-	-	-	-	-	-	-	-	-
Shares without restriction of trading – subtotal	810,900,000.00	100.00	445,601,005.00	-	-	-	445,601,005.00	1,256,501,005.00	97.30
Total share capital	810,900,000.00	100.00	480,440,650.00	-	-	-	480,440,650.00	1,291,340,650.00	100.00

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(36) Capital surplus

	31 December 2013	Current increase	Current decrease	31 December 2014
Share premium	1,709,943,033.90	–	–	1,709,943,033.90
Other capital surplus	776,967,736.11	398,289.20	1,025,105.26	776,340,920.05
Including: Transfer of capital surplus recognized under the previous accounting system	24,955,836.66	–	–	24,955,836.66
	<u>2,486,910,770.01</u>	<u>398,289.20</u>	<u>1,025,105.26</u>	<u>2,486,283,953.95</u>

	31 December 2012	Current increase	Current decrease	31 December 2013
Share premium	914,006,770.47	795,936,263.43	–	1,709,943,033.90
Other capital surplus	781,451,537.77	–	4,483,801.66	776,967,736.11
Including: Transfer of capital surplus recognized under the previous accounting system	24,955,836.66	–	–	24,955,836.66
	<u>1,695,458,308.24</u>	<u>795,936,263.43</u>	<u>4,483,801.66</u>	<u>2,486,910,770.01</u>

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

- (a) Qixing, a subsidiary of the Company, scrapped the fixed assets which was invested to share, and transferred the increased-value part of these assets to capital surplus amounted to RMB398 thousand.
- (b) As the capital surplus of GP Corp., a jointly controlled entity, decreased in the current period, the Group recognized the decrease in capital surplus amounted to RMB1,025 thousand based on its share of interest in GP Corp. accordingly.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(37) Other comprehensive income

Item	Opening balance	Current amount Current pre-tax	Less: profit or loss transferred by other comprehensive income at last period	Less: income tax	After-tax attributable to parent company	After-tax attributable to minority shareholders	Ending balance
1. Items will not be classified into profit or loss at following accounting period	1,426,169.45	-	-	-	-	-	1,426,169.45
Including: portion of items will not be classified into profit or loss when under equity method	1,426,169.45	-	-	-	-	-	1,426,169.45
2. Items will be classified into profit or loss at following accounting period.	(2,244,034.69)	14,957,404.22	-	2,245,279.55	12,696,169.94	15,954.73	10,452,135.25
Including: portion of items will be classified into profit or loss when under equity method	89,254.14	233,768.27	-	-	233,768.27	-	323,022.41
Profit or loss arising from the changes in fair value of available for sale financial assets	5,361,885.09	14,598,948.32	-	2,245,279.55	12,337,714.04	15,954.73	17,699,599.13
Differences arising from translation of foreign currency	(7,695,173.92)	124,687.63	-	-	124,687.63	-	(7,570,486.29)
Total other comprehensive income	(817,865.24)	14,957,404.22	-	2,245,279.55	12,696,169.94	15,954.73	11,878,304.70

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(38) Surplus reserve

	31 December 2013	Current increase	Current decrease	31 December 2014
Statutory surplus reserve	604,894,136.27	91,667,452.62	–	696,561,588.89
Free surplus reserve	118,925,617.49	–	–	118,925,617.49
	<u>723,819,753.76</u>	<u>91,667,452.62</u>	<u>–</u>	<u>815,487,206.38</u>
	31 December 2012	Current increase	Current decrease	31 December 2013
Statutory surplus reserve	668,805,957.33	55,083,461.99	118,995,283.05	604,894,136.27
Free surplus reserve	118,925,617.49	–	–	118,925,617.49
	<u>787,731,574.82</u>	<u>55,083,461.99</u>	<u>118,995,283.05</u>	<u>723,819,753.76</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 upto 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the share capital after approval from the relevant authorities.

The appropriation of discretionary surplus reserve should be proposed by the Board of Directors and approved by the General Meeting of Shareholders. The discretionary surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities.

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(39) Undistributed profits

	The year ended 31 December 2014	The year ended 31 December 2013
Undistributed profits at the beginning of the year (before adjustments)	2,330,514,583.35	2,271,551,430.93
Adjustments of undistributed profits at the beginning of the year (Add: positive; Less: negative)	–	–
Undistributed profits at the beginning of the year (after adjustments)	2,330,514,583.35	2,271,551,430.93
Add: Net profit for the current period	1,192,471,636.11	980,045,077.10
Less: Appropriation for statutory surplus reserve	91,667,452.62	55,083,461.99
Less: distributed dividends	297,008,349.50	77,480,439.00
Less: Others	–	788,518,023.69
Undistributed profits at the end of the period	<u>3,134,310,417.34</u>	<u>2,330,514,583.35</u>

- (a) As at 31 December 2014, surplus reserves of the Company's subsidiaries amounted to RMB 399,806 thousand is included in undistributed profits (as at 31 December 2013: RMB260,413 thousand).
- (b) Pursuant to the resolution of board of shareholders 2013 on 26 June 2014, the Group distributed cash dividends amounted to RMB297,008 thousand which was calculated by issued shares amounted to 1,291,340,650 to all shareholders, total distributed cash dividends was RMB0.23 per share.

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(40) Minority interest

Investee	Investment relationship with the Company	31 December 2014	31 December 2013
Xing Qun	Direct subsidiary	19,856,971.34	17,420,476.04
Guangzhou Han Fan	Direct subsidiary	798,165.75	739,958.16
Jing Xiu Tang	Direct subsidiary	16,935,841.46	15,798,683.13
Pan Gao Shou	Direct subsidiary	23,806,048.91	26,188,640.36
Guangzhou Bai Di	Direct subsidiary	2,084,783.84	1,353,303.90
Xizang Lin Zhi Guangyao Development Co., Ltd.	Indirect subsidiary	244,339.97	504,211.67
Guangxi Ying Kang	Direct subsidiary	13,826,706.07	12,835,636.05
Qi Xing	Indirect subsidiary	25,466,731.04	40,464,535.07
Jing Xiu Tang 1790	Indirect subsidiary	2,108,671.22	1,702,636.79
Guangzhou Yi Gan	Direct subsidiary	1,173,822.47	1,810,821.14
Xingzhou	Direct subsidiary	21,633,183.74	–
Chongqing Guangyao	Indirect subsidiary	582,502.86	600,000.00
Tian Xin	Direct subsidiary	31,178,090.86	29,386,276.81
Guang Hua	Direct subsidiary	15,884,900.44	16,875,197.94
Baiyunshan Pharmaceutical Technology	Direct subsidiary	26,934,821.24	19,530,387.47
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	158,843.68	154,518.27
Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	665,414.34	566,886.28
Jingyu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	2,967,779.56	2,121,374.24
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	1,419,251.19	1,218,351.63
Heilongjiang Sengong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	1,192,413.52	1,196,908.11
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect subsidiary	800,000.00	–
Zhejiang Guangkang Hospital Co., Ltd.	Indirect subsidiary	9,789,461.87	–
Guanghua Health	Indirect subsidiary	169,180.05	–
		219,677,925.42	190,468,803.06

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For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(41) Revenue and cost of operation

	The year ended 31 December 2014		
	Main operation	Other operation	Subtotal
Revenue	18,614,516,979.86	185,363,624.75	18,799,880,604.61
Cost of operation	12,136,640,310.27	37,278,491.24	12,173,918,801.51
Gross profit	6,477,876,669.59	148,085,133.51	6,625,961,803.10

	The year ended 31 December 2013		
	Main operation	Other operation	Subtotal
Revenue	17,463,015,713.01	145,177,599.30	17,608,193,312.31
Cost of operation	11,768,412,156.47	37,882,643.91	11,806,294,800.38
Gross profit	5,694,603,556.54	107,294,955.39	5,801,898,511.93

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

	Revenue of main operation		Cost of main operation	
	The year ended 31 December 2014	The year ended 31 December 2013	The year ended 31 December 2014	The year ended 31 December 2013
Manufacturing	14,122,230,210.82	13,789,907,026.39	8,040,540,799.54	8,361,610,824.71
Trading	4,492,286,769.04	3,673,108,686.62	4,096,099,510.73	3,406,801,331.76
	18,614,516,979.86	17,463,015,713.01	12,136,640,310.27	11,768,412,156.47

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(41) Revenue and cost of operation (Continued)

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

	Revenue of main operation		Cost of main operation	
	The year ended 31 December 2014	The year ended 31 December 2013	The year ended 31 December 2014	The year ended 31 December 2013
Southern China	10,023,750,829.98	9,457,012,039.74	6,911,575,214.54	6,630,255,995.44
Eastern China	3,396,065,436.43	3,159,357,942.65	1,925,959,786.62	1,913,095,124.64
Northern China	2,096,737,457.37	1,927,840,504.04	1,231,352,222.77	1,199,122,029.68
Northeastern China	245,162,595.47	336,459,913.14	135,761,686.78	205,408,892.35
Southwestern China	1,634,989,143.88	1,628,815,574.61	1,017,271,302.82	1,079,839,055.90
Northwestern China	606,514,204.44	512,189,652.06	350,637,615.55	312,632,160.60
Other countries	611,297,312.29	441,340,086.77	564,082,481.19	428,058,897.86
	18,614,516,979.86	17,463,015,713.01	12,136,640,310.27	11,768,412,156.47

(c) Top five of the revenue of the Group amounted to RMB1,637,453 thousand in total (For the year ended 31 December 2013: RMB1,469,063 thousand), which accounts for 8.79% of the total revenue of the Group (For the year ended 31 December 2013: 8.41%)

	Revenue of the main operation	Percentage of the total revenue of the main operation of the group
Customer 1	467,613,593.55	2.51%
Customer 2	353,741,025.66	1.90%
Customer 3	318,762,641.02	1.71%
Customer 4	256,736,355.27	1.38%
Customer 5	240,599,476.07	1.29%
	1,637,453,091.57	8.79%

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For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(41) Revenue and cost of operation (Continued)

(d) Revenue from other operation

	The year ended 31 December 2014	The year ended 31 December 2013
Leases of assets	92,308,713.00	88,129,864.34
Sales of materials	3,351,641.99	4,663,787.33
Trademark fee income	32,277,404.18	21,164,337.97
Consulting fee income	1,259,548.47	970,951.70
Medicine slotting fee income	–	302,232.15
Technology services income	714,090.99	1,016,135.40
Utilities expense collected on behalf	11,875,668.05	13,366,355.81
Management fee	6,398,798.38	5,646,937.13
Labour income	1,396,093.83	655,652.24
License fee	24,902,394.59	213,153.00
Others	10,879,271.27	9,048,192.23
	185,363,624.75	145,177,599.30

(e) Expenses from other operation

	The year ended 31 December 2014	The year ended 31 December 2013
Depreciation of assets leased out	18,021,245.78	17,663,009.61
Cost of materials sold	1,948,851.39	3,710,491.31
Service fee for technology	51,725.05	580,544.80
Utilities expense collected on behalf	12,263,397.57	11,795,978.89
Labour fee	1,209,983.07	778,505.48
Management fee	67,773.24	67,773.24
Others	3,715,515.14	3,286,340.58
	37,278,491.24	37,882,643.91

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(42) Taxes and surcharges

	The year ended 31 December 2014	The year ended 31 December 2013
Business tax	8,923,621.05	9,931,569.82
City maintenance and construction tax	79,733,406.65	75,096,142.59
Education surcharge	34,832,743.80	32,810,123.51
Local education surcharge	22,376,748.37	21,856,585.49
Housing Real-estate tax	8,594,904.02	8,550,803.37
Others	20,474.19	5,413.70
	<u>154,481,898.08</u>	<u>148,250,638.48</u>

Basis of calculation: refer to Note 4

(43) Selling and distribution expenses

	The year ended 31 December 2014	The year ended 31 December 2013
Employee benefit expenses	1,608,513,759.65	1,333,219,475.91
Sales service fees	173,249,231.26	88,272,489.34
Travelling expenses	124,225,659.01	106,542,606.69
Office expenses	18,877,326.09	19,998,172.72
Transportation expenses	428,044,140.99	451,344,682.66
Rental expenses	28,168,101.40	20,486,904.28
Conference expenses	50,519,541.15	62,482,286.85
Advertising and promotion fees	1,463,603,277.95	1,312,860,328.27
Consulting fees	19,899,491.37	26,710,774.86
Depreciation charges	2,853,989.17	2,446,934.53
Others	24,836,739.54	60,946,701.41
	<u>3,942,791,257.58</u>	<u>3,485,311,357.52</u>

Notes to the Financial Statements

For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(44) General and administrative expenses

	The year ended 31 December 2014	The year ended 31 December 2013
Employee benefit expenses	554,658,465.96	517,337,413.95
Insurance premium	2,332,155.34	2,170,316.26
Depreciation charges	49,165,562.05	48,948,904.59
Utilities	10,414,862.87	10,285,473.59
Administrative expenses	29,210,184.36	20,943,710.14
Travelling expenses	15,259,398.14	13,135,830.87
Transportation expenses	14,474,647.16	13,865,206.44
Repairing expenses	18,784,838.88	23,217,321.30
Rental expenses	24,585,143.69	17,208,980.88
Conference expenses	5,965,277.01	9,739,650.58
Research and development expenses	278,525,569.86	282,190,575.40
Taxation charges	52,147,948.06	54,083,490.25
Amortisation	20,740,994.03	15,710,985.57
Professional service fees	12,116,221.75	17,346,439.97
Including: audit fees	2,313,000.00	2,284,000.00
Consulting fees	5,965,426.88	5,133,903.81
Trademark License fees	87,307,418.16	81,172,064.58
Others	83,613,777.75	94,765,084.56
	<u>1,265,267,891.95</u>	<u>1,227,255,352.75</u>

(45) Financial expenses

	The year ended 31 December 2014	The year ended 31 December 2013
Interest expenses	25,095,136.36	34,980,537.04
Discount interest expenses of notes	8,475,661.53	9,523,235.32
Interest income	(34,699,069.47)	(17,729,478.85)
Exchange (gains)/losses	(205,731.51)	289,808.89
Bank charges	3,178,059.51	2,528,073.58
Cash discounts	(124,231.10)	(1,286,879.05)
	<u>1,719,825.32</u>	<u>28,305,296.93</u>

For the year ended 31 December 2014 and the year ended 31 December 2013, all interest expenses belong to borrowings which loan repayment dates are within 5 years.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(46) Losses for impairment of assets

	The year ended 31 December 2014	The year ended 31 December 2013
Losses for bad debts	25,618,330.60	5,317,488.48
Losses for declines in values of inventories	31,581,129.25	6,869,746.78
Losses for impairment of fixed assets	3,973,006.92	612,824.67
Losses for impairment of intangible assets	—	114,005.00
	61,172,466.77	12,914,064.93

(47) Profit arising from changes in fair value

	The year ended 31 December 2014	The year ended 31 December 2013
Gain arising from changes in fair value of listed shares of Zhongzhi	585,615.30	501,212.70
Gain arising from changes in fair value of listed shares of Harbin Pharmaceutical Group Co., Ltd. held by the Group	737,740.50	(14,465.50)
	1,323,355.80	486,747.20

