



廣州白雲山醫葯集團股份有限公司

GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.

(a joint stock company with limited liability established in the People's Republic of China)

(H Share Stock code: 00874)

INTERIM REPORT

2019

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Important Notice

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- I. The Board, the Supervisory Committee and the directors, supervisors and senior management of the Company collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this interim report and confirms that there is no false information, misleading statements or material omissions in this interim report.
- II. The Directors were present at the 25th meeting of the seventh session of the Board, among whom, Ms. Cheng Ning (vice chairperson of the Board) attended the meeting by telephone, Mr. Chu Xiaoping (independent non-executive director) was unable to attend the meeting due to business and had appointed Mr. Jiang Wenqi (independent non-executive director) to attend the meeting and vote on his behalf.
- III. Mr. Li Chuyuan (chairperson of the Board), Mr. Li Hong (executive director and general manager) and Ms. Yao Zhizhi (deputy controller of finance and head of the finance department) individually accept responsibility for ensuring the authenticity and completeness of the financial reports contained in this interim report.
- IV. After consideration, the Board did not recommend payment of interim dividends for the six months ended 30 June 2019 nor propose any increase in share capital from the capitalization of capital reserve.
- V. The financial report of the Group and the Company for the Reporting Period was prepared in accordance with the China Accounting Standards for Business Enterprises, which was unaudited.
- VI. Forward-looking statements such as plans for the future and development strategy described in this report do not constitute any actual commitment of the Company to investors. Investors are advised to pay attention to any investment risk.
- VII. There was no non-operational appropriation of funds of the Company by its connected parties.
- VIII. The Company had not provided any external guarantee in violation of the decision-making procedures stipulated by the Company or relevant authorities.
- IX. This interim report is prepared in both English and Chinese. In the event of discrepancy in interpretation, the Chinese version shall prevail.



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In this interim report, unless the context otherwise requires, the following terms have the meanings as follows:

Company/The Company/GYBYS	Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited
PRC or China	the People's Republic of China
Reporting Period	the six months ended 30 June 2019
After the Reporting Period	the period after the end of the Reporting Period up to the date of this interim report, being 1 July 2019 to 23 August 2019
Group	the Company and its subsidiaries
Board	the board of directors of the Company
Supervisory Committee	the supervisory committee of the Company
CSRC	China Securities Regulatory Commission
SSE	The Shanghai Stock Exchange
HKEx	The Stock Exchange of Hong Kong Limited
Depository Corporation	the Shanghai branch of China Securities Depository and Clearing Corporation Limited
Company Law	Company Law of the People's Republic of China
Securities Law	Securities law of the People's Republic of China
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 Rules Governing the Listing of Securities on the SSE
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Model Code	the Model Code for Securities Transactions by directors of Listed Issuers under the Listing Rules of the HKEx
GPHL	Guangzhou Pharmaceutical Holdings Limited (廣州醫藥集團有限公司)

Definitions

GPC	Guangzhou Pharmaceutical Company Limited (廣州藥業有限公司)
Xing Qun	Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd. (廣州白雲山星群(藥業)股份有限公司)
Zhong Yi	Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited (廣州白雲山中一藥業有限公司)
Chen Li Ji	Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd. (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)
WLJ Great Health	Guangzhou WLJ Great Health Industry Co., Ltd. (廣州王老吉大健康產業有限公司)
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)
GP Corp.	Guangzhou Pharmaceuticals Corporation (廣州醫藥有限公司)
Cai Zhi Lin	Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (廣州采芝林藥業有限公司)
Pharmaceutical Import & Export	Guangzhou Pharmaceutical Import & Export Company Limited (廣州醫藥進出口有限公司)
Guangyao Baiyunshan Hong Kong Company	Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited (廣藥白雲山香港有限公司)

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 Pharmaceutical General Factory	Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Baiyunshan Pharmaceutical General Factory (廣州白雲山醫藥集團股份有限公司白雲山製藥總廠)
Chemical Pharmaceutical Factory	Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Baiyunshan Chemical Pharmaceutical Factory (廣州白雲山醫藥集團股份有限公司白雲山化學製藥廠)
He Ji Gong	Guangzhou Baiyunshan Pharmaceutical Co., Ltd. Baiyunshan He Ji Gong Pharmaceutical Factory (廣州白雲山醫藥集團股份有限公司白雲山何濟公製藥廠)
Tian Xin	Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. (廣州白雲山天心製藥股份有限公司)
Guang Hua	Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd. (廣州白雲山光華製藥股份有限公司)
Ming Xing	Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (廣州白雲山明興製藥有限公司)
HWBYS	Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited (廣州白雲山和記黃埔中藥有限公司)
Baxter Qiao Guang	Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. (廣州百特僑光醫療用品有限公司)
WLJ Ya'an	Wang Lao Ji Great Health Industry (Ya'an) Co., Ltd. (王老吉大健康產業(雅安)有限公司)
Weiling	Baiyunshan Weiling Pharmaceutical Co., Ltd. (白雲山威靈藥業有限公司)
Xing Zhu	Guangzhou Baiyunshan Xing Zhu Pharmaceutical Co., Ltd. (廣州白雲山星珠藥業有限公司)

Definitions

Chemical & Pharmaceutical Technology Company	Guangzhou Baiyunshan Chemical & Pharmaceutical Technology Co., Ltd. (廣州白雲山化學藥科技有限公司)
Guangyao General Institute	Guangzhou Pharmaceutical Research General Institute (廣州醫藥研究總院有限公司)
Baiyunshan Pharmaceutical Marketing	Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd (廣州白雲山醫藥銷售有限公司)
Baiyunshan Medical and Healthcare Industry Company	Guangzhou Baiyunshan Medical and Healthcare Industry Investment Co., Ltd. (廣州白雲山醫療健康產業投資有限公司)
Medical Instrument Investment Company	Guangzhou Baiyunshan Medical Instrument Investment Co., Ltd. (廣州白雲山醫療器械投資有限公司)
Guangzhou Baiyunshan Hospital	Guangzhou Baiyunshan Hospital Co., Ltd. (廣州白雲山醫院有限公司)
Runkang Confinement Company	Guangzhou Baiyunshan Runkang Confinement Service Center Co., Ltd. (廣州白雲山潤康月子會所有限公司)
Yi Xin Tang	Yi Xin Tang Pharmaceutical Holdings Co., Ltd. (一心堂藥業集團股份有限公司)
Baiyunshan Yi Xin Tang	Guangzhou Baiyunshan Yixintang Pharmaceutical Investment & Development Co., Ltd. (廣州白雲山一心堂醫藥投資發展有限公司)
Hua Cheng	Guangzhou Hua Cheng Pharmaceutical Co., Ltd. (廣州花城藥業有限公司)
GMP	the English abbreviation of Good Manufacturing Practice, and it is a set of mandatory standards applicable to the pharmaceutical industry, which requires the pharmaceutical companies to ensure the quality of medicines in the production process shall conform to the national standards in accordance with the GMP requirements
GAP	the English abbreviation of Good Agricultural Practice for Chinese Crude Drugs (Trial). It refers to the management system for the development of this specification with a view to standardize the Chinese crude drugs production, and to ensure its quality as well as to promote the standardization and modernization of the Chinese crude drugs
GSP	the English abbreviation of Good Supply Practice, which means the quality control standards for pharmaceutical trade