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(48) Investment income

(a) Details of investment incomes:

	The year ended 31 December 2014	The year ended 31 December 2013
Investment income from financial assets:		
Income from financial assets held for trading	26,609.78	9,249.61
Income from available-for-sale financial assets	1,139,070.84	441,796.16
Gain or loss of entrusted loans	(1,048,049.14)	(974,002.84)
	117,631.48	(522,957.07)
Income from long-term equity investment:		
Income from long-term equity investments recognised by equity method	156,172,120.15	207,391,786.49
Income from long-term equity investments recognised by cost method	4,530,589.36	8,941,351.14
Investment income from disposal of long-term equity investment	162,851.16	3,914,884.21
	160,865,560.67	220,248,021.84
	160,983,192.15	219,725,064.77

Notes to the Financial Statements

For the year ended 31 December 2014

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(49) Non-operating income

	The year ended 31 December 2014	The year ended 31 December 2013
Gains on disposal of non-current assets	240,591.74	115,668.82
Including: Gains on disposal of fixed assets	240,591.74	115,668.82
Government grants	165,855,821.77	112,951,790.87
Penalty income	117,049.83	461,035.18
Sales of scraps	4,517,677.39	4,716,466.39
Waived liabilities	3,348,575.25	1,036,276.01
Others	7,993,278.57	6,565,823.18
	182,072,994.55	125,847,060.45

Notes to the Financial Statements

For the year ended 31 December 2014
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(49) Non-operating income (Continued)

Details of government grants:

Item	The year ended 31 December 2014	The year ended 31 December 2013
Government grants related to assets:		
Including:		
Technology funds granted from government	5,796,729.58	5,620,322.73
Compensation for relocation	365,644.44	365,644.44
Financial discount	246,684.92	71,866.92
Specific funds of environmental protection	976,372.38	789,764.82
Innovating platform construction	373,511.32	4,333,332.13
Subsidy of land from government	174,221.70	–
Others	957,083.92	1,195,261.12
	8,890,248.26	12,376,192.16
Government grants related to income:		
Including:		
Technology funds granted from government	25,454,330.29	25,711,833.71
Special funds of export for technology	123,503.34	485,433.33
Funds of pharmaceutical industrial project	613,735.58	797,678.25
Special funds of reconstruction for energy saving	116,600.00	166,050.00
Special funds of innovating enterprises	1,898,267.69	750,470.02
Subsidy for experimental enterprises of modern service.	3,000,000.00	–
Reward of enterprise development	–	2,193,815.00
Special funds for significant investment	26,330,000.00	66,900,000.00
Compensation of relocation	97,239,616.35	1,414,785.87
Others	2,189,520.26	2,155,532.53
	156,965,573.51	100,575,598.72
Total	165,855,821.77	112,951,790.87

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(50) Non-operating expenses

	The year ended 31 December 2014	The year ended 31 December 2013
Loss on disposal of non-current assets	8,962,017.61	3,776,158.49
Including: Loss on disposal of fixed assets	8,962,017.61	3,776,158.49
Loss of restructuring liabilities	1,909,326.63	–
Public welfare donations	8,265,966.20	9,636,792.96
Relocation cost	56,912,031.19	–
Penalty and overdue fines	299,332.39	1,036,859.64
Reward of family planning	887,824.75	728,123.67
Other	494,639.32	1,552,299.73
	<u>77,731,138.09</u>	<u>16,730,234.49</u>

(51) Income tax expenses

	The year ended 31 December 2014	The year ended 31 December 2013
Current income tax	309,523,166.18	370,486,762.09
Deferred income tax	(52,989,816.17)	(148,243,329.78)
	<u>256,533,350.01</u>	<u>222,243,432.31</u>

The Group's income tax expenses attributable to Hong Kong at current period is RMB192,377.20.

Notes to the Financial Statements

For the year ended 31 December 2014
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(51) Income tax expenses (Continued)

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	The year ended 31 December 2014	The year ended 31 December 2013
Total profit	1,467,176,867.81	1,229,190,439.25
Income tax expenses calculated at 25%	366,794,216.95	307,297,609.81
Tax effect of different rates applicable to subsidiaries	(82,354,266.23)	(55,216,213.81)
Adjust effect for income tax of previous period	(141,464.84)	(4,052,228.32)
Gain or loss belong to associates & joint venture	(30,800,503.75)	(47,567,066.87)
Non-taxable revenue	(2,495,764.97)	(4,475,492.33)
Expenses not deductible for tax purposes	9,141,977.82	22,921,203.39
Effect of opening balance of deferred income tax arising from changes in tax rate	(4,272,184.96)	1,197,689.98
Tax effect of deductibal temporary differences & deductible loss which are not recognized in current period	5,993,318.59	2,137,930.46
Tax effect of unrecognized deferred income tax assets	(5,331,978.60)	-
Income tax expenses	256,533,350.01	222,243,432.31

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(52) Earnings per share

(a) Basic earnings per share

(i) Weighted average basic earnings per share

Weighted average basic earnings per share is calculated by dividing consolidated net profit for the current year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding:

	The year ended 31 December 2014	The year ended 31 December 2013
Consolidated net profit attributable to ordinary shareholders of the Company	1,192,471,636.11	980,045,077.10
Weighted average number of ordinary shares outstanding:	1,291,340,650.00	1,276,290,237.50
Weighted average basic earnings per share of weighted average:	0.923	0.768

(ii) Overall diluted basic earnings per share

Overall diluted basic earnings per share is calculated by dividing consolidated net profit for the current year attributable to ordinary shareholders of the Company by the number of ordinary shares outstanding:

	The year ended 31 December 2014	The year ended 31 December 2013
Consolidated net profit attributable to ordinary shareholders of the Company	1,192,471,636.11	980,045,077.10
Weighted average number of ordinary shares outstanding:	1,291,340,650.00	1,291,340,650.00
Weighted average basic earnings per share of weighted average:	0.923	0.759

Notes to the Financial Statements

For the year ended 31 December 2014
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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(52) Earnings per share (Continued)

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusted net profit for the current year attributable to ordinary shareholders by the adjusted weighted average number of ordinary shares outstanding. For the year ended 31 December 2014, there were no potential ordinary shares (For the year ended 31 December 2013: nil), diluted earnings per share is equal to basic earnings per share.

(53) Notes to the consolidated cash flow statement

(a) Cash received relating to other operating activities:

	The year ended 31 December 2014	The year ended 31 December 2013
Non-operating income	13,707,784.84	13,158,110.62
Other operation income	192,649,210.29	140,976,599.88
Government grants	182,511,208.08	114,347,065.44
Interest income	34,699,069.47	17,729,478.85
Received guarantee and others	16,322,617.99	13,254,327.21
	439,889,890.67	299,465,582.00

(b) Cash paid relating to other operating activities:

	The year ended 31 December 2014	The year ended 31 December 2013
Cash payments of selling and distribution expenses	1,874,773,445.18	1,554,016,262.18
Cash payments of general and administrative expenses	444,847,421.06	459,353,056.38
Financial expenses – bank charges	3,178,059.51	12,051,308.90
Others	171,902,828.30	49,292,616.97
	2,494,701,754.05	2,074,713,244.43

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(53) Notes to the consolidated cash flow statement (Continued)

(c) Cash received relating to other investing activities:

	The year ended 31 December 2014	The year ended 31 December 2013
Settlement received from bankruptcy of South Securities	–	255,055.04
Interest received from securities accounts	5,830.38	2,861.70
	5,830.38	257,916.74

(d) Cash paid relating to other investing activities:

	The year ended 31 December 2014	The year ended 31 December 2013
Tax expenses arising from the interest income of entrusted loans	3,106,967.19	2,809,291.91
Subsidiaries sold	–	131,066.64
	3,106,967.19	2,940,358.55

(e) Cash paid relating to other financing activities:

	The year ended 31 December 2014	The year ended 31 December 2013
Poundage of borrowings	563,819.65	–
Withholding tax paid for overseas financing	340,043.21	–
	903,862.86	–

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(54) Supplementary information of cash flow statements

(a) Supplementary information of cash flow statements

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

	The year ended 31 December 2014	The year ended 31 December 2013
Net profit	1,210,643,517.80	1,006,947,006.94
Add: Provision for assets impairment	61,172,466.77	12,914,064.93
Depreciation of fixed assets, and depreciation and amortisation of Investment properties	183,931,880.87	174,446,151.32
Amortisation of intangible assets	11,639,363.66	7,169,137.52
Amortisation of long-term prepaid expenses	5,040,075.11	3,907,136.82
Loss (less: gain) on disposal of fixed assets, intangible assets and other long-term assets	1,297,809.64	2,092,207.44
Loss on scrapping of fixed assets	7,423,616.23	1,568,282.23
Loss (less: gain) on changes in fair value	(1,323,355.80)	(486,747.20)
Financial expenses	24,750,439.20	32,839,436.85
Investment gain	(160,983,192.15)	(219,725,064.77)
Decrease in deferred tax assets	(62,768,819.40)	(147,260,480.07)
Increase/(less: decrease) in deferred tax liabilities	9,779,003.23	(982,849.70)
Decrease in inventories	(364,346,068.28)	(186,300,861.12)
Decrease of operating receivables	(18,084,966.15)	(975,084,800.52)
Increase of operating payables	853,210,413.07	1,627,097,518.15
Others	—	—
Net cash flows from operating activities	1,761,382,183.80	1,339,140,138.82

Notes to the Financial Statements

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(54) Supplementary information of cash flow statements

(a) Supplementary information of cash flow statements

(ii) Investing and financing activities that do not involve cash receipts and payments:

	The year ended 31 December 2014	The year ended 31 December 2013
Conversion of debt into capital Convertible company bonds	–	–
due within one year	–	–
Fixed assets held under finance leases	–	–

(iii) Net movement in cash and cash equivalents

	The year ended 31 December 2014	The year ended 31 December 2013
Cash at the end of period	3,029,136,084.71	1,918,952,286.86
Less: cash at the beginning of year	1,918,952,286.86	1,114,346,524.75
Add: cash equivalents at end of the period	–	–
Less: cash equivalents at beginning of the year	–	–
Net movement in cash and cash equivalents	1,110,183,797.85	804,605,762.11

The cash and cash equivalents do not include housing fund amounted to RMB581 thousand, Deposit of direct commerce enterprise amounted to RMB20,000 thousand, security deposit for bank payable notes amounted to RMB52,179 thousand, blocked account amounted to RMB78,891 thousand and guarantee for constructions amounted to RMB100 thousand.

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5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(b) Details of cash and cash equivalents:

	31 December 2014	31 December 2013
Cash	3,029,136,084.71	1,918,952,286.86
Including: Cash on hand	738,798.99	757,750.42
Bank deposits that are readily available for payment	3,024,430,754.08	1,887,888,931.77
Other cash that are readily available for payment	3,966,531.64	30,305,604.67
Cash equivalents	—	—
Total cash and cash equivalents	3,029,136,084.71	1,918,952,286.86
Including: cash and cash equivalents that are restricted	—	—
	31 December 2014	31 December 2013
Balance of cash at bank and on hand	3,180,887,532.85	1,935,681,740.06
Less: balance of cash at bank and on hand that are restricted to use	151,751,448.14	16,729,453.20
Balance of cash and cash equivalents	3,029,136,084.71	1,918,952,286.86

(55) Assets that are restricted for ownership or use right

	31 December 2014	31 December 2013
Cash at bank and on hand	151,751,448.14	27,962,440.47

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(56) Monetary items denominated in foreign currency

(a) Monetary items denominated in foreign currency

	Ending balance	Conversion rate Balance	Converted to RMB
Cash at bank and on hand			3,180,887,532.85
Including: USD	1,518,869.31	6.1190	9,293,961.31
EUR	0.27	7.4556	2.00
HKD	5,160,448.10	0.7889	4,070,922.70
JPY	93,323,482.51	0.0514	4,794,120.62
Accounts receivable			1,048,515,584.29
Including: USD	1,823,742.94	6.1190	11,159,483.05
HKD	677,977.66	0.7889	534,836.23
Other receivable			335,120,088.99
Including: HKD	1,647,250.27	0.7889	1,299,466.33
Accounts payable			2,075,534,476.45
Including: USD	227,535.43	6.1190	1,392,289.27
Other payable			1,544,962,787.77
Including: HKD	3,932,283.30	0.7889	3,102,060.33
Advanced from customers			889,008,552.82
Including: USD	283,743.90	6.1239	1,737,616.72
HKD	1,991,565.30	0.7889	1,571,145.87

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

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

6 CHANGES IN SCOPE OF CONSOLIDATION

(1) Disposal of subsidiaries

(a) Details of once disposal for the ceased control arising from investment to subsidiaries:

Ratio of disposal for equity (%)	Amount of disposal for equity	Disposal ratio (%)	Mode of disposal	Time of control ceases	Recognition	Differences arising from between disposal amount and portion of net assets held by disposal investment for the range of consolidated financial statements	Ratio of the remaining equity	Book value of the remaining equity at the date of ceased control	Fair value of the remaining equity at the date of ceased control	Gain or loss arising from the remaining equity re-measured at fair value	Recognition and assumption for fair value	Profit or loss arising from transformation of other comprehensive income which is related to equity investment
Guangzhou Baiyunshan Pharmacy	-	100.00				162,851.16	-	-	-			

(2) Changes of scope of combination arising from other reason:

The reason for the increase of the 6 companies in scope of combination comparing to the previous period are:

- (1) The Company and Guangzhou Xingzhou Pharmaceutical Co., Ltd. invested RMB86,480 thousand to establish Guangzhou Baiyunshan Xingzhou Pharmaceutical Co., Ltd. in February 2014, the Company's ratio of equity interest held are 75%.
- (2) Guanghua Pharmaceutical, a subsidiary of the Company, and other shareholders established Guanghua Health in April 2014 with registered capital of RMB 10,000 thousand, of which was 75% of registered capital.
- (3) The Company wholly established Guangzhou Baiyunshan Medical Health Industry Investment Co., Ltd. in May 2014, registered capital amounted to RMB 10,000 thousand.
- (4) Caizhilin Pharmaceutical, a subsidiary of the Company, and other shareholders established Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd. in January 2014, the registered capital of RMB 2,000 thousand, which was 60% of registered capital.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

6 CHANGES IN SCOPE OF CONSOLIDATION *(Continued)*

(2) Changes of scope of combination arising from other reason: *(Continued)*

- (5) The Company wholly established Medical Technology in September 2014, registered capital amounted to RMB 26,000 thousand.
- (6) Medical Technology, a subsidiary of the Company, and other shareholders established Zhejiang Guangkang Pharmaceutical Co., Ltd. in November 2014 with registered capital amounted to RMB85,000 thousand, as at 31 December 2014, amount of contribution for Chemical Medicine Technology was 51% of paid-in capital.

7 OTHER EQUITY OF ENTITY

(1) Equity of subsidiaries

(a) Details of the Group:

Name of subsidiary	Principal place of business	Registration place	Nature of business	% equity interest held		% voting rights held		Acquisition method
				Direct	Indirect	Direct	Indirect	
Xing Qun	Guangzhou	Guangzhou	Pharmaceutical manufacturing	88.99		88.99		Establishment or Investment
Zhong Yi	Guangzhou	Guangzhou	Pharmaceutical manufacturing	100.00		100.00		Establishment or Investment
Chen Li Ji	Guangzhou	Guangzhou	Pharmaceutical manufacturing	100.00		100.00		Establishment or Investment
Guangzhou Han Fan (1)	Guangzhou	Guangzhou	Pharmaceutical manufacturing	99.49		99.53		Establishment or Investment
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	100.00		100.00		Establishment or Investment
Jing Xiu Tang	Guangzhou	Guangzhou	Pharmaceutical manufacturing	88.40		88.40		Establishment or Investment
Pan Gao Shou	Guangzhou	Guangzhou	Pharmaceutical manufacturing	87.77		87.77		Establishment or Investment
Cai Zhi Lin	Guangzhou	Guangzhou	Pharmaceutical trading	100.00		100.00		Establishment or Investment
Guangzhou Pharmaceutical Import & Export Co., Ltd. ("Pharmaceutical Import & Export")	Guangzhou	Guangzhou	Pharmaceutical trading	100.00		100.00		Establishment or Investment
Guangzhou Baiyunshan Bai Di Bio-Technology Co., Ltd. (Guangzhou Bai Di)	Guangzhou	Guangzhou	Pharmaceutical manufacturing	98.48		98.48		Establishment or Investment

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

7 OTHER EQUITY OF ENTITY (Continued)

(1) Equity of subsidiaries (Continued)

(a) Details of the Group: (Continued)

Name of subsidiary	Principal place of business	Registration place	Nature of business	% equity interest held		% voting rights held		Acquisition method
				Direct	Indirect	Direct	Indirect	
Guangzhou Wang Lao Ji Great Health Industry Co., Ltd ("WLJ Great Health")	Guangzhou	Guangzhou	Food manufacturing	100.00		100.00		Establishment or Investment
Guangzhou Guang Yao Yi Gan Biological Product Co., Ltd. (Guangzhou Yi Gan)	Guangzhou	Guangzhou	Pharmaceutical manufacturing	60.00		60.00		Establishment or Investment
Guangzhou Baiyunshan Xingzhou Pharmaceutical Co., Ltd. (Xingzhou)	Guangzhou	Guangzhou	Pharmaceutical manufacturing	75.00		75.00		Establishment or Investment
Guangzhou Baiyunshan Medical and Health Industry Investment Co., Ltd. (Baiyunshan Medical and Health)	Guangzhou	Guangzhou	Assets management, investment management,	100.00		100.00		Establishment or Investment
Guangzhou Baiyunshan Chemical Medicine Technology Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	100.00		100.00		Establishment or Investment
Qi Xing	Guangzhou	Guangzhou	Pharmaceutical manufacturing	75.00		75.00		Establishment or Investment
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd. (Jing Xiu Tang 1790) (1)	Guangzhou	Guangzhou	Pharmaceutical trading	45.08		51.00		Establishment or Investment
Guangzhou Pan Gao Shou Natural Healthcare Products Co., Ltd (Pan Gao Shou Natural Healthcare) (1)	Guangzhou	Guangzhou	Pharmaceutical manufacturing	87.77		100.00		Establishment or Investment
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Guangzhou	Guangzhou	Pharmaceutical trading	100.00		100.00		Establishment or Investment
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Guangzhou	Guangzhou	Pharmaceutical manufacturing	100.00		100.00		Establishment or Investment
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese raw medicine Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	100.00		100.00		Establishment or Investment
Guangzhou Ao Ma Medical Apparatus Co., Ltd. (Guangzhou Ao Ma)	Guangzhou	Guangzhou	Pharmaceutical trading	100.00		100.00		Establishment or Investment
Tibet Lin Zhi Guangyao Development Co., Ltd (1)	Linzi	Linzi	Pharmaceutical trading	54.82		55.00		Establishment or Investment
Guangzhou Pan Gao Shou Food Beverage Co., Ltd (1)	Guangzhou	Guangzhou	Pharmaceutical manufacturing	87.77		100.00		Establishment or Investment
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Wulanchabu	Wulanchabu	Pharmaceutical trading	80.00		80.00		Establishment or Investment
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Linqi	Linqi	Pharmaceutical trading	60.00		60.00		Establishment or Investment

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For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

7 OTHER EQUITY OF ENTITY (Continued)

(1) Equity of subsidiaries (Continued)

(a) Details of the Group: (Continued)

Name of subsidiary	Principal place of business	Registration place	Nature of business	% equity interest held		% voting rights held		Acquisition method
				Direct	Indirect	Direct	Indirect	
Guizhou Guangyao Chinese Raw Medicine Development Co., Ltd. (1)	Kaili	Kaili	Pharmaceutical trading	67.67		70.00		Establishment or Investment
Jingyuxian Dong E Guangyao Chinese Raw Medicine Development Co., Ltd (1)	Jingyu	Jingyu	Pharmaceutical trading	57.50		60.00		Establishment or Investment
Heilongjiang Sengong Guangyao Raw Medicine Development Co., Ltd.	Haerbin	Haerbin	Pharmaceutical trading	60.00		60.00		Establishment or Investment
Chongqing Guangyao Raw Medicine Development Co., Ltd. (Chongqing Guangyao) (1)	Chongqing	Chongqing	Pharmaceutical trading	75.23		80.00		Establishment or Investment
Wang Lao Ji Great Health Yaan Co., Ltd.	Yaan	Yaan	Pharmaceutical manufacturing	100.00		100.00		Establishment or Investment
Guangzhou Baiyunshan Guanghua Health Products Co., Ltd. (Guanghua Health) (1)	Guangzhou	Guangzhou	Pharmaceutical manufacturing	63.36		75.00		Establishment or Investment
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Fengshun	Fengshun	Pharmaceutical trading	60.00		60.00		Establishment or Investment
Zhejiang Guangkang Pharmaceutical Co., Ltd.	Shengzhou	Shengzhou	Pharmaceutical manufacturing	51.00		51.00		Establishment or Investment
Tian Xin	Guangzhou	Guangzhou	Pharmaceutical manufacturing	82.49		82.49		Business combinations involving entities under common control
Guang Hua	Guangzhou	Guangzhou	Pharmaceutical manufacturing	84.48		84.48		Business combinations involving entities under common control
Ming Xing	Guangzhou	Guangzhou	Pharmaceutical manufacturing	100.00		100.00		Business combinations involving entities under common control

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For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

7 OTHER EQUITY OF ENTITY (Continued)

(1) Equity of subsidiaries (Continued)

(a) Details of the Group: (Continued)

Name of subsidiary	Principal place of business	Registration place	Nature of business	% equity interest held		% voting rights held		Acquisition method
				Direct	Indirect	Direct	Indirect	
Baiyunshan Weiling Pharmaceutical Co., Ltd. ("Weiling")	Jiexi	Jiexi	Pharmaceutical manufacturing	100.00		100.00		Business combinations involving entities under common control
Guangzhou Baiyunshan Pharmaceutical Technological Development Co., Ltd. ("BYS Pharmaceutical Technological")	Guangzhou	Guangzhou	Pharmaceutical trading	51.00		51.00		Business combinations involving entities under common control
Guangzhou Guangyao Baiyunshan Great Health Hotel Co., Ltd. ("Great Health Hotel")	Guangzhou	Guangzhou	Hotel	100.00		100.00		Business combinations involving entities under common control
Guangyao Baiyunshan (Hong Kong) Limited	Hongkong	Hongkong	Pharmaceutical trading	100.00		100.00		Business combinations involving entities under common control
Ying Kang	Nanning	Nanning	Pharmaceutical manufacturing	51.00		51.00		Business combinations involving entities not under common control

Reason of ratio of equity interest held is defferent from ratio of voting rights held in subsidiaries:

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

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

7 OTHER EQUITY OF ENTITY (Continued)

(2) Equity in joint arrangements or associates

(a) Summary of joint venture and associates that are insignificant

Item	Ending balance/ Current amount	Opening balance/ Prior amount
Joint venture:		
Total carrying amount of investments	1,919,999,790.04	1,840,147,661.92
Calculated by rate of interests held:		
– Net profit	165,518,796.56	218,496,494.87
– Other comprehensive income	267,447.68	(76,505.49)
– Total comprehensive income	165,786,244.24	218,419,989.38
Associates:		
Total carrying amount of investments	30,765,309.31	30,585,457.47
Calculated by rate of interests held:		
– Net profit	179,851.84	(7,732,458.87)
– Other comprehensive income	–	–
– Total comprehensive income	179,851.84	(7,732,458.87)

8. FINANCIAL INSTRUMENT AND RISK

The Group's activities expose it to a variety of financial risks: market risk (mainly currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(1) Market risk

(a) Foreign exchange risk

The Group's major operating activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. Nevertheless, the Group is exposed to foreign exchange risk arising from the recognized assets and liabilities and future transactions denominated in foreign currencies (mainly USD and HKD). The Group's finance department (Group Finance) is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies, in order to minimize the foreign exchange risk. The Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

8. FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk (Continued)

(a) Foreign exchange risk (Continued)

As at 31 December 2014 and 31 December 2013, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarised as follows:

	31 December 2014					Total
	USD	HKD	EUR	JPY	GBP	
Financial assets denominated in foreign currency –						
Cash at bank and on hand	9,293,961.31	4,070,922.70	2.00	4,794,120.62	-	18,159,006.63
Accounts receivable	11,159,483.05	534,836.23	-	-	-	11,694,319.28
Other receivables	-	1,299,466.33	-	-	-	1,299,466.33
	<u>20,453,444.36</u>	<u>5,905,225.26</u>	<u>2.00</u>	<u>4,794,120.62</u>	<u>-</u>	<u>31,152,792.24</u>
Financial liabilities denominated in foreign currency –						
Short-term borrowings	-	-	-	-	-	-
Accounts payable	1,392,289.27	-	-	-	-	1,392,289.27
Other payables	-	3,102,060.33	-	-	-	3,102,060.33
	<u>1,392,289.27</u>	<u>3,102,060.33</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,494,349.60</u>

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

8. FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk (Continued)

(a) Foreign exchange risk (Continued)

	31 December 2013					Total
	USD	HKD	EUR	JPY	GBP	
Financial assets denominated in foreign currency –						
Cash at bank and on hand	19,217,261.74	1,973,995.50	4,512,156.10	577,710.12	1.11	26,281,124.57
Accounts receivable	13,768,115.67	5,506,263.30	-	-	-	19,274,378.97
Other receivables	-	530,507.14	-	-	-	530,507.14
	<u>32,985,377.41</u>	<u>8,010,765.94</u>	<u>4,512,156.10</u>	<u>577,710.12</u>	<u>1.11</u>	<u>46,086,010.68</u>
Financial liabilities denominated in foreign currency –						
Short-term borrowings	7,910,925.00	-	-	-	-	7,910,925.00
Accounts payable	5,323,959.71	8,512.25	-	-	-	5,332,471.96
Other payables	-	2,064,696.40	-	-	-	2,064,696.40
	<u>13,234,884.71</u>	<u>2,073,208.65</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,308,093.36</u>

As at 31 December 2014, if RMB had strengthened/weakened by 10% against the USD HKD, EUR and JPY with all other variables held constant, the Group's net profit for the period would have been approximately RMB1,999 thousand (As at 31 December 2013: lower/higher RMB2,312 thousand) higher/lower.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

8. FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk (Continued)

(b) Interest rate risk

As at 31 December 2014, there is no amount of long-term interest bearing borrowings.

(c) Other price risk

Equity of listed companies held by the Company is as below:

Item	31 December 2014	31 December 2013
Financial assets at fair value through profit or loss	4,686,023.00	3,362,667.20
Available-for-sale financial assets	32,207,055.60	17,608,107.28
Total	36,893,078.60	20,970,774.48

As at 31 December 2014, under the circumstance of variables remain unchanged, if the value of equity instruments rise or decline 10%, the Company would increase or decrease net profit amounted to RMB469 thousand, other comprehensive income amounted to RMB2,728 thousand accordingly (as at 31 December 2013: RMB336 thousand, RMB1,495 thousand). Management considers 10% of it as a reasonable range where the value of equity instruments might change in next period.

(2) Credit risk

Credit risk is managed on a group basis. Credit risk mainly arises from cash at bank, accounts receivable, other receivables, notes receivable etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on accounts receivable, other receivables and notes receivable. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

8. FINANCIAL INSTRUMENT AND RISK *(Continued)*

(3) Liquidity risk

Cash flow forecast is performed by each subsidiary of the Group and aggregated by Group Finance. Group Finance monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institution so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

As at 31 December 2014, 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 2014					Total
	Within 1 year	1-2 years	2-5 years	Over 5 years	Without fixed maturity	
Financial assets –						
Cash at bank and on hand	3,180,887,532.85	-	-	-	-	3,180,887,532.85
Notes receivable	1,465,748,952.32	-	-	-	-	1,465,748,952.32
Accounts receivable	1,048,515,584.29	-	-	-	-	1,048,515,584.29
Other receivables	328,143,093.66	-	-	-	-	328,143,093.66
	<u>6,023,295,163.12</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,023,295,163.12</u>
Financial liabilities						
Short-term borrowings	575,954,732.36	-	-	-	-	575,954,732.36
Long-term borrowings	-	-	-	-	-	-
Notes payable	356,573,197.95	-	-	-	-	356,573,197.95
Accounts payable	2,075,534,476.45	-	-	-	-	2,075,534,476.45
Other payables	1,544,962,787.77	-	-	-	-	1,544,962,787.77
Long-term payables	-	-	-	22,361,807.40	-	22,361,807.40
	<u>4,553,025,194.53</u>	<u>-</u>	<u>-</u>	<u>22,361,807.40</u>	<u>-</u>	<u>4,575,387,001.93</u>
Provision of guarantees	60,000,000.00	-	-	-	-	60,000,000.00

Notes to the Financial Statements

For the year ended 31 December 2014

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8. FINANCIAL INSTRUMENT AND RISK (Continued)

(3) Liquidity risk (Continued)

	31 December 2013					Total
	Within 1 year	1-2 years	2-5 years	Over 5 years	Without fixed maturity	
Financial assets-						
Cash at bank and on hand	1,935,681,740.06	-	-	-	-	1,935,681,740.06
Notes receivable	1,326,353,755.90	-	-	-	-	1,326,353,755.90
Accounts receivable	1,003,090,938.42	-	-	-	-	1,003,090,938.42
Other receivables	196,434,702.48	-	-	-	-	196,434,702.48
	<u>4,461,561,136.86</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,461,561,136.86</u>
Financial liabilities						
Short-term borrowings	522,754,872.57	-	-	-	-	522,754,872.57
Long-term borrowings	552,154.82	552,154.82	8,712,133.27	-	-	9,816,442.91
Notes payable	130,773,655.25	-	-	-	-	130,773,655.25
Accounts payable	1,470,360,537.61	-	-	-	-	1,470,360,537.61
Other payables	1,211,712,507.04	-	-	-	-	1,211,712,507.04
Long-term payables	-	-	-	22,215,752.40	-	22,215,752.40
	<u>3,336,153,727.29</u>	<u>552,154.82</u>	<u>8,712,133.27</u>	<u>22,215,752.40</u>	<u>-</u>	<u>3,367,633,767.78</u>
Provision of guarantees	<u>60,000,000.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,000,000.00</u>

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

	31 December 2014		31 December 2013	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Wholly repayable within 5 years	<u>575,954,732.36</u>	<u>-</u>	<u>532,571,315.48</u>	<u>-</u>

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

9. DISCLOSURE OF THE FAIR VALUE

(a) Financial instruments not measured at fair value

Financial assets and liabilities not measured at fair value mainly represent receivables, short-term borrowings, payables and long-term payables.