GPO	Group Purchasing Organization
Essential Drugs List	the National Essential Drugs List (the 2018 version) is the basis for medical institutions to prepare and use drugs. The drugs in the Essential Drugs List are those adapted to the basic medical and health needs, and are featured by appropriate dosage and form as well as reasonable price and supply and availability are guaranteed to the public
Medical Insurance Catalogue	a catalogue of the List of Pharmaceutical Products under the National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance of the PRC (國家基本醫療保險、工傷保險和生育保險藥品目錄) (the 2017 version), being the standard payable drugs fees for the basic medical insurance, work-related injury insurance and maternity insurance fund
Provincial Medical Insurance Catalogue	a catalogue of the List of Pharmaceutical Products under the National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance at the Provincial level of the PRC (the 2017 version) (省級基本醫療保險、工傷保險和生育保險藥品目錄) (2017年版)
OEM	Original Equipment Manufacture
GZ SOA Development	Guangzhou State-owned Asset Development Holdings Limited (廣州國資發展控股有限公司)
GZ Chengfa	Guangzhou China Life Urban Development Industry Investment Enterprise (Limited Partnership) (廣州國壽城市發展產業投資企業 (有限合夥))
Yunfeng Investment	Shanghai Yunfeng Xinchuang Equity Investment Center (Limited Partnership) (上海雲鋒新創股權投資中心 (有限合夥))
Placement Prosperous Age Exclusive Account No.66	Fund of Huitianfu-Citic bank-Guangzhou Baiyunshan Pharmaceutical Holdings Group (匯添富基金—中信銀行—廣州白雲山醫藥集團)
The Material Assets Reorganization in 2013	In 2013, the Group completed the major asset reorganization with the purchase of shares of Baiyunshan and the purchase of GPHL assets
C.Q. Pharmaceutical Holding	Chongqing Pharmaceutical Holding Company Limited (重慶控股股份有限公司)

Company Profile and Financial Highlights

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A. GENERAL INFORMATION

- | | |
|-----------------------------|--|
| Legal Chinese Name: | 廣州白雲山醫藥集團股份有限公司 |
| Chinese Name Abbreviation: | 廣藥白雲山 |
| English Name: | GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS COMPANY LIMITED |
| English Name Abbreviation.: | GYBYS |
- | | |
|-----------------------|------------|
| Legal Representative: | Li Chuyuan |
|-----------------------|------------|
- | | |
|---|--|
| Secretary to the Board: | Huang Xuezheng |
| Representative of securities affairs: | Huang Ruimei |
| Address: | 45 Sha Mian North Street, Liwan District,
Guangzhou City, Guangdong Province, the PRC |
| Telephone: | (8620) 6628 1218/6628 1219 |
| Fax: | (8620) 6628 1229 |
| E-mail: | huangxz@gybys.com.cn/huangrm@gybys.com.cn |
| Internet website: | http://www.gybys.com.cn |
| Principal place of business in Hong Kong: | Room 2005, 20th Floor, Tower Two Lippo Center,
89 Queensway, Hong Kong |
- | | |
|--|--|
| Stock exchanges, name and codes of the Company's shares: | A Shares: SSE
Stock Code: 600332 Stock Abbreviation: BAIYUNSHAN

H Shares: HKEx
Stock Code: 0874 Stock Abbreviation: BAIYUNSHAN PH |
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Company Profile and Financial Highlights

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B. PRINCIPAL FINANCIAL DATA AND FINANCIAL INDICATORS

	The Reporting Period (Unaudited)	The corresponding period of 2018 (Unaudited)	Changes as compared with the corresponding period of 2018 (%)
Principal accounting data			
Income from operations (RMB'000)	33,340,828	14,840,014	124.67
Net profit attributable to the shareholders of the Company (RMB'000)	2,547,561	2,619,000	(2.73)
Net profit attributable to the shareholders of the Company after deducting non-recurring items (RMB'000)	2,205,158	1,540,996	43.10
Net cash flow from operating activities (RMB'000)	(925,743)	1,202,777	(176.97)
Net cash flow from operating activities per share (RMB)	(0.57)	0.74	(176.97)
Total profit (RMB'000)	3,211,762	3,011,163	6.66

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)	Changes as compared with 31 December 2018 (%)
Principal accounting data			
Net assets attributable to the shareholders of the Company (RMB'000)	23,541,159	21,684,909	8.56
Total assets (RMB'000)	53,353,846	51,482,184	3.64
Equity attributable to the shareholders of the Company per share (RMB)	14.48	13.34	8.56

	The Reporting Period (Unaudited)	The corresponding period of 2018 (Unaudited)	Changes as compared with the corresponding period of 2018 (%)
Principal financial indicators			
Basic earnings per share (RMB)	1.567	1.611	(2.73)
Diluted earnings per share (RMB)	1.567	1.611	(2.73)
Basic earnings per share after deducting non-recurring items (RMB)	1.356	0.948	43.10
Ratio of weighted average return on net assets (%)	11.10	12.98	A decrease of 1.88 percentage points
Ratio of weighted average return on net assets after deducting non-recurring items (%)	9.60	7.64	An increase of 1.96 percentage points

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

Company Profile and Financial Highlights

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DESCRIPTION OF PRINCIPAL FINANCIAL DATA AND FINANCIAL INDICATORS OF THE COMPANY

Applicable Not applicable

During the Reporting Period, total profit increased year on year, mainly due to: (1) the Company recognised the increase in the value of long-term equity investments in the amount of RMB826 million last year based on its shareholding in GP Corp. prior to the date of acquisition at the fair value acquired as a result of the inclusion of GP Corp in the scope of consolidation for the Company, and the Company recognised the gain on change in fair value of equity interest in Yi Xin Tang held by the Company of RMB255 million last year, while there were no such events during the Reporting Period; (2) as a result of the inclusion of GP Corp. and Wang Lao Ji in the scope of consolidation for the Company during the Reporting Period, such line item for the Reporting Period increased; (3) during the Reporting Period, WLJ Great Health, a wholly-owned subsidiary of the Company, achieved significant growth of profit arising from the implementation of cost control and price maintenance measures and the receipt of government grants; (4) during the Reporting Period, profit from principal business of other subsidiaries of the Company increased.

During the Reporting Period, net profit attributable to the shareholders of the Company after deducting non-recurring items increased by 43.10% year on year, mainly due to: (1) as a result of the inclusion of GP Corp. and Wang Lao Ji in the scope of consolidation for the Company during the Reporting Period, such line item for the Reporting Period increased; (2) during the Reporting Period, WLJ Great Health, a wholly-owned subsidiary of the Company, achieved significant growth of profit arising from the implementation of cost control and price maintenance measures; (3) during the Reporting Period, profit from principal business of other subsidiaries of the Company increased.

Net cash flows from operating activities decreased by 176.97% year on year, mainly due to: the inclusion of GP Corp. in the scope of consolidation for the Company following the completion of acquisition of 30% equity interest in GP Corp. on 31 May 2018, which was a joint venture of the Company from January to May 2018. The year-on-year decrease in net cash flows from operating activities of the Company was mainly attributable to such company. The decrease in net cash flows from operating activities of such company was mainly due to: (1) increased procurement of medicine reserve following successfully winning the bid for Guangzhou GPO; (2) adjustment to business structure, with increased percentage of sales to hospitals. The long settlement period with hospitals resulted in the increase in accounts receivable; (3) year-on-year decrease in discounted bills.

Company Profile and Financial Highlights

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C. NON-RECURRING ITEMS AND THEIR AMOUNTS

Items	The Reporting Period Amount (RMB'000)	Explanation
Gain/(Loss) on disposal of non-current assets	(42)	
Government subsidies recognized as gain/(loss) for the current period	381,446	This is the amount of government subsidies received by the Company's subsidiaries which was transferred to non-operating income and other income in the Reporting Period.
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	18,113	
Other non-operating income and expenses excluding the above items	10,014	
Income tax effect	(64,437)	
Effect on minority interest	(2,691)	
Total	342,403	

Company's Business Profile

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

(A) Main Business and Products

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

i Great Southern TCM (pharmaceutical manufacturing business)

The Great Southern TCM has 25 subsidiary medical R&D establishments and organizations (including 3 branch companies, 19 holding subsidiaries and 3 joint ventures). The above enterprises or institutions engage in the R&D and manufacturing of Chinese patent medicine, western medicine, chemical raw materials, intermediates chemical raw materials, biomedicine, and natural medicine, etc.