The carrying amount of financial assets and liabilities not measured at fair value is a reasonable approximation of their fair values.

(b) Financial instruments measured at fair value

Based on the lowest level input that is significant to the fair value measurement in its entirety, the fair value hierarchy has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that is not based on observable market data (that is, unobservable inputs).

As at 31 December 2014, the financial assets measured at fair value by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets –				
Financial assets at fair value through profit or loss				
Investments in equity instrument held for trading	4,686,023.00	-	-	4,686,023.00
Available-for-sale financial assets – Available-for-sale equity instruments	32,207,055.60	-	-	32,207,055.60
	<u>36,893,078.60</u>	<u>-</u>	<u>-</u>	<u>36,893,078.60</u>

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(All amounts in Renminbi yuan unless otherwise stated)

9. DISCLOSURE OF THE FAIR VALUE (Continued)

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

As at 31 December 2013, the financial assets measured at fair value by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets –				
Financial assets at fair value through profit or loss				
Investments in equity instrument held for trading	3,362,667.20	–	–	3,362,667.20
Available-for-sale financial assets –				
Available-for-sale equity instruments	17,608,107.28	–	–	17,608,107.28
	<u>20,970,774.48</u>	<u>–</u>	<u>–</u>	<u>20,970,774.48</u>

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using valuation techniques. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis. Inputs to valuation techniques include prepayment rates, rates of estimated credit losses, and interest rates or discount rates.

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For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

10. FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	31 December 2013	Profit or loss arising from changes in fair value during the current period	Accumulated changes in fair value recognised in equity during the current period	Impairment loss recognised during the current period	31 December 2014
Financial assets –					
Financial assets at fair value through profit or loss	3,362,667.20	1,323,355.80	–	–	4,686,023.00
Available-for-sale financial assets	17,608,107.28	–	12,353,668.78	2,245,279.54	32,207,055.60
	<u>20,970,774.48</u>	<u>1,323,355.80</u>	<u>12,353,668.78</u>	<u>2,245,279.54</u>	<u>36,893,078.60</u>

11. FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

	31 December 2013	Profit or loss arising from changes in fair value during the current period	Accumulated changes in fair value recognised in equity during the current period	Impairment loss recognised during the current period	31 December 2014
Financial assets –					
Cash and bank	26,281,124.57	–	–	–	18,159,006.63
Accounts receivable	19,274,378.97	–	–	–	11,694,319.28
Other receivables	530,507.14	–	–	–	1,299,466.33
	<u>46,086,010.68</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>31,152,792.24</u>
Financial liabilities –					
Short-term borrowings	7,910,925.00	–	–	–	–
Accounts payable	5,332,471.96	–	–	–	1,392,289.27
Other payables	2,064,696.40	–	–	–	3,102,060.33
	<u>15,308,093.36</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>4,494,349.60</u>

Notes to the Financial Statements

For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) General information of the parent company:

Name of the Parent company	Relationship	Business Type	Registration place	Legal Representative	Nature of business	Registered Capital (RMB '0000)	% equity interest	% voting rights	Ultimate holding company	Organization code
GPHL	Parent Company	Limited liability company (whollystate-owned)	No. 45, North Street, Shamian Liwan District Guangzhou	Li Chuyuan	Manufacturing and trading	125,281	45.24%	45.24%	Guangzhou State-owned Assets Supervision and Administration Commission	23124735-0

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

	31 December 2014 (RMB'0000)
GPHL	125,281

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

	31 December 2014	
	% equity interest held	% voting rights held
GPHL	45.24%	45.24%

(2) Information of subsidiaries

For the general information and related information of the subsidiaries, please refer to Note 7.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(3) Information of joint venture and associates

Details of joint venture or associates that occurred connected transactions with the Company at current period or at previous period are as below:

Name	Relation with the Company
GP Corp.	joint venture
Wang Lao Ji	joint venture
Nuo Cheng	joint venture
BYSHW	joint venture
Baxter Qiao Guang	joint venture

(4) Information of other related parties that are not controlled by the Group

Name of entity	Relationship with the Group	Organization code
Guangzhou Pharmaceutical Industrial Research Institute	Controlled by the same parent company	455347297
Guangzhou Yu Fa Medical Apparatus Co., Ltd.	Controlled by the same parent company	618407881
Guangzhou South China Medical Apparatus Co., Ltd.	Controlled by the same parent company	23123789-X

(5) Related party transactions

- (a) For the subsidiaries which are controlled by the Company and consolidated into the consolidated financial statements, the transactions amongst them and that between the Company and them have been eliminated.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(b) Purchase of goods from related parties

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	The year ended 31 December 2014		The year ended 31 December 2013	
				Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
HWBYS	Purchase of goods	Chinese raw medicine or medicine	Market price	389,573,040.35	4.31	71,528,549.27	0.82
GP Corp.	Purchase of goods	Chinese raw medicine or medicine	Market price	156,670,195.50	1.73	134,866,729.29	1.55
Wang Lao Ji	Purchase of goods	Chinese raw medicine or medicine	Market price	15,753,026.00	0.17	11,152,134.58	0.13
				561,996,261.85	6.21	217,547,413.14	2.50

(c) Sales of goods to related parties

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	The year ended 31 December 2014		The year ended 31 December 2013	
				Amount	Percentage of similar transactions (%)	Amount	Percentage of similar transactions (%)
GPHL	Sales of goods	Chinese raw medicine or medicine	Market price	57,426.41	-	119,363.01	-
Guangzhou Pharmaceutical Industrial Research Institute	Sales of goods	Chinese raw medicine or medicine	Market price	38,512.81	-	2,670,688.84	0.02
HWBYS	Sales of goods	Chinese raw medicine or medicine	Market price	163,774,174.27	0.88	171,533,914.60	0.98
GP Corp.	Sales of goods	Chinese raw medicine or medicine	Market price	318,762,641.02	1.71	438,298,879.63	2.51
Wang Lao Ji	Sales of goods	Chinese raw medicine or medicine	Market price	136,823,905.50	0.74	167,405,644.19	0.96
Nuo Cheng	Sales of goods	Chinese raw medicine or medicine	Market price	102,222.23	-	242,529.93	-
Baxter Qiao Guang	Sales of goods	Chinese raw medicine or medicine	Market price	1,554,767.95	0.01	595,546.89	-
				621,113,650.19	3.34	780,866,567.09	4.47

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(All amounts in Renminbi yuan unless otherwise stated)

12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(d) Other related party transactions

(i) The company renders guarantee for subsidiaries as follows:

1) The company renders guarantee for subsidiaries as follows:

Name of the guaranteed company	Nature of guarantee	Maximum guarantee	Actual amount as at 31 December 2014	Duration
Cai Zhi Lin	loans for working capital	30,000,000.00	20,000,000.00	1 year
Cai Zhi Lin	loans for working capital	30,000,000.00	30,000,000.00	1 year
			50,000,000.00	

2) The group renders guarantee for associates as follows:

Name of the guaranteed company	Nature of guarantee	Maximum guarantee	Actual amount as at 31 December 2014	Duration
Nuo Cheng	loans for working capital	60,000,000.00	18,700,000.00	1 year

Another associate of Nuo Cheng renders the guarantee of joint liability for the above loans.

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For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(d) Other related party transactions *(Continued)*

(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 fixed annual rental. The term is from 1 January 2014 to 31 December 2016. The Group should pay GPLH RMB2, 874 thousand of the above-mentioned for the current period (For the year ended 31 December 2013: RMB679 thousand).

2) Office Tenancy Agreement – No. 5 front stalls of GPLH located at No. 45 North Shamian Street

Pursuant to the Tenancy Agreement entered into by the Company and GPLH on 27 June 2013, the Company rents the No. 5 front stalls of GPLH located at No. 45 North Street Shamian at a fixed annual rent., which term is 3 years, the Company should pay GPLH RMB 523 thousand in current period. (For the year ended 31 December 2013: RMB 255 thousand)

3) Warehouse and Office Building Tenancy Agreement

Pursuant to the Tenancy Agreement entered into by the Company and GPLH, the Company rents certain buildings to GP Corp. at a fixed annual rental at fixed amount per annum with a lease term from 1 January 2014 to 31 December 2016 and the rental amounted to RMB2,684 thousand. (For the year ended 31 December 2013:RMB 1,532 thousand)

Pursuant to the Tenancy Agreement entered into by the Company and Baxter Qiao Guang, the Company rents the building located in No.25, Fangcun Avenue to Baxter Qiao Guang at a fixed annual renta at fixed amount per annum with a lease term from 10 May 2007 to the relocated date and the rental amounted to RMB2,500 thousand. (For the year ended 31 December 2013: RMB4,800 thousand)

Notes to the Financial Statements

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(All amounts in Renminbi yuan unless otherwise stated)

12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(d) Other related party transactions *(Continued)*

(ii) Leases *(Continued)*

3) Warehouse and Office Building Tenancy Agreement *(Continued)*

Pursuant to the Tenancy Agreement entered into by the Company and GP Corp., the Company rents the building located in No.74, Duobao Road to GP Corp. at a fixed annual rent at fixed amount per annum with a lease term from 1 January 2014 to 31 December 2014 and the rental amounted to RMB48 thousand. (For the year ended 31 December 2013: RMB45 thousand)

Pursuant to the Tenancy Agreement entered into by Guangzhou Baiyunshan Baidi Biological Co., Ltd., ("Baidi") and Nuocheng Biological, Guangzhou Baiyunshan Baidi Biological Co., Ltd. rents the building located in No.1, Wanbao Street North, Panyu District, Guangzhou to Nuocheng Biological at a fixed annual rent at fixed amount per annum with a lease term from 15 March 2011 to 14 March 2016 and the rental amounted to RMB1,879 thousand. (For the year ended 31 December 2013: RMB1,836 thousand)

Pursuant to the Tenancy Agreement entered into by Guanghua, a subsidiary of the Company, and BYSHW, Guanghua rents the building located in No.355, Shatai Rd North, Guangzhou to BYSHW at a fixed annual rent at fixed amount per month with a lease term from 10 March 2014 to 9 March 2016 and the rental amounted to RMB61 thousand. (For the year ended 31 December 2013: nil)

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(d) Other related party transactions *(Continued)*

(iii) License Agreement (Continued)

- 1) Pursuant to the Trademark License Agreement entered into by WLJ Great Health and GPLH on 25 May 2012 and 26 April 2013, GPLH authorised the use of 5 trademarks by WLJ Great Health; WLJ Great Health agreed to pay license fees to GPLH at 2.1% of its aggregate net sales, GPLH and the Company are to entitled by 53% and 47% of the license fee respectively.

Pursuant to the Trademark License Supplementary Agreement entered into by the Company, Wang Lao Ji and GPLH on 28 July 2005, Wang Lao Ji agreed to pay license fees to GPLH for the use of the trademarks at 2.1% of its aggregate net sales since Wang Lao Ji become to be a foreign-invested company limited. GPLH and the Company are to entitled by 53% and 47% of the license fee respectively.

The Company should receive license fee amounted to RMB102,328 thousand for the current period (for the year ended 31 December 2013:RMB84,440 thousand) and GPLH should receive RMB115,391 thousand (for the year ended 31 December 2013: RMB95,248 thousand)

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(d) Other related party transactions *(Continued)*

(iii) License Agreement *(Continued)*

- 2) The arrangement of the Trademark Trusteeship Agreement and Trademark Trusteeship Supplementary Agreement entered into by GPLH and the Company (GPLH is consignor and the Company is consignee): (1) During the period of validity of Trusteeship Agreement, consignor shall authorize all the use rights of "Wang Lao Ji" trademark to consignee; (2) During the period of validity of Trusteeship Agreement, consignee shall pay the expenses arising from trusteeship. (but consignor shall pay the expenses arising from dispute to the authority and the expenses arising from the dispute to the previous Trademark Trusteeship Agreement and Trademark Trusteeship Supplementary Agreement); (3) Consignee shall directly receive the trademark license fee which is arranged in the Trademark License Agreement signed during the trusteeship (including the supplementary agreement or new agreement which is signed by consignor or consignee). (4) During the period of validity of Trusteeship Agreement, consignor should pay the company RMB 1,000 thousand for the basic trusteeship fee before the end of every March; (5) On the premise of non-violation to the Trademark License Agreement or supplementary which is entered into by consignor and third party before this Agreement become effective, for the Trademark License Agreement which is signed during the period of validity of Trusteeship Agreement, (including the supplementary agreement or new agreement which is signed during the expiry date of Trusteeship), consignee should pay consignor 80% of the trademark license fee of the previous year before the end of every March. (or the lower portion which is negotiated by consignor and consignee, the portion could not higher than 80% in any case, it could be 80% if both parties failed to reach an agreement for that.) as the authorized income for consignor. (the basic trusteeship fee of previous year of consignor shall directly deducted from this expenses by consignee) As the confirmed trademark "Wang Lao Ji", The portion to be shared of consignor and consignee shall be confirmed in accordance with the previous arrangement before this agreement was signed, and shall not be limited to the trademark trusteeship agreement. This agreement became effective on 5 July 2013, and will expire on the date of trademark transformation or the date of termination from both parties' negotiation. Meanwhile, when the legal dispute is settled, GPLH committed to legally transfer the trademark "Wang Lao Ji" and other 4 trademarks authorized to Wang Lao Ji exclusively to the company within 2 years since the above-mentioned trademarks can be transferred in accordance with the effective laws and regulations.

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12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(d) Other related party transactions *(Continued)*

(iii) License Agreement *(Continued)*

2) *(Continued)*

Pursuant to <Notice of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. on Unfulfilled Commitment in respect of Shareholders, Related Parties and the Company > issued on 25 June 2014, the term of contract expire on 20 January 2015. On 13 March 2015, the First Extraordinary General Meeting 2015 of the Company adopted <Solution of Guangzhou Pharmaceutical Group Co., Ltd. Revise Trademark of "Wang Lao Ji">, GPLH revised the term of contract, which will expire within 2 years from the date of "Red jar decoration dispute" coming into force.

- 3) Pursuant to <Trademark License Agreement> entered into by Xingqun and the Company on 28 September 2014, Xingqun is able to use 32 kinds of trademark owned by GPLH for 32 kinds of plant beverage and coke products from 5 September 2013 to 6 March 2016 (both parties otherwise agreed to extend the term if need to, 2.1% of net sale volume for the products which use these 32 kinds of trademark shall be paid to the Company as a license fee by Xingqun. <Trademark License Agreement> will expire on 6 March 2016. Xingqun should pay the Company license fee amounted to RMB1,774 thousand at current period. (as at 31 December 2013: RMB0 thousand).