- 1) The Group is an epitome of the southern TCM. The Company has 12 Time-Honored Chinese Brand enterprises such as Zhong Yi, Chen Li Ji, Qi Xing, Jing Xiu Tang, Pan Gao Shou, etc., among which, 10 of them are century old Time-Honored enterprises. A total of 375 varieties of the Group and its joint ventures were included in Medical Insurance Catalogue, 331 varieties were included in the provincial Medical Insurance Catalogue, and 143 varieties were included in the Basic Medicine Catalogue. Main products include Xiao Ke Pill, compound Salvia Miltiorrhiza slice series, Ban Lan Gen Granule, Qing Kai Ling series, Xiao Er Qi Xing tea granule, Hua Tuo Zai Zao Pill, An Gong Niu Huang Pill, Zi Shen Yu Tai Pill, Shu Jin Jian Yao Pill, Xiao Chai Hu Granule, Xia Sang Ju Granule etc. The Group boasts clear brand and variety advantages in proprietary Chinese medicines in southern China and even countrywide.
- 2) The Group has a complete antibiotic production chain ranging from raw material medicine to preparation, manufacturing products covering commonly used antibiotic varieties as well as male medicine. The Group integrated the antibiotic brands with the famous trademark "Kang Zhi Ba", striving to create a market image as the number one brand of antibacterial and anti-inflammatory oral medication. The Group's chemical medicine includes Cefathiamidine, Cefixime, Sildenafil Citrate Tablets ("Jin Ge"), Cefprozil and Amoxicillin and etc.

Company's Business Profile

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

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

ii Great Health

The Group and the joint ventures of the Company engaging in the Great Health are mainly involved in the production, R&D and sale of beverage, food, healthcare product, etc., which are operated primarily by the wholly-owned subsidiaries, WLJ Great Health and Wang Lao Ji; the Great Health's main products include Wang Lao Ji Herbal Tea, ganoderma spore oil capsules, lozenges, tortoise herb jelly etc..

iii Great Commerce (Pharmaceutical distribution business)

The pharmaceutical distribution business of the Group mainly includes the wholesale, retail, and import and export business of pharmaceutical products, medical equipment and healthcare products etc.. The wholesale business is carried out principally through the Company's subsidiary company, namely GP Corp., Cai Zhi Lin and Pharmaceutical Import & Export. The retail business is carried out principally through Cai Zhi Lin pharmacy chains, Jian Min pharmacy chains and GPC Prescription Pharmacy etc.. GP Corp. is a leading medicine circulation enterprise in Southern China.

iv Great Medical Care

The Group leveraged Baiyunshan Medical and Healthcare Industry Company as the main investment vehicle and used various means, including new establishment, joint venture and co-operation to focus on the development of three areas, i.e. medical service, TCM health maintenance and modern elderly care.

Currently, the Great Medical Care segment is at the stage of strategic and investment expansion. The projects that have been invested or founded include Guangzhou Baiyunshan Hospital, the Tibetan-style Health Preservation Castle, Runkang Confinement Company and Guangzhou Baiyunshan Medical Instrument Investment Company etc..

Company's Business Profile

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

(B) Operating Model

i Great Southern TCM

1) Procurement Model

After completion of the Material Assets Reorganization in 2013, the Group integrated the procurement system of the subsidiaries, and established a unified procurement platform centered on Cai Zhi Lin, Pharmaceutical Import & Export and Guangyao Baiyunshan Hong Kong Company which intensively centralized procurement of Chinese herbal medicine, raw and auxiliary materials, packaging materials and imported equipment etc., improved the ability of negotiation on prices and risk resistance, effectively reduced the procurement cost.

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

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

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

(B) Operating Model *(Continued)*

i Great Southern TCM *(Continued)*

2) Production Model

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

3) Sales Model

(a) Self-operation and agency mode

The pharmaceutical products produced by the subsidiaries and holding subsidiaries of the Company are sold through the mode of self-operation and by agency. The sales channels of all-tier dealers and agents achieve the coverage of most domestic hospitals, community healthcare and retail terminals. For hospital bidding products, the subsidiaries of the Company bid for the hospital bidding products nationwide according to relevant national policies. After winning the bid, the medicines are distributed through the pharmaceutical circulation enterprises. For non-hospital bidding products, the promotion is mainly through the mode of agency and distribution.

Company's Business Profile

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

(B) Operating Model *(Continued)*

i Great Southern TCM *(Continued)*

3) Sales Model *(Continued)*

(b) Pharmaceutical industry sales platform

In recent years, the Group has integrated its internal marketing resources to establish a pharmaceutical industry marketing platform with Baiyunshan Pharmaceutical Marketing as the core, which has integrated the sale resources of four enterprises, namely Baiyunshan General Factory, Guang Hua, Jing Xiu Tang and Ming Xing.

In addition, the Group has proactively adapted itself to new economy and innovated new models, actively built up e-commerce marketing system and developed the e-commerce business. The Company's Guangyao Baiyunshan flagship store has set up e-commerce terminal sales platforms at Tmall and JD.com; the Company strengthens cooperation with Qile Kang, Kang Aiduo and other online pharmacies; GYJM.com has become the designated online drugstore for medical insurance; starting from August 2015, customers can make payment online without their medical insurance cards.

ii Great Health

1) Purchasing Mode

The centralized procurement is mainly through the unified centralized procurement platform established by the Group.

2) Production Mode

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

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

(B) Operating Model *(Continued)*

ii Great Health *(Continued)*

3) Sales Mode

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

iii Great Commerce

The Group's pharmaceutical circulation business has two models, namely pharmaceutical distribution and retail, whose profit is generated primarily from the difference in purchase and selling price and/or supply distribution fee of the pharmaceutical product wholesale and retail businesses.

GP Corp., the holding subsidiary of the Company, is the leading medicine circulation enterprise in south China, with good business reputation, mature sales network, a wide range of sales channels and decent pharmaceutical distribution capacity. The Group has "Cai Zhi Lin", "Jian Min" and other well-known pharmaceutical retail chain and more than 83 medicine retail outlets, with strong terminal strength.

As at 30 June 2019, the Group had 83 retail chain pharmacy outlets, including 35 "Cai Zhi Lin" pharmacy outlets which specialized in traditional Chinese medicines, 33 "Jian Min" pharmacy outlets which specialized in western medicine, medical apparatus and instruments, 14 GPC Prescription Pharmacy (professional DTP prescription dispense) and 1 pharmacy named Ying Bang.

Company's Business Profile

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

(C) Current circumstances of the development of the industry

Accompanying the world economic development, the increasing level of aging in the society and the improvement on health knowledge among the population, the global medical industry has maintained its high speed development for more than 10 years. China, as an emerging market in the medical industry, its total production value of medical industry mounted from RMB671.9 billion in 2007 to RMB3,569.9 billion in 2017, representing an annual compound growth rate of 18.2%.

In the first half of 2019, under the influence of various medical policies, like the full-scale promotion on the consistency evaluation of generic drug and treatment, the streamlining examination of clinical research data, the policy of centralized volume-base procurement and the discussion on rational use of drug, the speed increase of production efficacy and sale income in the medical industry has demonstrated a trend of slowing down. From January to June in 2019, the speed increase of value added in the medical production industry is 5.9%, representing a decrease of 0.7% comparing with the same period in 2018; the sale revenue of national level medical production reaches RMB1,222.75 billion, representing a year-on-year increase of 8.5%, a decrease of 4.8% comparing with the same period in 2018; the industry achieved a total profit of RMB160.82 billion, representing a year-on-year increase of 9.4%, a decrease of 5.0% comparing with the same period in 2018 (Data resource: the website of National Bureau of Statistics).

(D) Periodic Characteristics

The Great Commerce of the Group has no obvious seasonality as they do not have any obvious periodic features. Seasonal illness, like the flu, has higher risk of morbidity during specific seasons, and present fast infectiousness after explosion, which causes increase in the demand of medicines which prevent and treat diseases of this kind; Resulting from such influence, the sales of medical products under Great Southern TCM demonstrate certain periodicity. The Great Health segment, with the characteristics and gift feature of its main product, namely Wang Lao Ji herbal tea, has certain seasonality as product demand relates to the weather and holidays, for example, the sales will increase when the weather is hot. In addition, as the Group explored the sales channels of the gift market, Wang Lao Ji herbal tea has increasing sales during major festivals.

(E) Position of the Company in the Industry

The group is one of the largest pharmaceutical conglomerates in nationwide. After years of accelerated development and consolidation, the Group has basically established an entire industrial chain layout of the biomedical healthcare industry, forming four business segments of Great Southern TCM, Great Health, Great Commerce and Great Medical Care, as well as three industrial new business formats of e-commerce, capital finance and medical equipment.

(F) The Main Performance Driving Factors

During the Reporting Period, the Group's revenue amounted to RMB33,340,828,000, representing an increase of 124.67% compared with the corresponding period last year. For the growth factors details, please refer to the relating material in the "Management Discussion and Analysis" in the Chapter 4 "Discussion and Analysis of Operations" of the report.

Company's Business Profile

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B. THE SIGNIFICANT CHANGES IN MAIN ASSETS OF THE GROUP DURING THE REPORTING PERIOD

Applicable Not applicable

During the Reporting Period, the significant changes in main assets of the Group are shown in the following table,

Categories of Assets	30 June 2019 <i>(RMB'000)</i>	Percentages of changes <i>(%)</i>
Total assets	53,353,846	2.38
Include:		
Construction in progress	682,006	41.99
Intangible assets	2,417,927	138.61

The main reason of the change, please refer to the “B Principal Operations During the Reporting Period-(c) Analysis on Financial Conditions-V Assets and liabilities” in section 4 “Discussion and Analysis of Operation” for details.

Company's Business Profile

C. ANALYSIS ON CORE COMPETITION CAPACITY DURING THE REPORTING PERIOD

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

1. The Group possesses rich product and brand resources:
 - 1) Products: The Group has formed complete series in areas such as diabetes, cardiovascular and cerebrovascular diseases, anti-bacteria and anti-infection, cooling and detox, parenteral nutrition, coughing, bone-setting and pain relief, rheumatism and bone pain, gynaecological and paediatric medication, and nurturing and health. The Group has more than 40 forms and nearly 2,000 specifications, as well as over 90 exclusive products.
 - 2) Brands: Currently, the Group has trademarks of 10 nationally renowned brands, 22 renowned brands in Guangdong Province and 27 renowned brands in Guangzhou City. Among which, the brand awareness and reputation of "Wang Lao Ji" and "BYS" have greater impact and appeal among consumers in the country, and are both one of the most valuable pharmaceutical brands in the country. After completion of the Major Assets Reorganization in 2013 and None-public Offering of A Shares in 2015, 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. Four business segments with unique characteristics, namely, Great Southern TCM, Great Health, Great Commerce and Great Medical Care, and three new modes of businesses, namely e-commerce, capital finance and medical equipment are gradually constituted. The Group has radiated its brand value from traditional medical products to new Great Health products.

C. ANALYSIS ON CORE COMPETITION CAPACITY DURING THE REPORTING PERIOD (Continued)

- ii The group has Long history in Chinese traditional medicine and cultural soft power. It has 12 long lasting enterprises in Chinese pharmaceutical industry, among which Chen Li Ji, Zhong Yi, Pan Gao Shou, Jing Xiu Tang, Cai Zhi Lin, Wang Lao Ji, Xing Qun, Qi Xing, Ming Xing and Guang Hua have been established for over a hundred years. Also, the Group has 6 items admitted as the nation's Intangible Cultural Heritage, namely "Xia Sang Ju" (夏桑菊) of Xing Qun, "Da Shen Kou Yan Qing" (大神口焮清) of BYS, Wang Lao Ji Herbal Tea, the traditional Chinese medicine culture of each of Chen Li Ji and Pan Gao Shou as well as the "Production Technology of Bao Zi Tang Bao Ying Dan" (保滋堂保嬰丹製作技藝) of Zhong Yi. The Group had established the Chen Li Ji Museum (陳李濟博物館), "Chen Li Ji Health Preservation Research Institute" (陳李濟健康養生研究院), "Lingnan Experience Centre of Chinese Medicine Culture" (嶺南中醫藥文化體驗館), Shen Nong Cottage (神農草堂), Cai Zhi Lin Museum (采芝林博物館) and Wang Lao Ji Herbal Tea Museum. It also had established a number of platforms for the promotion of the "Grand Southern TCM" culture to demonstrate the long history, splendid culture of Chinese medicine and rebuild the famous brands of Chinese medicine.
- iii The Group has a relatively complete production chain system, including the existing major pharmaceutical assets. Through the internal and external forward integration and backward integration, the Group has formed a thorough raw materials, research and development, production, circulation and terminal production chain. In respect of the supply of Chinese herbs, the Group and its joint ventures have more than 50 GAP herbs bases nationwide and establish a unified procurement platform for raw materials and auxiliary materials, which effectively ensure the quality and supply of Chinese herbs and controls the production costs. In respect of research and development of products, the Group continues to build a comprehensive technological innovation system. The Group has built an extensive collaborative network with renowned scientific research institutions, formulated a professional think tank which employs noble prize winners and renowned scholars, both domestic and abroad, to create a synergy effect between both sides for highly effective utilization of favorable resources from various parties, promoting development through the support of technology.
- iv The Group has a large-scale pharmaceutical wholesale distribution and delivery network and a broad and stable customer base in China, and the Company is one of the first pharmaceutical trading enterprises in Guangdong Province that obtained the GSP certificate. The Group has also established the largest pharmaceutical retail terminal network and medicine logistics and distribution center in southern China. With the advantages of its strong market basis and marketing network advantage, the Group has established a long-term and reliable business relationship with hundreds of thousands of customers in 31 provinces, cities and autonomous regions across the country (including medium-and-large-sized hospitals, pharmaceutical wholesalers, distributors and retailers). The Group also has the leading digital integration and operation informatisation management system. GP Corp., a subsidiary of the Company, was within the first batch of enterprises in the country which passed the digital integration and operation informatisation management system and assessment system.

Company's Business Profile

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C. ANALYSIS ON CORE COMPETITION CAPACITY DURING THE REPORTING PERIOD (Continued)

- v The Group has an ever-improving technological innovation system. The Group has been strengthening the construction of platforms and improving the scientific research innovation system for many years. As at the date of this report, the Group and its joint ventures have 7 state level research and development institutions, 1 national level corporate technical center, 2 postdoctoral workstation, 14 provincial level corporate technical centers, 18 provincial level engineering technical research and development centers, 5 provincial level key laboratories, 1 provincial level engineering laboratories, 14 municipal level corporate technical centers, 14 municipal level engineering technical research and development centers and 5 municipal level key laboratories. The Group possesses core technology in national leading position on 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, such as sterile powder production technology and preparation agent technology.