Based on <The arrangement of the Trademark Trusteeship Agreement> and <Trademark Trusteeship Supplementary Agreement> entered into by GPLH and the Company, Xingqun should pay the Company the above license fee amounted to RMB1,774 thousand (as at 31 December 2013: nil), and pay GPLH RMB1,419 thousand (as at 31 December 2013: nil).

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12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(d) Other related party transactions *(Continued)*

(iv) Transformation of research and development project

	Company	For the six months ended 30 June 2014 (RMB'000)	For the six months ended 30 June 2013 (RMB'000)
Service fee for technology	Guangzhou Pharmaceutical General Institute	189	566

(v) Employee benefits of key management personnel

Employee benefits of the Group's key management personnel amounted to RMB3,906 thousand for the year ended 31 December 2014 (for the year ended 31 December 2013: RMB4,097 thousand). The Group's key management personnel include directors, supervisors, general manager, vice general manager, financial controller and secretary to the Board of Director ("BOD"). The key management includes 15 persons for the year ended 31 December 2014 (for the year ended 31 December 2013: 15 persons), among which 9 persons received their salaries from the Group (for the year ended 31 December 2013: 11 persons).

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For the year ended 31 December 2014

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12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(e) Remuneration for directors and supervisors

Remuneration of each director and supervisor for the year ended 31 December 2014 is as below:

Name	Remuneration for directors and supervisors							Total
	Salary and Subsidy	Pension	Bonus	Sign-on bonus	Severance package	Others		
Name of director								
Li Chuyuan	-	-	-	-	-	-	-	-
Chen Mao (Note: 1)	-	-	-	-	-	-	-	-
Liu Juyan (Note: 2)	-	-	-	-	-	-	-	-
Cheng Ning	-	-	-	-	-	-	-	-
Ni Yidong (Note: 3)	-	-	-	-	-	-	-	-
Wu Changhai	-	583,831.20	-	382,269.80	-	-	270.00	966,371.00
Wang Wenchu (Note: 4)	-	598,260.80	-	284,563.20	-	-	270.00	883,094.00
Qiu Hongzhong	80,000.00	-	-	-	-	-	-	80,000.00
Fang Shuting (Note: 5)	73,333.00	-	-	-	-	-	-	73,333.00
Chu Xiaoping (Note: 6)	73,333.00	-	-	-	-	-	-	73,333.00
Huang Longde	80,000.00	-	-	-	-	-	-	80,000.00
Liu JingXiang (Note: 7)	6,667.00	-	-	-	-	-	-	6,667.00
Li Shanming (Note: 8)	6,667.00	-	-	-	-	-	-	6,667.00
ZhangYonghua (Note: 9)	6,667.00	-	-	-	-	-	-	6,667.00
Name of Supervisor								
Xian Jiaxiang (Note: 10)	-	-	-	-	-	-	-	-
Wu Quan	-	534,043.00	-	204,262.00	-	-	-	738,305.00
Wu Yan (Note:11)	27,500.00	-	-	-	-	-	-	27,500.00
Zhong Yugan (Note: 12)	2,500.00	-	-	-	-	-	270.00	2,770.00

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12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(e) Remuneration for directors and supervisors (Continued)

Remuneration of each director and supervisor for the year ended 31 December 2013 is as below:

Name	Remuneration for directors and supervisors	Salary and Subsidy	Pension	Bonus	Sign-on bonus	Severance package	Others	Total
Name of director								
Yang Rongming (Note 13)	-	-	-	-	-	-	-	-
Li Chuyuan	-	-	-	-	-	-	-	-
Cheng Ning	-	-	-	-	-	-	-	-
Wu Changhai	-	653,342.00	-	433,358.00	-	-	280.00	1,086,980.00
Liu Jingxiang	80,000.00	-	-	-	-	-	-	80,000.00
Li Shanming	80,000.00	-	-	-	-	-	-	80,000.00
Zhang Yonghua	80,000.00	-	-	-	-	-	-	80,000.00
Huang Longde	80,000.00	-	-	-	-	-	-	80,000.00
Qiu Hongzhong	80,000.00	-	-	-	-	-	-	80,000.00
Name of supervisor								
Yang Xiuwei (Note 14)	-	-	-	-	-	-	-	-
Wu Quan	-	516,336.00	-	192,622.00	-	-	-	708,958.00
Zhong Yugan	30,000.00	-	-	-	-	-	-	30,000.00

Note 1: On 28 January 2014 appointed as a vice director.

Note 2: On 28 January 2014 appointed as an executive director.

Note 3: On 28 January 2014 appointed as an executive director.

Note 4: On 28 January 2014 appointed as an executive director.

Note 5: On 28 January 2014 appointed as a director.

Note 6: On 28 January 2014 appointed as a director.

Note 7: On 28 January 2014 left his post of director.

Note 8: On 28 January 2014 left his post of director.

Note 9: On 28 January 2014 left his post of director.

Note 10: On 28 January 2014 appointed as a chairman of supervisor.

Note 11: On 28 January 2014 appointed as a supervisor.

Note 12: On 28 January 2014 left his post of supervisor.

Note 13: On 8 August 2013 resigned from executive director and supervisor.

Note 14: On 28 January 2014 left his post of supervisor.

Notes to the Financial Statements

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12. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) Related party transactions *(Continued)*

(e) Remuneration for directors and supervisors *(Continued)*

Besides the above-mentioned remuneration of directors and supervisors, Li Chuyuan, Chen Mao, Liu Juyan, Cheng Ning, Ni Yidong and Xian Jiexiong received remuneration amounted to RMB 1,193,164.00, RMB1,058,101.00, RMB962,436.00, RMB956,144.00, RMB975,510.00, RMB922,210.00 respectively from the subsidiaries of the Company. (as at 31 December 2013: Yang Rongming, Li Chuyuan, Chengning, and Yang Xiuwei received remuneration amounted to RMB 805,128.00, RMB1,040,277.00, RMB842,220.00, and RMB 319,729.00 respectively), part of that is remuneration for service to the Group. Directors consider it's difficult to allocate the amount for the service to the Group, subsidiaries and jointly controlled entities, no amortization is made of it.

As at 31 December 2014, no directors have give up or agreed to give up any arrangements of remuneration.(2013: nil).

(f) Top five of remuneration

There are 2 directors in top five of remuneration of the Group in year 2014(2013: 1). Details of remuneration for another 3 directors (2013: 4) are as below:

	The year ended 31 December 2014	The year ended 31 December 2013
Basic salary, bonus, housing funds, and other subsidies	<u>2,604,011.00</u>	<u>2,975,028.00</u>

	Number of people	
	The year ended 31 December 2014	The year ended 31 December 2013
Scope of remmuneration		
RMB0 – RMB1,000,000	2	4
Over RMB1,000,000	1	0

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12. 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

		31 December 2014		31 December 2013	
		Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Related party					
Notes					
receivable:	GP Corp.	36,822,600.56	-	55,200,715.35	-
	HWBYS	4,880,000.00	-	6,250,000.00	-
		41,702,600.56	-	61,450,715.35	-
Accounts					
receivable:	GPHL	1,968.00	19.68	10,943.58	109.44
	Guangzhou Pharmaceutical Industrial Research Institute	-	-	2,259,600.00	22,596.00
	HWBYS	15,640,378.14	156,403.78	19,069,217.89	190,692.18
	GP Corp.	10,214,641.14	102,146.41	10,461,373.56	104,613.74
	Wang Lao Ji	8,182,297.26	81,822.97	4,527,584.00	45,275.84
	Nuo Cheng	-	-	45,000.00	450.00
	Baxter Qiao Guang	453,000.00	4,530.00	95,400.00	954.00
		34,492,284.54	344,922.84	36,469,119.03	364,691.20
Other					
receivables:	GPHL	4,757,008.06	-	842,087.85	-
	Guangzhou South China Medical Apparatus Co., Ltd.	100,000.00	100,000.00	100,000.00	100,000.00
	HWBYS (Note 1)	19,480,981.55	-	19,258,298.81	-
	GP Corp.	112,617.46	-	205,486.60	-
	Wang Lao Ji	15,434,323.01	-	2,285,283.77	-
	Baxter Qiao Guang	700.00	-	61,845.35	-
		39,885,630.08	100,000.00	22,753,002.38	100,000.00

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12. 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)

	Related party	31 December 2014		31 December 2013	
		Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Advances to suppliers:					
	HWBYS	4,550,970.59	-	6,183,497.21	-
	GP Corp.	1,607.00	-	2,523,411.25	-
	Wang Lao Ji	1,123,061.47	-	-	-
	Guangzhou Yu Fa Medical Apparatus Co., Ltd.	210,278.62	-	-	-
		5,885,917.68	-	8,706,908.46	-

Note 1: The other receivables of HWBYS include the other receivables amounted to RMB17,431 thousand of Bozhou Baiyunshan, a subsidiary of HWBYS. Bozhou Baiyunshan was the subsidiary of Baiyunshan with 80% shareholdings, Baiyunshan has transferred the 80% shares to HWBYS in May 2013. The above-mentioned other receivables are the borrowings and interests of Bozhou Baiyunshan to Baiyunshan, which is arisen before the equity transfer.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

12. 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

	Related party	31 December 2014	31 December 2013
Notes Payable:	GP Corp.	–	3,814,560.00
	HWBYS	4,636,460.00	4,872,280.00
	Wang Lao Ji	864,975.00	–
		5,501,435.00	8,686,840.00
Accounts Payable:	HWBYS	1,421,572.23	1,087,454.09
	GP Corp.	9,760,056.27	11,604,351.96
	Wang Lao Ji	–	321,351.19
		11,181,628.50	13,013,157.24
Other Payables	GPHL Guangzhou Pharmaceutical Industrial Research Institute	–	500,000.00
	HWBYS	20,000.00	20,000.00
	GP Corp.	61,000.00	1,025,769.23
	Baxter Qiao Guang	26,526.69	–
		30,688,535.44	32,381,184.74
Advances from customers:	HWBYS	1,479,948.69	3,893,014.43
	GP Corp.	23,263,974.93	2,630,257.22
	Wang Lao Ji	12,289,251.93	12,968,599.69
		37,033,175.55	19,491,871.34

Notes to the Financial Statements

For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

13 COMMITMENTS

(1) Capital expenditures commitments

- (a) Capital expenditures contracted for but are not yet necessary to be recognised on the balance sheet

The Group's capital expenditures contracted for but are not yet necessary to be recognised on the balance sheet are as follows:

	31 December 2014	31 December 2013
Investment	61,598,100.00	64,860,000.00
Building, machinery and equipment	263,048,243.13	53,592,966.09
	324,646,343.13	118,452,966.09

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

	31 December 2014	31 December 2013
Building, machinery and equipment	57,770,952.86	48,665,593.98

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

	31 December 2014	31 December 2013
Building, machinery and equipment	812,029,680.08	1,044,959,643.81
	812,029,680.08	1,044,959,643.81

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

13 COMMITMENTS

(2) Operating lease commitments

The Group's rental assets from operating lease are mainly buildings, the minimum lease payments of significant rental under operating lease are summarised as follows:

Remaining leasing term	Minimum lease payables	
	31 December 2014	31 December 2013
Within 1 year	45,974,959.73	32,771,523.03
1 to 2 years	12,119,980.31	12,158,549.65
2 to 3 years	9,353,876.36	5,969,310.75
Over 3 years	49,923,557.72	32,652,546.68
	117,372,374.12	83,551,930.11

The rental expenses under operating lease amounted to RMB65,553 thousand are recognised in the profit or loss for the year ended 31 December 2014 (for the year ended 31 December 2013: RMB40,634 thousand).

(3) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2014.

14 CONTINGENCIES

- (1) Guangdong Guangsheng Investment Group Energy Co., Ltd. started a suit to the unreceived payment amounted to RMB58,900 thousand by a subsidiary of the Company, and applied for a sequestered account to it on 29 September 2014. The subsidiary have started a suit accordingly and applied for sealing up related assets, report to Guangzhou Public Security, it shall be investigated for criminal responsibility requirements, which influence to the subsidiary is unestimated as at the reporting date.
- (2) Guangdong Guangsheng Investment Group Energy Co., Ltd. started a suit to the unreceived payment amounted to RMB47,400 thousand by a subsidiary of the Company and applied for a sequestered account to it on 24 December 2014. The subsidiary have started a suit accordingly and applied for sealing up related assets, report to Guangzhou Public Security, it shall be investigated for criminal responsibility requirements, which influence to the subsidiary is unestimated as at the reporting date.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

14 CONTINGENCIES (Continued)

- (3) In year 2012, WLJ Great Health, the wholly-owned subsidiary was sued with its unauthorized use of the specific name, package and decoration of famous products by JDB.

Guangdong Higher People's Court rejected the appeal of unauthorized use of the specific name, package and decoration of famous products accrued from Guangdong Jiaduobao Co., Ltd. on 29 December 2014. JDB lodged an appeal.

As at the reporting date, this case has been under the jurisdiction of the Guangdong Higher People's Court as specified by the Supreme People's Court. The Company considers that it is not probable that WLJ Great Health will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice

- (4) In year 2012, WLJ Great Health, the wholly-owned subsidiary was sued with its unauthorized use of the slogan "怕上火·喝王老吉" by JDB. Chongqing First intermediate people's court rejected the appeal of illicit competition for slogan "怕上火·喝王老吉" accrued from Guangdong Jiaduobao Co., Ltd. on 24 December 2013. Meanwhile, the appeal of destroying, no longer using advertisement "怕上火·喝王老吉" and promotion, declaration of apology and compension amounted to RMB10,000 thousand was rejected. JDB lodged an appeal.

As at the reporting date, this case has been under the jurisdiction of the Chongqing Higher People's Court. The Company considers that it is not probable that WLJ Great Health will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

- (5) On 12 September 2014, Tongxing Pharmaceutical conducted prosecution to China International Economic and Trade Arbitration Commission with "V20140834 Dispute case of Shareholder Contract", which reason is: the use of "Wang Lao Ji" trademark by Guangzhou Wang Lao Ji Great Health Insurtial Co., Ltd. violates the agreement of <Shareholder Contract> and <Articles of Association> of Wang Lao Ji Pharmaceutical. The Company has submitted objection of jurisdiction to Shenzhen Intermediate People's court and China International Economic and Trade Arbitration Commission.

As at the reporting date, this case has not yet ordered a trial. The Company considers that it is not probable that it will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

14 CONTINGENCIES (Continued)

- (6) On 29 October 2014, a subsidiary of the Company received a notice of responding to prosecution which of the contract dispute of financial borrowings of the subsidiary, Jiangmen Yuehui Fuel Co., Ltd. and another 7 companies accused by Guangdong Nanyue Bank and Guangdong Nanyue Bank Jiangmen Branch, according to indictment, Jiangmen Yuehui Fuel Co., Ltd. applied to Guangdong Nanyue Bank for the payment receivable amounted to RMB37,500 thousand of the subsidiary as factoring financing amounted to RMB30,000 thousand, required the subsidiary to take the responsibility of settlement or compensation. The subsidiary considered they should not bear any legal responsibility for fake official seal and signature.