During the reporting period, the Group and its joint ventures added, a.) 1 state level research and development institution; state level laboratorial canine animal data bank; b.) 2 provincial level engineering centers; Guangdong engineering and technique research center for precision medicine biotechnology production and Guangdong engineering and technique research center for human-use freeze-dried rabies vaccine (cell Vero).

- vi The Group has a forward-thinking, high quality, reasonably structured and extremely innovative team of talents. In recent years, the Group has insisted on attracting talents with competitive work environment and remuneration package, nurturing them with its excellent corporate culture and motivating them with promising corporate visions. Currently, the Group has a strong highlevel talent team with 3 Nobel Prize winners, 1 Guangdong innovation group, double hired academicians, 13 state-level Chinese medicine experts, 7 foreign academicians, 2 State Council Special Allowance experts in-service and nearly a hundred doctors and post doctors. The Group also has nearly 6,217 technology personnel's, 1,338 of which have intermediate titles or above.

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

Discussion and Analysis of Operations

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A. MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Group actively adapted to the development theme of “Year of Risk Control and Efficiency Enhancement” by insisting on maintaining stability while making progress, improving quality and increasing efficacy, enhancing risk management to approach a trend of stable growth in operational performance. In the first half of 2019, the Group’s revenue amounted to RMB33,340.828 million, increased by 124.67%; the total profit was RMB3,211.762 million, increased by 6.66%; the net profit attributable to shareholders of the Company was RMB2,547.561 million, decreased by 2.73% as compared with the corresponding period of 2018; and the net profit attributable to shareholders of the Company after deducting non-recurring items was 2,205.158 million, increased by 43.10% as compared with the corresponding period of 2018.

The operating results of the Group during the Reporting Period increased as compared with the first half of 2018, mainly due to: (1) during the Reporting Period, all business segments of the Group further developed, and its principal business recorded steady and rapid growth. In particular, WLJ Great Health, a wholly-owned subsidiary of the Company, achieved significant growth of profit arising from the implementation of cost control and price maintenance measures and the receipt of government grants; (2) during the Reporting Period, as a result of including the income of GP Corp. and Wang Lao Ji in the scope of consolidated financial statements for the Company, the revenue and profit from principal business of the Group has increased as compared with the corresponding period of 2018.

During the Reporting Period, the Group made solid progress in the following areas:

Firstly, we continue to focus on the “Big Products”, increase the promotion level of brands and products, and cultivated “fashionable Chinese medicine” and “Diva brands”. Meanwhile, we took advantage of the resource integration strategy and opportunity, utilized the distribution network and logistic advantages of the Great Commerce, implemented the synergistic effect generated between the Great Southern TCM and the Great Commerce, which brings about the mutual promotion and advancement and in-depth fusion between the two business segments of the Company.

Secondly, we continue to utilize “one core product with diversification” as the central theme, thoroughly develop the core idea of “Ji Culture”, gradually nurture new product categories and create a characteristic product portfolio for the Great Health Industry. During the Reporting Period: (1) on the basis of deeply digging into the intrinsic meaning of “Ji Culture” to form the basis for the brand value improvement. WLJ Great Health through reinforcing the promotion of “drinking red-can Wang Lao Ji to enjoy an auspicious year” during the Spring Festival period, solidified Wang Lao Ji’s position in the gift market. The launching of Wang Lao Ji Tokyo Museum also increased its international popularity. (2) We consolidated and optimized the brand rejuvenation strategy, and implemented “precise and fashionable marketing”. On one hand, WLJ Great Health signed a new celebrity endorser to promote the “Fear of internal heat, Drink Wang Lao Ji” philosophy and increase the product’s applications in response to the 2019 summer marketing slogan “the hotter, the better”. On the other hand, it deepened interaction with young consumers via juvenile social media platforms, in line with its brand rejuvenation strategy. (3) New growth incentives have been developed through product diversification and new product development. During the Reporting Period, the new product “Ci Ning Ji” series and Wang Lao Ji Jasmine Flavor Herbal tea were officially released and ready for sale.

Discussion and Analysis of Operations

A. MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Thirdly, we expanded the hospitals and community healthcare businesses following the core strategy of “further development + expansion”, and stepped up efforts to tap into the lower levels of terminal delivery channels and penetrate the retail market. During the Reporting Period, (1) adhering to the terminal-oriented strategy, we further developed the health institution business segment covering hospitals at various levels. After the successful bid for the Guangzhou GPO project, we brought the business of medical establishments to the next level, which promoted the growth on other relevant business and increased the proportion of hospital sales; Cai Zhi Lin accelerated TCM decoction-piece product development, increased its share of the high-end hospital TCM decoction pieces market. (2) The retail business was developed in all directions amid business diversification, with retail services launching and speeding up the promotion of the distribution of chain hospital terminals through merging and establishment.

Fourthly, we continued to build a greater presence in the Great Medical Care segment: (1) Guangzhou Baiyunshan Hospital stepped up rehabilitation studies and partnered up with Guangdong 999 Brain Hospital to establish a healthcare alliance and a children treatment and rehabilitation center, leading to the formation of a preliminary rehabilitation and medical treatment system; (2) exploratory efforts were made develop partnership projects in subdivided market segments such as postpartum and eldercare services; in the meantime, new forms of medical device businesses have been nurtured to lay a solid foundation for medical and medical device business development.

Fifthly, we continued to increased inputs into product R&D, and ratcheted up product quality management and assurance efforts. During the Reporting Period, (1) the Guangyao General Institute’s “National Canine Experimental Animal Resource Database” was included in the national list of technological resource sharing service platforms. The Group obtained five production approvals and supplementary filing approvals (including application documents), 13 Chinese patents for inventions, and four utility model patents, with two provincial engineering technology centers established. Chen Li Ji was honorably titled the “Innovative Enterprise in Guangdong Province”. Jing Xiu Tang was honorably titled “Innovative Enterprise in Guangdong Province” and “Innovation Benchmark Enterprise (Technology Benchmark) in Guangzhou”. (2) We pushed forward implementation of major technological innovation projects, and made headway in generic consistency evaluation stably. The consistency evaluation approval was granted to Cefuroxime Axetil Tablets. (3) We took serious measures to improve product quality management operations, and conducted selfinspections and pharmaceutical policy and regulation training targeting weak links in quality management and safety hazards, focusing on raising the staff’s awareness of the importance of product quality and safety.

Sixthly, efforts were made to continuously, tighten up internal management, and improve operation quality. The Group tightened up management on party building, strategic development, performance appraisal, regulation, cost, risk control, security and environmental protection operations, and improved the efficiency of management activities.

Discussion and Analysis of Operations

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B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD

(A) Analysis on principal operations

1. Analysis of changes in related subjects of financial statements

Items	The Reporting Period (RMB'000)	The corresponding period of 2018 (RMB'000)	Increase/ (Decrease) over the corresponding period of 2018 (%)
Revenue ^(note 1)	33,340,828	14,840,014	124.67
Include: income from principal operations	33,199,320	14,725,777	125.45
Cost of sales ^(note 2)	25,893,939	10,050,615	157.64
Include: cost from principal operations	25,858,276	10,032,270	157.75
Selling and distribution expenses ^(note 3)	3,181,215	2,175,615	46.22
General and administrative expenses ^(note 4)	986,091	708,304	39.22
Research and development expenses	276,820	242,287	14.25
Financial expenses ^(note 5)	79,873	(68,121)	217.25
Net cash flow from operating activities ^(note 6)	(925,743)	1,202,777	(176.97)
Net cash flow from investing activities ^(note 7)	(257,080)	676,412	(138.01)
Net cash flow from financing activities ^(note 8)	1,253,450	398,688	214.39
Other income ^(note 9)	356,510	116,850	205.10
Investment income ^(note 10)	117,960	1,056,228	(88.83)
Gains from changes in fair value ^(note 11)	10,826	251,277	(95.69)
Impairment losses in respect of assets ^(note 12)	(7,142)	(4,079)	(75.10)
Impairment losses in respect of credit ^(note 13)	(60,985)	(29,224)	(108.68)
Income tax expenses ^(note 14)	533,951	351,799	51.78
Minority interest ^(note 15)	130,250	40,364	222.69

Discussion and Analysis of Operations

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B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD *(Continued)*

(A) Analysis on principal operations *(Continued)*

1. Analysis of changes in related subjects of financial statements *(Continued)*

Notes:

- (1) Revenue for the Reporting Period increased as compared with the same period of last year, mainly due to: the inclusion of GP Corp. in the scope of consolidation for the Company following the completion of acquisition of 30% equity interest in GP Corp. on 31 May 2018, which was a joint venture of the Company from January to May 2018; and the inclusion of Wang Lao Ji in the scope of consolidation for the Company following the completion of acquisition of 48.05% equity interest in Wang Lao Ji in October 2018, which was a joint venture of the Company in the same period of last year (“Note 1”). As a result of the inclusion of GP Corp. and Wang Lao Ji in the scope of consolidation for the Company during the Reporting Period, such line item for the Reporting Period increased by RMB16,614 million.
- (2) Cost of sales for the Reporting Period increased as compared with the same period of last year, mainly due to: as stated in Note 1, GP Corp. and Wang Lao Ji were included in the scope of consolidation for the Company during the Reporting Period, and such line item for the Reporting Period increased by RMB15,111 million.
- (3) Selling and distribution expenses for the Reporting Period increased as compared with the same period of last year, mainly due to: (i) as stated in Note 1, GP Corp. and Wang Lao Ji were included in the scope of consolidation for the Company during the Reporting Period, and such line item for the Reporting Period increased by RMB702 million; (ii) during the Reporting Period, WLJ Great Health, a wholly-owned subsidiary of the Company, strengthened promoting and advertising.
- (4) General and administrative expenses for the Reporting Period increased as compared with the same period of last year, mainly due to: as stated in Note 1, GP Corp. and Wang Lao Ji were included in the scope of consolidation for the Company during the Reporting Period, and such line item for the Reporting Period increased by RMB231 million.
- (5) Financial expenses for the Reporting Period increased as compared with the same period of last year, mainly due to: as stated in Note 1, GP Corp. and Wang Lao Ji were included in the scope of consolidation for the Company during the Reporting Period, and such line item for the Reporting Period increased by RMB166 million.
- (6) Net cash flow from operating activities decreased as compared with the same period of last year, mainly due to: the inclusion of GP Corp. in the scope of consolidation for the Company following the completion of acquisition of 30% equity interest in GP Corp. on 31 May 2018, which was a joint venture of the Company from January to May 2018. The year-on-year decrease in net cash flow from operating activities of the Company was mainly attributable to such company. The decrease in net cash flow from operating activities of such company was mainly due to: (i) increased procurement of medicine reserve following successfully winning the bid for Guangzhou GPO; (ii) adjustment to business structure, with increased percentage of sales to hospitals. The long settlement period with hospitals resulted in the increase in accounts receivables; (iii) year-on-year decrease in discounted bills.
- (7) Net cash flow from investing activities decreased as compared with the same period of last year, mainly due to: (i) the payment by the Company of the consideration for the acquisition of the “Wang Lao Ji” trademark series, being RMB1,472 million (inclusive of value-added tax), during the Reporting Period; (ii) the recognition of the difference between the consideration paid and the cash and cash equivalents of GP Corp. following its inclusion in the scope of consolidation for the Company last year. There was no such event during the Reporting Period; (iii) the income from structured deposits and wealth management products of the Group upon maturity was higher than their purchase cost.

Discussion and Analysis of Operations

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B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD *(Continued)*

(A) Analysis on principal operations *(Continued)*

1. Analysis of changes in related subjects of financial statements *(Continued)*

- (8) Net cash flow from financing activities increased as compared with the same period of last year, mainly due to: the inclusion of GP Corp. in the scope of consolidation for the Company following the completion of acquisition of 30% equity interest in GP Corp. on 31 May 2018, which was a joint venture of the Company from January to May 2018. The year-on-year increase in net cash flow from financing activities of the Company was mainly due to the increase in bank loans of GP Corp..
- (9) Other income increased as compared with the same period of last year, mainly due to: the increase in government grants received by subsidiaries of the Company during the Reporting Period.
- (10) Investment income decreased as compared with the same period of last year, mainly due to: the Company recognised the increase in the value of long-term equity investment based on its shareholding in GP Corp. prior to the date of acquisition at the fair value acquired during the same period of last year as a result of the inclusion of GP Corp. in the scope of consolidation for the Company last year. There were no such amount incurred during the Reporting Period, resulting in the year-on-year decrease in investment income during the Reporting Period.
- (11) Gains from changes in fair value decreased as compared with the same period of last year, mainly due to: the recognition of gain on change in fair value of Yi Xin Tang during the same period of last year, while there was no such amount incurred during the Reporting Period, resulting in the decrease in gain on change in fair value during the Reporting Period.
- (12) Impairment losses in respect of assets decreased as compared with the same period of last year, mainly due to: (i) as stated in Note 1, GP Corp. was included in the scope of consolidation for the Company during the Reporting Period, and such line item for the Reporting Period decreased by RMB13 million; (ii) the year-on-year decrease in loss on decline in value of inventories of other subsidiaries of the Company, which resulted in the increase in the amount incurred for the line item during the Reporting Period.
- (13) Impairment losses in respect of credit decreased as compared with the same period of last year, mainly due to: as stated in Note 1, GP Corp. was included in the scope of consolidation for the Company during the Reporting Period, and such line item for the Reporting Period decreased by RMB32 million.
- (14) Income tax expenses for the Reporting Period increased as compared with the same period of last year, mainly due to: (i) the Company recognised the increase in the value of long-term equity investment based on its shareholding in GP Corp. prior to the date of acquisition at the fair value acquired during the same period of last year as a result of the inclusion of GP Corp. in the scope of consolidation for the Company, as well as the gain on change in fair value of Yi Xin Tang held by the Company, which were both non-taxable items; (ii) as stated in Note 1, GP Corp. and Wang Lao Ji were included in the scope of consolidation for the Company during the Reporting Period, and such line item for the Reporting Period increased by RMB67 million.
- (15) Minority interest increased as compared with the same period of last year, mainly due to: (i) as stated in Note 1, GP Corp. and Wang Lao Ji were included in the scope of consolidation for the Company during the Reporting Period, and such line item for the Reporting Period increased by RMB38 million; (ii) the increase in minority interest of newly-established subsidiaries of the Company.