As at the reporting date, this case has not yet ordered a trial. The Company management considers that it is not probable that it will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

- (7) On 6 January 2015, a subsidiary of the Company, received a notice of responding to prosecution which of the contract dispute of financial borrowings of the subsidiary, Jiangmen Yuehui Fuel Co., Ltd. and another 7 companies accused by Xingye Bank Jiangmen Branch from Guangdong Province Jiangmen City Intermediate People's court, according to indictment, Jiangmen Yuehui Fuel Co., Ltd. applied to Xingye Bank for a borrowing amounted to RMB86,080 thousand by the payment receivable amounted to RMB95,320 thousand of the subsidiary as a pledge, required the subsidiary to take the responsibility of settlement or compensation. The subsidiary have submitted a verification report, and considered they should not bear any legal responsibility for fake official seal and signature.

As at the reporting date, this case has not yet ordered a trial. The Company management considers that it is not probable that it will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice.

- (8) On 30 January 2015, a subsidiary of the Company, received a notice of responding to prosecution which of the contract dispute of financial borrowings of the subsidiary, Jiangmen Yuehui Fuel Co., Ltd. and another 5 companies accused by Xingye Bank Jiangmen Branch from Guangdong Province Jiangmen City Fengjiang District Intermediate People's court, according to indictment, Jiangmen Yuehui Fuel Co., Ltd. applied to Xingye Bank for a commercial bank acceptance amounted to RMB16,800 thousand by the payment receivable amounted to RMB17,000 thousand of the subsidiary as a pledge, required the subsidiary to take the responsibility of settlement or compensation. The subsidiary considered they should not bear any legal responsibility for fake official seal and signature. As at the reporting date, this case has not yet ordered a trial. The Company management considers that it is not probable that it will lose the case which results in direct economic loss after the assessment by the management which takes account of external legal advice

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

15 EVENTS AFTER THE BALANCE SHEET DATE

- (1) Pursuant to the resolution of the eighth meeting of the sixth board of directors on 12 January 2015, the Company intended to issue public A share less than 419,463,087 shares, raise a fund less than RMB1 billion, specific object are GPLH (a shareholder of the Company), Tianfu-Dingzengshengshi No.66 asset management plan (Tianfu-Dingzengshengshi No.66), Guangzhou State-owned Development Holding Co., Ltd., Guangzhou Guoshou City Development Industrial Investment (Limited Partnership), the special invested entities to be established and managed by Shanghai Yunfeng Xinchuang Investment Management Co., Ltd.. Benchmark date of this new shares issuance is 13 January 2015, the notice date of the eighth meeting of the sixth board of directors. The issued price of new A share amounted to RMB23.84 per share, no less than 90% of average price of transaction within 20 transaction days before benchmark date. This issued price will be adjusted if there is any dividend distribution, delivering of stock, transformation of capital surplus transferring to share capital between benchmark day and issued date.

In accordance with <Subscription Agreement with effective condition of Non-public issuance of shares > entered into issued object and the Company, details of issuance is as below:

No	Object	volume (share)	Amount (RMB)
1	GPLH	146,596,236	3,494,854,266.24
2	Tianfu-Dingzengshengshi No.66	21,189,000	505,145,760.00
3	Guangzhou State-owned Development Holding Co., Ltd.	125,838,926	2,999,999,995.84
4	Guangzhou Guoshou City Development Industrial Investment (Limited Partnership)	104,865,771	2,499,999,980.64
5	Entity of special investment to be established and managed by Shanghai Yunfeng Xinchuang Investment Management Co., Ltd.	20,973,154	499,999,991.36
		<hr/>	<hr/>
		419,463,087	9,999,999,994.08

The above events have adopted by the First Extraordinary General Meeting on 13 March 2015, the First Domestic Share Separate Meeting of Classified of Shareholders 2015 and the First Foreign Share Separate Meeting of Classified of Shareholders.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

15 EVENTS AFTER THE BALANCE SHEET DATE *(Continued)*

- (2) Management and employees set up employee stock plan 2015 based on the faith of sustained and steady development, which involved directors (excluding independent director), supervisors, senior management and employees of the Company, subsidiaries and related enterprises. Total amount to subscribe is no more than RMB505,145,760, and subscribe amount of director (excluding independent director) Li Chuyuan, Chen Mao, Liu Juyan, Cheng Ning, Ni Yidong, Wu Changhai, Wang Wenchu; supervisor Xian Jiexiong, Wu Quan; senior management Zhang Chunbo, Chen Jing is no more than RMB43,865,600, which corresponds to non-public issuance of 1,840 thousand A shares, and 8.68% of the employee stock plan; subscribe amount of other employees is no more than RMB461,280,160, which corresponds to non-public issuance of 19,349 thousand A shares, and 91.32% of the employee stock plan. Duration of the employee stock plan is for 48 months from when underlying stock is registered in asset management plan, which lock-up period is the previous 36 months and unlock period is the following 12 months. Duration of employee stock plan is able to extend upon approval of board of directors and its administrative committee. This employee stock plan can be terminated in advance if its assets are cash at bank and on hand and terminated if there is no extension for it when duration is over.

The above events have adopted by the First Extraordinary General Meeting on 13 March 2015, the First Domestic Share Separate Meeting of Classified of Shareholders 2015 and the First Foreign Share Separate Meeting of Classified of Shareholders.

- (3) The sixth session of tenth board of directors passed the following solution in 19 March 2015: based on the total share capital amounted to 1,291,340,650 at the end of 2014, distributed cash dividends amounted to RMB2.80 per 10 shares (including tax), which is RMB361,575,382.00 altogether.

16 OTHER SIGNIFICANT EVENTS

There are no significant debt restructurings and non-monetary transactions incurred in the current period.

17 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:

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

17 SEGMENT INFORMATION (Continued)

- Manufacturing: manufacture and sale of western pharmaceutical products, CPM and health products produced by the Group's manufacturing subsidiaries;
- Trading: wholesale and retail of western pharmaceutical products, medical apparatus, CPM and Chinese raw medicine; wholesale of goods other than pharmaceutical products.
- Sales between segments are carried out on terms equivalent to those that prevail in arm's length transactions.

Assets and liabilities are allocated based on the segment operations, expenses attributable indirectly to each segment are allocated among segments based on the portion of revenue.

- (1) The segment information for the year ended 31 December 2014 and as of 31 December 2014 are as follows:

	Manufacturing	Trading	Unallocated	Elimination	Total
Revenue	14,244,449,733.21	4,508,834,159.53	46,596,711.87	-	18,799,880,604.61
Inter-segment revenue	(807,432,640.00)	8,124,820,367.95	120,649,817.03	(7,438,037,544.98)	-
Interest income	(36,752,600.09)	(363,756.54)	(2,554,789.30)	4,972,076.46	(34,699,069.47)
Interest expenses	33,435,127.48	42,432,053.67	22,863,089.28	(65,283,703.64)	33,446,566.79
Share of profit or loss of associates and jointly controlled entities	66,599,571.84	-	94,337,405.27	(4,764,856.96)	156,172,120.15
Asset impairment					
Losses	33,702,417.01	38,550,834.06	(4,172.07)	(11,076,612.23)	61,172,466.77
Depreciation and amortisation	179,366,474.35	4,941,233.47	16,483,743.07	(180,131.25)	200,611,319.64
Total profit	1,236,962,600.37	121,425,914.83	603,219,356.29	(494,431,003.68)	1,467,176,867.81
Income tax expenses	172,603,127.19	28,830,696.07	71,221,591.03	(16,122,064.28)	256,533,350.01
Net profit					
(Including: minority interest)	1,064,359,473.19	92,595,218.75	531,997,765.26	(478,308,939.40)	1,210,643,517.80
Total assets	9,497,318,906.89	3,988,402,163.66	7,343,152,291.65	(6,618,089,813.05)	14,210,783,549.15
Total liabilities	6,103,667,150.76	3,719,893,239.95	968,512,607.47	(4,540,267,906.82)	6,251,805,091.36
Long-term equity investments in associates and jointly controlled entities	146,820,073.53	-	1,803,945,025.82	-	1,950,765,099.35
Additions of non-current assets other than long-term equity investments	419,925,173.64	10,271,886.61	1,576,862.60	-	431,773,922.85

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

17 SEGMENT INFORMATION (Continued)

- (2) The segment information for the year ended 31 December 2013 and as of 31 December 2013 are as follows:

	Manufacturing	Trading	Unallocated	Elimination	Total
Revenue	13,888,167,949.22	3,686,349,660.19	33,675,702.90	–	17,608,193,312.31
Inter-segment revenue	32,764,367.88	3,858,216,859.27	101,166,409.71	(3,992,147,636.86)	–
Interest income	21,468,171.97	1,090,116.25	1,895,909.08	(6,724,718.45)	17,729,478.85
Interest expenses	31,074,715.72	35,504,531.50	36,128,021.28	(59,490,375.19)	43,216,893.31
Share of profit or loss of associates and jointly controlled entities	34,867,354.36	–	161,843,924.47	10,680,507.66	207,391,786.49
Asset impairment					
Losses	10,209,732.52	1,639,207.57	87,492.29	977,632.55	12,914,064.93
Depreciation and amortisation	171,132,372.00	5,152,946.81	9,345,185.60	571,882.53	186,202,386.94
Total profit	968,319,473.42	32,376,602.44	447,952,045.38	(219,457,681.99)	1,229,190,439.25
Income tax expenses	119,148,213.30	8,548,827.66	83,243,594.32	11,302,797.03	222,243,432.31
Net profit (Including: minority interest)	849,171,260.12	23,827,774.78	364,708,451.06	(230,760,479.02)	1,006,947,006.94
Total assets	8,177,645,896.25	2,166,054,216.66	6,918,419,046.40	(5,012,996,007.92)	12,249,123,151.39
Total liabilities	5,222,107,061.12	1,986,384,749.68	1,103,419,355.88	(3,085,024,710.23)	5,226,886,456.45
Long-term equity investments in associates and jointly controlled entities	121,162,661.82	–	1,749,570,457.57	–	1,870,733,119.39
Additions of non-current assets other than long-term equity investments	421,774,612.38	4,726,393.21	304,296,402.52	–	730,797,408.11

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

Revenue from external customers	For the year ended 31 December 2014	For the year ended 31 December 2013
PRC	18,188,583,292.32	17,166,853,225.54
Other countries/area	611,297,312.29	441,340,086.77
	18,799,880,604.61	17,608,193,312.31

Notes to the Financial Statements

For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

17 SEGMENT INFORMATION (Continued)

(2) (Continued)

	31 December 2014	31 December 2013
Total non-current assets		
PRC	4,939,775,252.86	4,645,092,792.07
Other countries/area	20,033,099.69	20,683,653.62
	<u>4,959,808,352.55</u>	<u>4,665,776,445.69</u>

18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Accounts receivable

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

	31 December 2014	31 December 2013
Within 1 year	116,328,699.64	133,951,675.87
1 to 2 years	40,849.16	2,480,216.25
2 to 3 years	230,909.31	1,656,386.57
3 to 4 years	1,552,684.23	30,193.88
4 to 5 years	30,193.88	91,606.42
Over 5 years	3,170,387.02	3,375,248.24
	<u>121,353,723.24</u>	<u>141,585,327.23</u>
Less: provision for bad debts	5,957,528.95	6,598,084.66
	<u>115,396,194.29</u>	<u>134,987,242.57</u>

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

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

(1) Accounts receivable (Continued)

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

	31 December 2014				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provisions	1,500,000.00	1.24%	1,500,000.00	100.00%	-
Subject to provision by groups: Group 1	118,999,097.00	98.06%	3,602,902.71	3.03%	115,396,194.29
Individually insignificant but subject to separate provisions	854,626.24	0.70%	854,626.24	100.00%	-
	121,353,723.24	100.00%	5,957,528.95	4.91%	115,396,194.29

	31 December 2013				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provisions	1,500,000.00	1.06%	1,500,000.00	100.00%	-
Subject to provision by groups: Group 1	139,230,700.99	98.34%	4,243,458.42	3.05%	134,987,242.57
Individually insignificant but subject to separate provisions	854,626.24	0.60%	854,626.24	100.00%	-
	141,585,327.23	100.00%	6,598,084.66	4.66%	134,987,242.57

Classification of accounts receivable: refer to Note 3 (11).

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

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

(1) Accounts receivable (Continued)

- (c) As at 31 December 2014, individually significant and subject to separate provisions are as follow:

	Ending balance	Amount of bad debts	Ratio	Reason
Customer 1	1,500,000.00	1,500,000.00	100.00%	In the execution, it is expected that the amount would not be recoverable.

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

	31 December 2014			31 December 2013		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	116,328,699.64	97.76%	1,163,287.00	133,951,675.87	96.21%	1,339,516.74
1 to 2 years	40,849.16	0.03%	4,084.92	2,480,216.25	1.78%	248,021.63
2 to 3 years	230,909.31	0.19%	69,272.79	156,386.57	0.11%	46,915.97
3 to 4 years	52,684.23	0.04%	26,342.12	30,193.88	0.02%	15,096.94
4 to 5 years	30,193.88	0.03%	24,155.10	91,606.42	0.07%	73,285.14
Over 5 years	2,315,760.78	1.95%	2,315,760.78	2,520,622.00	1.81%	2,520,622.00
	118,999,097.00	100.00%	3,602,902.71	139,230,700.99	100.00%	4,243,458.42

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

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

(1) Accounts receivable (Continued)

- (e) As at 31 December 2014, accounts receivable that are individually insignificant but subject to separate provision are as follows:

	Ending balance	Amount of bad debts	Ratio	Reason
Customer 1	470,000.00	470,000.00	100.00%	Its aging is over 5 years, it is expected that the amount would not be recoverable
Customer 2	315,508.74	315,508.74	100.00%	Its aging is over 5 years, it is expected that the amount would not be recoverable
Customer 3	69,117.50	69,117.50	100.00%	Its aging is over 5 years, it is expected that the amount would not be recoverable
	<u>854,626.24</u>	<u>854,626.24</u>	100.00%	

- (f) There are no accounts receivable that are reversed or collected during the current period.
- (g) There are no accounts receivable that are collected by restructuring or other manners during the current period.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

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

(1) Accounts receivable (Continued)

- (h) Accounts receivable amounted to RMB296 thousand that are written off during the current period are as below:

	Nature	Amount	Reason	Verification	Whether due to related transactions
Chongqing Central District Chinese Medicine Co., Ltd.	Payment	50,004.18	it is verified that the amount would not be recoverable	Approved by company procedure	No
Liaoning Kanglai Pharmaceutical Co., Ltd.	Payment	43,389.60	it is verified that the amount would not be recoverable	Approved by company procedure	No
Sihui Baiyunshan Pharmaceutical Co., Ltd.	Payment	39,600.00	it is verified that the amount would not be recoverable	Approved by company procedure	No
Zhang Li Internal Medicine Clinic	Payment	30,421.95	it is verified that the amount would not be recoverable	Approved by company procedure	No
China Zhengxin (Group) Co., Ltd.	Payment	15,945.00	it is verified that the amount would not be recoverable	Approved by company procedure	No
Guangxi Medical Supplies	Payment	10,320.00	it is verified that the amount would not be recoverable	Approved by company procedure	No
Others	Payment	106,786.91	it is verified that the amount would not be recoverable	Approved by company procedure	No
Total		<u>296,467.64</u>			

- (i) As at 31 December 2014, 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

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(All amounts in Renminbi yuan unless otherwise stated)

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

(1) Accounts receivable (Continued)

- (j) As at 31 December 2014, accounts receivable with significant balance are analysed as follows:

Name of the entity	Relation with the Company	Amount	Aging	% of total balance
Customer 1	Related party	40,065,890.35	Within 1 year	33.02%
Customer 2	Related party	6,636,042.00	Within 1 year	5.47%
Customer 3	Third party	6,055,583.48	Within 1 year	4.99%
Customer 4	Related party	5,932,794.35	Within 1 year	4.89%
Customer 5	Related party	5,578,064.10	Within 1 year	4.60%
		<u>64,268,374.28</u>		<u>52.97%</u>

- (k) Accounts receivable from related parties are analysed as follows:

Name of the entity	Relation with the Company	Amount	Aging	% of total balance
Baiyunshan Pharmaceutical Technology	Subsidiary	40,065,890.35	Within 1 year	33.02%
Tian Xin	Subsidiary	6,636,042.00	Within 1 year	5.47%
Cha Zhi Lin	Wholly-owned subsidiary	5,932,794.35	Within 1 year	4.89%
Pharmaceutical Import & Export GP Corp.	Wholly-owned subsidiary	5,578,064.10	Within 1 year	4.60%
GP Corp.	Jointly controlled entity	412,145.66	Within 1 year	0.34%
HWBYS	Jointly controlled entity	398,551.14	Within 1 year	0.33%
		<u>59,023,487.60</u>		<u>48.65%</u>

- (l) There are no accounts receivables derecognized during the current period.
- (m) As at 31 December 2014, there are no securitizations that targeted at accounts receivable.

Notes to the Financial Statements

For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

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

(2) Other receivables

	31 December 2014	31 December 2013
Receivables due from related parties	1,254,880,732.49	914,081,195.16
Including: entrusted loan	467,000,000.00	323,000,000.00
others	787,880,732.49	591,081,195.16
Rentals, deposits and staff advances	14,025,092.95	9,920,861.37
Others	22,911,387.29	25,001,774.07
	1,291,817,212.73	949,003,830.60
Less: provision for bad debts	5,565,468.55	5,486,732.34
	1,286,251,744.18	943,517,098.26

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

	31 December 2014	31 December 2013
Within 1 year	1,262,142,235.17	915,634,204.22
1 to 2 years	5,376,202.52	1,659,638.75
2 to 3 years	725,196.87	469,716.94
3 to 4 years	282,778.11	314,295.00
4 to 5 years	294,295.00	42,873.00
Over 5 years	22,996,505.06	30,883,102.69
	1,291,817,212.73	949,003,830.60

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

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

(2) Other receivables (Continued)

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

	31 December 2014				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	932,121.11	0.07%	932,121.11	100.00%	-
Subject to provision by groups:					
Group 1	10,449,870.75	0.81%	1,700,949.92	16.28%	8,748,920.83
Group 2	8,596,997.91	0.67%	-	0.00%	8,596,997.91
Group 3	1,254,880,732.49	97.13%	-	0.00%	1,254,880,732.49
Group 4	14,025,092.95	1.09%	-	0.00%	14,025,092.95
Individually insignificant but subject to separate provision	2,932,397.52	0.23%	2,932,397.52	100.00%	-
	<u>1,291,817,212.73</u>	<u>100.00%</u>	<u>5,565,468.55</u>	<u>0.43%</u>	<u>1,286,251,744.18</u>

	31 December 2013				
	Ending balance	% of total balance	Provision for bad debts	Ratio	Carrying amount
Individually significant and subject to separate provision	932,121.11	0.10%	932,121.11	100.00%	-
Subject to provision by groups:					
Group 1	12,368,675.07	1.30%	1,622,213.71	13.12%	10,746,461.36
Group 2	8,768,580.37	0.92%	-	0.00%	8,768,580.37
Group 3	914,081,195.16	96.32%	-	0.00%	914,081,195.16
Group 4	9,920,861.37	1.05%	-	0.00%	9,920,861.37
Individually insignificant but subject to separate provision	2,932,397.52	0.31%	2,932,397.52	100.00%	-
	<u>949,003,830.60</u>	<u>100.00%</u>	<u>5,486,732.34</u>	<u>0.58%</u>	<u>943,517,098.26</u>

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

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

(2) Other receivables (Continued)

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

Name of entity	Ending balance	Provision for bad debts	Ratio	Reason
Other receivables 1	502,043.54	502,043.54	100.00%	it is expected that the amount would not be recoverable
Other receivables 2	430,077.57	430,077.57	100.00%	it is expected that the amount would not be recoverable
	<u>932,121.11</u>	<u>932,121.11</u>		

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

	31 December 2014			31 December 2013		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	7,927,161.10	75.86%	79,271.62	9,044,507.10	73.13%	90,445.07
1 to 2 years	310,094.98	2.97%	31,009.50	1,613,891.17	13.05%	161,389.12
2 to 3 years	698,196.87	6.68%	209,459.06	402,893.11	3.26%	120,867.93
3 to 4 years	230,178.11	2.20%	115,089.06	110,595.00	0.89%	55,297.50
4 to 5 years	90,595.00	0.87%	72,476.00	12,873.00	0.10%	10,298.40
Over 5 years	1,193,644.69	11.42%	1,193,644.68	1,183,915.69	9.57%	1,183,915.69
	<u>10,449,870.75</u>	<u>100.00%</u>	<u>1,700,949.92</u>	<u>12,368,675.07</u>	<u>100.00%</u>	<u>1,622,213.71</u>

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

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

(2) Other receivables (Continued)

- (e) There are no receivables that are subject to fully provision or in large portionate but are reversed or collected in full amount or in large portionate in the current period.
- (f) There are no others receivables collected by restructuring or other manners in the current period.
- (g) As at 31 December 2014, other receivables due from shareholders who hold more than 5% (including 5%) of the voting rights of the Company was receivables due from GPLH amounted to RMB204 thousand. (As at 31 December 2013: RMB331 thousand)
- (h) As at 31 December 2014, the top five of other receivables are analysed as follows:

Name of entity	Relation of the Company	Amount	Aging	% of total balance
Cai Zhi Lin	Wholly-owned subsidiary	543,890,432.44	Within 1 year	42.10%
Pharmaceutical Import and Export	Wholly-owned subsidiary	276,175,236.16	Within 1 year	21.38%
Ming Xing	Wholly-owned subsidiary	100,178,487.39	Within 1 year	7.75%
Xing Qun	Subsidiary	69,696,342.62	Within 1 year	5.40%
Weiling	Wholly-owned subsidiary	68,105,996.40	Within 1 year	5.27%
		<u>1,058,046,495.01</u>		<u>81.90%</u>

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For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

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

(2) Other receivables (Continued)

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

	Relation with the Company	Amount	% of total balance
GPHL	Parent company	204,000.00	0.02%
HWBYS	Jointly controlled entity	19,480,981.55	1.51%
GP Corp.	Jointly controlled entity	105,017.46	0.01%
Wang Lao Ji	Jointly controlled entity	15,434,323.01	1.19%
Xing Qun	Subsidiary	69,696,342.62	5.40%
Zhong Yi	Wholly-owned subsidiary	20,299,295.41	1.57%
Chen Li Ji	Wholly-owned subsidiary	114,923.59	0.01%
Guangzhou Han Fan	Subsidiary	8,795,813.31	0.68%
Qi Xing	Indirect subsidiary	3,087,099.88	0.24%
Jing Xiu Tang	Subsidiary	94,324.67	0.01%
Pan Gao Shou	Subsidiary	591,942.31	0.05%
Cai Zhi Lin	Wholly-owned subsidiary	543,890,432.44	42.10%
Pharmaceutical Import and Export	Wholly-owned subsidiary	276,175,236.16	21.38%
Guangzhou Bai Di.	Subsidiary	63,310,235.55	4.90%
WLJ Great Health	Wholly-owned subsidiary	13,347,268.85	1.03%
Guangxi Ying Kang	Subsidiary	6,012,420.04	0.47%
Xingzhou	Subsidiary	15,000,000.00	1.16%
Weiling	Wholly-owned subsidiary	68,105,996.40	5.27%
Baiyunshan Pharmaceutical Technology	Subsidiary	350,280.38	0.03%
Tian Xin	Subsidiary	30,201,295.52	2.34%
Guang Hua	Subsidiary	174,581.31	0.01%
Ming Xing	Wholly-owned subsidiary	100,178,487.39	7.75%
Guangyao Baiyunshan (Hong Kong) Limited	Wholly-owned subsidiary	230,434.64	0.02%
		1,254,880,732.49	97.15%

(j) As at 31 December 2014, there are no other receivables that are derecognised.

(k) As at 31 December 2014, there are no securitizations that targeted at other receivables.

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

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

(3) Long-term equity investments

	31 December 2014			31 December 2013		
	Book balance	Provision for impairment	Current amount	Book balance	Provision for impairment	Current amount
For subsidiary investment	1,796,121,363.78	171,000,000.00	1,625,121,363.78	1,705,261,363.78	171,000,000.00	1,534,261,363.78
For Joint entity, and Associates investment	1,801,352,083.59	-	1,801,352,083.59	1,747,806,015.31	-	1,747,806,015.31
Total	3,597,473,447.37	171,000,000.00	3,426,473,447.37	3,453,067,379.09	171,000,000.00	3,282,067,379.09

(a) For Subsidiary Investment

Name of entity	31 December 2013	Current increase	Current decrease	31 December 2014	Impairment losses recognised in current period	Provision for impairment on 31 December 2014
Xing Qun	125,322,300.00	-	-	125,322,300.00	-	-
Zhong Yi	324,320,391.34	-	-	324,320,391.34	-	-
Chen Li Ji	142,310,800.00	-	-	142,310,800.00	-	-
Guangzhou Han Fan	249,017,109.58	-	-	249,017,109.58	-	55,000,000.00
Guangzhou Qi Xing Factory Co., Ltd	126,775,500.00	-	-	126,775,500.00	-	-
Jing Xiu Tang	101,489,800.00	-	-	101,489,800.00	-	-
Pan Gao Shou	144,298,200.00	-	-	144,298,200.00	-	-
Cai Zhi Lin	89,078,900.00	-	-	89,078,900.00	-	69,000,000.00
Pharmaceutical Import & Export	18,557,303.24	-	-	18,557,303.24	-	-
Guangzhou Bai Di	129,145,812.38	-	-	129,145,812.38	-	47,000,000.00
Guangxi Ying Kang	21,536,540.49	-	-	21,536,540.49	-	-
WLJ Great Health	10,000,000.00	-	-	10,000,000.00	-	-
Guangzhou Yi Gan	12,600,000.00	-	-	12,600,000.00	-	-
Xingzhou	-	64,860,000.00	-	64,860,000.00	-	-
Guangyao Baiyunshan (Hong Kong) Limited	35,410,006.87	-	-	35,410,006.87	-	-
Tian Xin	96,192,658.47	-	-	96,192,658.47	-	-
Guang Hua	53,659,963.75	-	-	53,659,963.75	-	-
Ming Xing	12,581,294.18	-	-	12,581,294.18	-	-
Weiling	10,444,783.48	-	-	10,444,783.48	-	-
Guangzhou Baiyunshan Pharmacy	1,000,000.00	-	1,000,000.00	-	-	-
Pharmaceutical Tenology	1,020,000.00	-	-	1,020,000.00	-	-
Great Health Hotel	500,000.00	-	-	500,000.00	-	-
Baiyunshan Medical Health	-	1,000,000.00	-	1,000,000.00	-	-
Guangzhou Baiyunshan Chemical Technology Co., Ltd.	-	26,000,000.00	-	26,000,000.00	-	-
Total	1,705,261,363.78	91,860,000.00	1,000,000.00	1,796,121,363.78	0.00	171,000,000.00

Notes to the Financial Statements

For the year ended 31 December 2014

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

(3) Long-term equity investments (Continued)

(b) For Joint entity, and Associates investments

Name of entity	Investment cost	31 December	Current period movement	Under the equity method to confirm the investment profit and loss	Current period movement on other comprehensive income	Other equity movement	Cash dividends declared to distribute	Others	31 December	Provision for impairment	Impairment losses recognised in current period	Cash dividend in current period
		2013		2014	2014	2014	2014		2014			
Equity method:												
Jointly-controlled entities:												
GP Corp.	396,589,139.78	947,446,195.12	-	101,509,499.80	233,768.27	(1,025,105.26)	-	-	1,048,164,257.93	-	-	-
Wang Lao Ji	102,035,124.44	449,804,869.99	-	(70,800,102.87)	-	-	-	-	379,004,767.12	-	-	-
HWBYS	100,000,000.00	296,917,655.20	-	60,553,840.61	-	-	(40,000,000.00)	-	317,471,495.81	-	-	40,000,000.00
Baxter Qiao Guang	37,000,000.00	23,051,837.53	-	2,894,315.89	-	-	-	-	25,946,153.42	-	-	-
Associates:												
Guangzhou Jinshen Pharmaceutical Technology Co., Ltd.												
	765,000.00	-	-	-	-	-	-	-	-	-	-	-
Golden Eagle Asset Management Co., Ltd.												
	50,000,000.00	28,565,457.47	-	241,144.51	-	-	-	-	28,806,601.98	-	-	-
Wei Yi Co., Ltd.	2,020,000.00	2,020,000.00	-	(61,292.67)	-	-	-	-	1,958,707.33	-	-	-
Sub-total of equity method												
	688,409,264.22	1,747,806,015.31		94,337,405.27	233,768.27	(1,025,105.26)	(40,000,000.00)	-	1,801,352,083.59	-	-	40,000,000.00

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

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

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

(4) Revenue and cost of sales

	For the year ended 31 December 2014		
	Main operations	Other operations	Subtotal
Revenue	2,540,146,325.79	448,281,250.14	2,988,427,575.93
Cost of operation	1,457,485,322.33	222,964,655.80	1,680,449,978.13
Gross profit	1,082,661,003.46	225,316,594.34	1,307,977,597.80

	For the year ended 31 December 2013		
	Main operations	Other operations	Subtotal
Revenue	1,440,164,247.82	251,053,282.41	1,691,217,530.23
Cost of operation	913,447,971.88	109,541,952.75	1,022,989,924.63
Gross profit	526,716,275.94	141,511,329.66	668,227,605.60

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

	Revenue from main operations		Cost of main operations	
	For the year ended 31 December 2014	For the year ended 31 December 2013	For the year ended 31 December 2014	For the year ended 31 December 2013
Manufacturing	2,539,603,660.22	1,439,173,518.09	1,456,965,791.43	912,501,809.65
Trading	542,665.57	990,729.73	519,530.90	946,162.23
	2,540,146,325.79	1,440,164,247.82	1,457,485,322.33	913,447,971.88

Notes to the Financial Statements

For the year ended 31 December 2014
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18 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(4) Revenue and cost of sales (Continued)

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

	Revenue from main operations		Cost of main operations	
	For the year ended 31 December 2014	For the year ended 31 December 2013	For the year ended 31 December 2014	For the year ended 31 December 2013
Southern China	2,109,005,339.30	1,131,642,674.30	1,259,764,239.19	745,018,436.47
Eastern China	231,836,905.22	175,004,930.75	79,791,037.55	83,579,858.12
Northern China	63,951,654.25	27,585,557.16	38,828,150.44	17,787,382.39
North east China	14,735,802.32	11,249,974.86	10,813,903.04	8,680,032.45
South west China	112,091,943.61	90,234,202.18	63,665,910.02	55,751,077.94
North west China	8,524,681.09	4,446,908.57	4,622,082.09	2,631,184.51
Other countries		-		-
	2,540,146,325.79	1,440,164,247.82	1,457,485,322.33	913,447,971.88

(c) The total top five of customer sales is RMB 2,058,638 thousand, which is 81.05% of revenue from main operations this year.