Discussion and Analysis of Operations

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B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD (Continued)

(A) Analysis on principal operations (Continued)

2. Analysis on industry, product and regional operation result

1) Results of principal operations by industry and principal operations by products during the Reporting Period

	Results of principal operations by industry					
	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/(Decrease) over the same period of 2018 (%)	Cost of principal operations (RMB'000)	Increase/(Decrease) over the same period of 2018 (%)	Profit margin of principal operations (%)	Increase/(Decrease) over the same period of 2018 (percentage point)
Great Southern TCM ^(Note 1)	6,760,669	30.37	3,731,154	30.70	44.81	A decrease of 0.14 percentage point
Great Health	5,854,280	10.98	2,951,597	(10.53)	49.58	An increase of 12.12 percentage points
Great Commerce ^(Note 2)	20,526,806	386.98	19,129,060	398.11	6.81	A decrease of 2.08 percentage points
Other	57,565	16.20	46,465	20.85	19.28	A decrease of 3.11 percentage points
Total	33,199,320	125.45	25,858,276	157.75	22.11	A decrease of 9.76 percentage points

Discussion and Analysis of Operations

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B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD (Continued)

(A) Analysis on principal operations (Continued)

2. Analysis on industry, product and regional operation result (Continued)

- 1) Results of principal operations by industry and principal operations by products during the Reporting Period (Continued)

	Results of principal operations by products					
	Income from principal operations		Cost of principal operations		Profit margin of principal operations	Types of products
	Income from principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2018 (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2018 (%)	Profit margin of principal operations (%)	Increase/ (Decrease) over the same period of 2018 (percentage point)
Chinese patent medicine	2,960,665	37.41	1,649,604	38.42	44.28	A decrease of 0.41 percentage point
Chemical medicine	3,800,004	25.36	2,081,550	25.17	45.22	An increase of 0.08 percentage point
Total of Great Southern TCM	6,760,669	30.37	3,731,154	30.70	44.81	A decrease of 0.14 percentage point

Notes:

- During the Reporting Period, income from principal operations from the Great Southern TCM segment of the Group increased as compared with the same period of last year, which was mainly due to: (1) increased promoting and marketing efforts to develop “fashionable Chinese traditional medicine” and “Diva products”; (2) the increase in sales volume or prices of certain products; (3) certain medicine of Wang Lao Ji was included in the scope of consolidation.
- During the Reporting Period, income from principal operations from the Great Commerce segment of the Group increased as compared with the same period of last year, which was mainly due to: the inclusion of GP Corp. in the scope of consolidation.

Discussion and Analysis of Operations

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B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD (Continued)

(A) Analysis on principal operations (Continued)

2. Analysis on industry, product and regional operation result (Continued)

2) The regional sales of the group's business in the first half of 2019 are as follows:

Regions	Income from principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2018 (%)
Southern China	24,236,557	194.81
Eastern China	3,430,208	28.84
Northern China	1,529,709	26.89
North-Eastern China	347,780	35.82
South-Western China	2,508,066	39.53
North-Western China	1,126,756	98.41
Exports	20,244	31.17
Total	<u>33,199,320</u>	<u>125.45</u>

3. Others

Detailed description of major changes in the company's profit composition or profit source

Applicable Not applicable

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

Applicable Not applicable

The confirmed other income (government subsidies related to regular corporation activities) during the Reporting Period is RMB356.5104 million, which mainly comprises support funds for industrial development received by the subsidiaries of the Company during the Reporting Period.

Discussion and Analysis of Operations

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B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD *(Continued)*

(C) Analysis on Financial Conditions

i. Liquidity

As at 30 June 2019, the current ratio of the Group was 1.61 (31 December 2018: 1.60), and its quick ratio was 1.29 (31 December 2018: 1.25). During the Reporting Period, accounts receivable turnover in days was 56.58 days, 16.19% slower than that in the corresponding period of 2018; inventory turnover in days was 62.20 days, 35.80% slower than that in the corresponding period of 2018.

ii. Financial resources

As at 30 June 2019, cash and cash equivalents of the Group amounted to RMB15,142,206,000 (31 December 2018: RMB15,071,612,000), of which approximately 99.67% and 0.33% were denominated in Renminbi and foreign currencies, such as Hong Kong dollar, respectively.

As at 30 June 2019, the Group had bank borrowings of RMB7,447,818,000 (31 December 2018: RMB6,523,281,000), including short-term borrowings of RMB6,933,818,000 (31 December 2018: RMB5,905,703,000), current portion of non-current liabilities of RMB500,500,000 (31 December 2018: RMB204,024,000), and long-term borrowings of RMB13,500,000 (31 December 2018: RMB413,554,000).

iii. Capital structure

As at 30 June 2019, the Group's current liabilities amounted to RMB26,551,568,000 (31 December 2018: RMB26,948,764,000), representing a decrease of 1.47% as compared with the beginning of 2019, and its long-term liabilities was RMB1,561,845,000 (31 December 2018: RMB1,389,687,000), with an increase of 12.39% as compared with the beginning of 2019. Shareholders' equity attributable to the shareholders of the Company amounted to RMB23,541,159,000 (31 December 2018: RMB21,684,909,000), with an increase of 8.56% as compared with the beginning of 2019.

iv. Capital expenditure

The Group expects that the capital expenditure for 2019 to be approximately RMB3,153 million among which the expenditure in the first half of 2019 amounted to RMB1,835 million (in the first half of 2018: RMB528 million), which would be mainly applied in the acquisition of trademark, construction of production sites, information system and purchase of new equipment. The Group will raise funds to meet the capital requirements of capital expenditure by resorting to its internal funds, bank loans, etc..

Discussion and Analysis of Operations

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B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD (Continued)

(C) Analysis on Financial Conditions (Continued)

v Assets and liabilities

Explanation on change in assets and liabilities:

Item	As at	% of the total assets (%)	As at 31	% of the total assets (%)	Increase/ (Decrease)	Reasons for changes
	30 June 2019 (RMB'000)		December 2018 (Restated) (RMB'000)		over 2018 (%)	
Other current assets	382,467	0.72	2,137,248	4.10	(82.10)	The change in balance of such item was mainly due to: decrease of RMB1.530 billion on the structural deposits of the Company.
Construction in progress	682,006	1.28	480,306	0.92	41.99	The change in balance of such item was mainly due to: increase investment in projects by the subsidiary of the Company.
Bearer biological assets	3,678	0.01	0	0.00	/	The change in balance of such item was mainly due to: new purchase of bearer biological assets by the subsidiary of the Company during the Reporting Period.
Intangible assets	2,417,927	4.53	1,013,353	1.94	138.61	The change in balance of such item was mainly due to: the Company acquired Wang Lao Ji series trademarks at the consideration of RMB1.389 billion.
Other non-current assets	0	0.00	2,580	0.00	(100.00)	The change in balance of such item was mainly due to: an increase in land-transferring fees prepaid last year by the subsidiary of the Company was taken into account.

Discussion and Analysis of Operations

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B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD (Continued)

(C) Analysis on Financial Conditions (Continued)

v Assets and liabilities (Continued)

Item	As at	% of the total assets (%)	As at 31	% of the total assets (%)	Increase/ (Decrease) over 2018 (%)	Reasons for changes
	30 June 2019 (RMB'000)		December 2018 (Restated) (RMB'000)			
Contract liabilities	1,600,367	3.00	3,686,647	7.07	(56.59)	The change in balance of such item was mainly due to: the additional advances on sales of WLJ Great Health at the end of last year due to the advance of the Spring Festival is dispatched during the Reporting Period, which led to the decrease of such item;
Taxes payable	371,041	0.70	963,543	1.85	(61.49)	The change in balance of such item was mainly due to: with the implementation of the new revenue standard of the Company, the subsidiary of the Company recategorized the taxes to be written off in the corporate receivables to other matters of current and noncurrent liabilities.
Current portion of non-current liabilities	712,352	1.34	343,316	0.66	107.49	The change in balance of such item was mainly due to: current portion of long-term borrowing was categorized under such item by the subsidiary of the Company.

Discussion and Analysis of Operations

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B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD (Continued)

(C) Analysis on Financial Conditions (Continued)

v Assets and liabilities (Continued)

Item	As at	% of the total assets (%)	As at 31	% of the total assets (%)	Increase/ (Decrease) over 2018 (%)	Reasons for changes
	30 June 2019 (RMB'000)		December 2018 (Restated) (RMB'000)			
Other current liabilities	179,668	0.34	0	0.00		/ The change in balance of such item was mainly due to: with the implementation of new revenue standards of the Company, tax to be written off in the current portion of advance receivables was re-categorized under such item.
Long-term borrowings	13,500	0.03	413,554	0.79	(96.74)	The change in balance of such item was mainly due to: Current portion of long-term borrowing was categorized under current portion of non-current liabilities by the subsidiary of the Company.
Other comprehensive income	(2,453)	0.00	(477)	0.00	(414.10)	The change in balance of such item was mainly due to: (1) decrease of fair value of the financial assets at the end of the Reporting Period; (2) decrease in difference of conversion on currency exchange by the subsidiary of the Company.