	Revenue from main operations	% of revenue from main operations of the company
Customer 1	1,629,463,354.97	64.15%
Customer 2	224,244,470.43	8.83%
Customer 3	94,330,341.88	3.71%
Customer 4	57,864,690.14	2.28%
Customer 5	52,734,683.81	2.08%
	2,058,637,541.23	81.05%

Notes to the Financial Statements

For the year ended 31 December 2014

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

(5) Investment income

(a) Details of Investment income:

	For the year ended 31 December 2014	For the year ended 31 December 2013
Income from financial assets:		
Income from financial assets held for trading	26,609.76	9,249.60
Income from available-for-sale financial assets	5,552,944.32	350,900.00
Income from entrusted loans	17,501,492.52	16,113,766.07
Income from long-term equity investments under cost method	438,180,118.43	256,121,669.72
Income from long-term equity investments under equity method	94,337,405.27	140,571,475.14
Income from disposal long-term equity investments	(1,000,000.00)	270,414.82
	554,598,570.30	413,437,475.35

(b) Among the long-term equity investments measured at cost method, details of investment income accounted for more than 10% of net profit are as below:

	For the year ended 31 December 2014	For the year ended 31 December 2013
WLJ Great Health	182,150,646.65	24,769,410.51

(c) Among the long-term equity investments measured at equity method, details of investment income accounted for more than 10% of net profit are as below:

	For the year ended 31 December 2014	For the year ended 31 December 2013
GP Corp.	101,509,499.80	81,593,101.86

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

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

(6) Supplementary information to the Company's cash flow statement

	For the year ended 31 December 2014	For the year ended 31 December 2013
(a) Reconciliation from net profit to cash flows from operating activities		
Net profit	916,674,526.23	550,834,619.89
Add: Provisions for asset impairment	19,998,482.93	506,256.18
Depreciation and amortisation of fixed assets and investment property	51,534,324.88	50,174,981.60
Amortisation of intangible assets	5,435,221.01	3,017,939.31
Amortisation of long-term prepaid expenses	197,973.50	272,385.68
Gains on disposal of fixed assets, intangible assets and other long-term assets	961,396.44	674,359.62
Losses on scrapping of fixed assets	449,087.35	-
Loss (less: gains) on change in fair value	(1,323,355.80)	(486,747.20)
Financial expenses	26,652,209.11	23,115,995.63
Investment income	(554,598,570.30)	(435,999,828.72)
Decrease in deferred tax assets	(2,204,304.24)	(29,905,236.83)
Increase (less: decrease) in deferred tax liabilities	(149,846.21)	1,066,433.14
Decrease (less: increase) in inventories	(61,528,500.28)	(374,927,044.89)
Decrease in operating receivables	(3,576,991.18)	(673,317,884.25)
Increase in operating payables	73,306,257.79	992,694,126.99
Others	-	-
Net cash flows from operating activities	471,827,911.23	107,720,356.15
(b) Investing and financing activities that do not involve cash receipts and payments		
Conversion of debt into capital	-	-
Convertible company bonds due within one year	-	-
Fixed assets held under finance leases	-	-
(c) Net movement in cash and cash equivalents		
Cash at end of period	709,868,368.22	462,902,261.84
Less: cash at beginning of year	462,902,261.84	141,232,654.49
Add: cash equivalents at end of period	-	-
Less: cash equivalents at beginning of year	-	-
Net movement in cash and cash equivalents	246,966,106.38	321,669,607.35

Notes to the Financial Statements

For the year ended 31 December 2014

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19 NET CURRENT ASSETS

	The Group	
	31 December 2014	31 December 2013
Current assets	8,889,049,004.68	7,298,788,281.51
Less: Current liabilities	6,061,527,138.19	5,050,078,080.31
Net current assets	2,827,521,866.49	2,248,710,201.20

	The Company	
	31 December 2014	31 December 2013
Current assets	3,369,892,536.02	2,659,050,589.48
Less: Current liabilities	1,468,104,803.42	1,207,339,131.68
Net current assets	1,901,787,732.60	1,451,711,457.80

Notes to the Financial Statements

For the year ended 31 December 2014
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20 TOTAL ASSETS LESS CURRENT LIABILITIES

	The Group	
	31 December 2014	31 December 2013
Total assets	14,210,783,549.15	12,249,123,151.39
Less: Current liabilities	6,061,527,138.19	5,050,078,080.31
Total assets less current liabilities	8,149,256,410.96	7,199,045,071.08

	The Company	
	31 December 2014	31 December 2013
Total assets	7,998,436,046.80	7,112,046,675.67
Less: Current liabilities	1,468,104,803.42	1,207,339,131.68
Total assets less current liabilities	6,530,331,243.38	5,904,707,543.99

Notes to the Financial Statements

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21 SUMMARY OF NON-RECURRING PROFIT OR LOSS

Item	For the year ended 31 December 2014	For the year ended 31 December 2013
Losses on disposal of non-current assets	(9,721,425.87)	(536,635.01)
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)	164,771,244.01	111,537,005.00
Interests received from entities other than financial institutions recognised in profits or losses	-	-
Gains arising from the difference between Investment cost on subsidiaries, associates and jointly controlled entities and the fair value of the net assets attributable to the Group	-	-
Gains or losses arising from non-monetary assets exchange	-	-
Gains or losses arising from entrusted investments or entrusted asset management	-	-
Asset impairment provided in current year due to forced majeure (e.g. natural disasters)	-	-
Gains or losses arising from debt restructuring	-	-
Corporate restructuring costs (e.g. staff replacement costs and costs during the course of integration)	-	-
Gains or losses arising from the difference between the fair value and transaction price in obviously unfair transactions	-	-
Net profit of subsidiaries acquired under common control from beginning of year to the merger date	-	-
Gains or losses arising from contingencies irrelevant to the Group's normal business	-	-
Gains or losses from changes in fair value of financial assets and liabilities held for trading except for hedging contracts and disposal of financial assets and liabilities held for trading and available-for-sale financial assets	1,323,355.80	486,747.20
Reversal of provision for bad-debts of accounts receivable subject to separate provision	-	371,852.44
Gains or losses arising from entrusted loan granted to other entities	(1,048,049.14)	(974,002.84)
Gains or losses arising from changes in fair value of investment properties under fair value model	-	-
One-off adjustments to profit or loss as required by taxation and accounting laws and regulations	-	-
Consignment fee income arising from entrusted operations	-	-
Other non-operating income and expenses other than the above-mentioned items	(51,707,961.68)	1,240,310.63
Other profit or loss items meeting the definition of non-recurring profit or loss	-	-
Impact on income tax	(23,375,574.73)	(22,565,632.08)
Impact on minority interests (post-tax)	(541,402.30)	(1,316,998.31)
Total	79,700,186.09	88,242,647.03

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22 RETURN ON NET ASSETS AND EARNINGS PER SHARE:

For the year ended 31 December 2014	Weighted average return on net assets (%)	Earnings per share	
		Weighted average basic earnings per share	Weighted average diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	16.38%	0.923	0.923
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	15.29%	0.862	0.862

For the year ended 31 December 2013	Weighted average return on net assets (%)	Earnings per share	
		Weighted average basic earnings per share	Weighted average diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	15.71%	0.768	0.768
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	14.30%	0.699	0.699

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

22 RETURN ON NET ASSETS AND EARNINGS PER SHARE: (Continued)

For the year ended 31 December 2014	Overall diluted return on net assets (%)	Earnings per share	
		Overall diluted basic earnings per share	Overall diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	15.41%	0.923	0.923
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	14.38%	0.862	0.862

For the year ended 31 December 2013	Overall diluted return on net assets (%)	Earnings per share	
		Overall diluted basic earnings per share	Overall diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	14.35%	0.759	0.759
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	13.05%	0.691	0.691

The Group presented return on net assets and earnings per share in accordance with the regulations of <Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No.9 – Calculation and Disclosure of Return on Net Assets and Earnings Per Share > (revised 2010).

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

23 SUPPLEMENTARY INFORMATION FOR CHANGES IN ACCOUNTING POLICIES

Comparing financial statements, the Company retroactively restated the balance sheet as at 1 January 2013, 31 December 2013, 31 December 2014 in accordance with < Accounting Standards for Business Enterprises No.2 – Long-term Equity Investments> issued by the Ministry of Finance in year 2014, which as below:

Item	1 January 2013	31 December 2013	31 December 2014
Current assets			
Cash at bank and on hand	1,135,435,400.94	1,935,681,740.06	3,180,887,532.85
Financial assets at fair value through profit or loss	2,875,920.00	3,362,667.20	4,686,023.00
Notes receivable	844,429,241.87	1,326,353,755.90	1,465,748,952.32
Accounts receivable	734,068,939.45	973,184,749.11	1,005,958,251.13
Advances to suppliers	446,667,535.38	613,882,321.78	326,857,283.13
Interest receivable	–	–	–
Dividends receivable	–	–	–
Other receivables	120,692,089.05	181,145,718.26	306,276,760.40
Inventories	2,065,898,134.19	2,245,829,748.05	2,578,594,687.08
Non-current assets of non-current assets	–	–	–
Other current assets	1,598,620.43	19,347,581.15	20,039,514.77
Total current assets	5,351,665,881.31	7,298,788,281.51	8,889,049,004.68
Non-current assets			
Available-for-sale financial assets	122,158,833.63	119,365,279.93	133,964,228.25
Held-to-maturity investments	–	–	–
Long-term receivables	–	–	–
Long-term equity investments	1,614,789,748.90	1,870,733,119.39	1,950,765,099.35
Investment properties	136,194,437.45	246,309,245.37	235,751,593.75
Fixed assets	1,591,996,126.73	1,731,881,945.85	1,824,151,461.75
Construction in progress	140,077,689.32	335,422,694.18	441,809,706.14
Construction materials	–	–	–
Fixed assets pending for disposal	–	–	–
Intangible assets	305,600,782.57	368,856,694.63	395,201,774.39
Development costs	4,112,051.69	3,716,517.68	4,252,391.49
Goodwill	–	–	–
Long-term prepaid expenses	7,922,664.10	7,099,055.93	6,119,153.03
Deferred tax assets	119,689,836.85	266,950,316.92	329,719,136.32
Other non-current assets	–	–	–
Total non-current assets	4,042,542,171.24	4,950,334,869.88	5,321,734,544.47
TOTAL ASSETS	9,394,208,052.55	12,249,123,151.39	14,210,783,549.15

Notes to the Financial Statements

For the year ended 31 December 2014

(All amounts in Renminbi yuan unless otherwise stated)

23 SUPPLEMENTARY INFORMATION FOR CHANGES IN ACCOUNTING POLICIES (Continued)

Item	1 January 2013	31 December 2013	31 December 2014
Current liabilities			
Short-term borrowings	681,217,807.78	509,651,500.77	560,530,090.45
Financial liabilities at fair value through profit or loss	–	–	–
Notes payable	75,970,070.30	130,773,655.25	356,573,197.95
Accounts payable	1,080,597,534.53	1,470,360,537.61	2,075,534,476.45
Advances from customers	608,781,707.72	875,579,547.32	889,008,552.82
Employee benefits payable	192,466,940.29	334,427,927.83	411,335,807.76
Taxes payable	154,532,046.97	403,383,688.38	176,413,871.14
Interest payable	1,069,051.16	675,414.98	236,666.66
Dividends payable	25,443,653.91	113,513,301.13	46,931,687.19
Other payables	654,271,815.63	1,211,712,507.04	1,544,962,787.77
Current portion of non-current liabilities	–	–	–
Other current liabilities	–	–	–
Total current liabilities	3,474,350,628.29	5,050,078,080.31	6,061,527,138.19
Non-current liabilities			
Long-term borrowings	–	8,627,419.10	–
Debentures payable	–	–	–
Long-term payables	24,413,469.62	22,215,752.40	22,361,807.40
Payables for specific projects	–	19,058,160.00	19,058,160.00
Provisions	500,191.19	500,191.19	500,191.19
Deferred income	133,068,752.39	122,637,987.83	132,561,801.90
Deferred tax liabilities	5,609,484.82	3,475,327.44	15,499,610.21
Long-term employee benefits payable	301,971.08	293,538.18	296,382.47
Total non-current liabilities	163,893,869.10	176,808,376.14	190,277,953.17
Total liabilities	3,638,244,497.39	5,226,886,456.45	6,251,805,091.36
Shareholders' equity			
Share capital	810,900,000.00	1,291,340,650.00	1,291,340,650.00
Capital surplus	1,695,458,308.24	2,486,910,770.01	2,486,283,953.95
Less: Treasury share	–	–	–
Other comprehensive income	711,012.07	(817,865.24)	11,878,304.70
Surplus reserve	787,731,574.82	723,819,753.76	815,487,206.38
Undistributed profits	2,271,551,430.93	2,330,514,583.35	3,134,310,417.34

Notes to the Financial Statements

For the year ended 31 December 2014
(All amounts in Renminbi yuan unless otherwise stated)

23 SUPPLEMENTARY INFORMATION FOR CHANGES IN ACCOUNTING POLICIES (Continued)

Item	1 January 2013	31 December 2013	31 December 2014
Total equity attributable to shareholders of the Company	5,566,352,326.06	6,831,767,891.88	7,739,300,532.37
Minority interest	189,611,229.10	190,468,803.06	219,677,925.42
Total shareholders' equity	<u>5,755,963,555.16</u>	<u>7,022,236,694.94</u>	<u>7,958,978,457.79</u>
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	<u>9,394,208,052.55</u>	<u>12,249,123,151.39</u>	<u>14,210,783,549.15</u>

Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.

19 March 2015

Documents Available for Inspection

1. The financial statements signed by the legal representative and the Financial Controller of the Company;
2. The auditor's reports signed by BDO China Shu Lun Pan CPAs LLP together with the financial statements prepared in accordance with PRC Accounting Standards;
3. The original company documents disclosed and announcements published in China Securities Journal, Shanghai Securities News and Securities Times during the Reporting Period;
4. The documents listed above are available at the Secretariat office