Discussion and Analysis of Operations

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B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD *(Continued)*

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

vi Exposure to fluctuations in exchange rates

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

vii Contingent liabilities

As at 30 June 2019, the Group had no material contingent liabilities.

viii Charge on the Group's assets

As at 30 June 2019, Guangyao Baiyunshan Hong Kong Company, a wholly-owned subsidiary of the Company, acquired the overdraft amounted to HKD300,000, letter of credit and 90 days credit is the total amounted of HKD100,000,000 and the issued but undue L/C amounted to EUR48,000, USD326,000 from Bank of China (Hong Kong) Co., Ltd., secured by the buildings of fixed assets in the original value amounted to HKD8,893,000, and net value amounted to HKD6,262,000 of the buildings of fixed assets and the investment properties in the original value amounted to HKD6,843,000 and net value amounted to HKD3,589,000 of investment properties.

ix Bank loans, overdraft and other borrowings

As at 30 June 2019 the bank loans of the Group amounted to RMB7,447,818,000 (31 December 2018: RMB6,523,281,000), with an increase of RMB924,537,000 as compared with the beginning of 2019. The above bank loans included short-term borrowings of RMB6,933,818,000, current portion of non-current liabilities of RMB500,500,000, long-term borrowings of RMB13,500,000.

x Gearing ratio

As at 30 June 2019, the Group's gearing ratio (total liabilities/total assets×100%) was 52.69% (31 December 2018: 55.05%).

xi Material investment

As at 30 June 2019, there is no other major investment during the Reporting Period.

Discussion and Analysis of Operations

B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD *(Continued)*

(D) Situation on the major assets which are limited as of the end of the Reporting Period

Applicable Not applicable

(E) Issues and difficulties in operations and plans for the second half of 2019

During the first half of 2019, the global economic situation did not illustrate an optimal performance; however, the economy of our country is still operating in a generally smooth and stably advancing manner. The pharmaceutical industry was in the process of significant transformation driven by policies. On one hand, while pressure on operations from policies such as fees controlled by medical insurance, price reduction in tender bidding and price negotiation by second bargaining and volume-based purchase still existed, growth of the industry has slowed down; On the other hand, outcomes of key reforms such as a new edition of medical insurance catalogue, consistency evaluation, acceleration in assessment and approval of innovative new drugs entered into the rewarding period gradually. The benefits of policy reform have provided new room for the growth of the pharmaceutical market. Meanwhile, being influenced by factors like China's accelerated population aging, increasing urbanization level and improvement of the medical security system, the demand of the PRC pharmaceutical industry is still growing. Changes in policies for the medical industry will continue to create new development and opportunities in the pharmaceutical industry.

The Group will strive to make solid progress in the following areas during the second half of 2019:

1. Focus on "Big Products" to continue promoting the development of the "Diva Products"; promote the characteristic development of "fashionable Chinese medicine", generic and innovative chemical medicine and biological pharmacy; continue to enhance cooperation with large scale chain pharmacies and increase product sales.
2. Promote development strategy of diversifying products and product categories of the Great Health Industry by focusing on "one core with diversification", vigorously promote the "Ji Culture", continue to solidify and promote the position of Wang Lao Ji in the industry. Intensifying the promotion of Ci Ning Ji, Walnut Dew and coconut milk product. In addition, enhancing the resource integration and discussing actively the synergetic development of the Wang Lao Ji products in red and green bottles.
3. Continue to take "further development + expansion" as the main line, promote the sinking of terminal service network, accelerate the expansion of retail business layout; take forward the resource integration and improve strain capacity of the segments while facing the changing external market.

Discussion and Analysis of Operations

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B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD *(Continued)*

(E) Issues and difficulties in operations and plans for the second half of 2019 *(Continued)*

4. Develop under the support of technology and in an R&D manner with focus on both generic and innovative medicine, optimize the technological innovation platform, speed up the development of innovative medicine, Great Health products and the research of the consistency evaluation of generic drugs, strengthen quality management and strengthen product quality and safety inspection.
5. Develop a medical service industry integrating medical treatment, medicine and recovery in the direction of “characterization and differentiation”. Accelerate the implementation of current projects. Continue to rely on the idea of “Key Projects”, speed up the deployment of new business distribution and actively promote investments and merger and acquisition projects.
6. Continue to strengthen the basic internal management, initiate special auditing and major risk investigation to prevent major risks, strictly control costs and increase efficiency.

(F) Analysis on investment

i Overall analysis on foreign equity investment

As at the end of the Reporting Period, the foreign equity investment of the Company amounted to RMB1,805,481,000, with a growth of RMB45,523,000 as compared with last year, mainly due to: the Company confirmed the investment profits of the joint venture and associates in accordance with the Equity Laws, which led to the increase in long-term equity investment.

1) *Significant equity investment*

Applicable Not applicable

2) *Significant non-equity investment*

Applicable Not applicable

3) *Financial assets evaluating at fair value*

Applicable Not applicable

Discussion and Analysis of Operations

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B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD (Continued)

(F) Analysis on investment (Continued)

Stock investments

Number	Type of Stock	Stock Code	Stock name	The initial	Number of	Book value	% of stock	Gain/(Loss)
				amount of	shares held	as at the	investment	
				investment	as at the	as at the	as at the	during the
				(RMB'000)	end of the	end of the	end of the	Reporting
					Reporting	Reporting	Reporting	Period
					Period	Period	Period	(RMB'000)
					(share)	(RMB'000)	(%)	
1	A Share of SSE	600038	AVIC Helicopter Co., Ltd	1,806	57,810	2,371	1.54	212
2	A Share of SSE	600664	Harbin Pharmaceutical Group Co., Ltd	3,705	376,103	1,557	1.01	71
3	A Share of Shenzhen Exchange	000950	C.Q. Pharmaceutical Holding	150,145	25,992,330	124,191	80.86	9,747
4	A Share of SSE	601328	Bank of Communications	525	394,567	2,415	1.58	130
5	A Share of SSE	601818	Everbright Bank	10,725	6,050,000	23,051	15.01	1,640
	Other stock investments held as at the end of the Reporting Period							-
	Gain/(Loss) of stock investments sold during the Reporting Period							-
Total				166,906	32,870,810	153,585	100.00	11,800

(G) Significant assets and equity sales

Applicable Not applicable

Discussion and Analysis of Operations

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B. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD *(Continued)*

(H) Details of the main subsidiaries and joint ventures of the Company during the Reporting Period

Name of enterprise	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)
WLJ Great Health	Manufacturing	Production and sales of pre-packaged food, dairy products, etc	500,000	100.00	7,397,192	4,144,181	1,114,339
GP Corp.	Medical Business	Retail of medical products and equipments	2,227,000	80.00	23,307,767	4,633,156	168,814

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

(I) Structured subject matter controlled by the company

Applicable Not applicable

Discussion and Analysis of Operations

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C. OTHER MATTERS

(A) Warning and explanation in respect of anticipated cumulative profit may be a loss from the beginning of 2018 to the end of the next reporting period or substantial change as compared with the corresponding period of last year of the cumulative net profit

Applicable Not applicable

(B) Risk exposure

Applicable Not applicable

The medical industry is one of the principle developing industries in China, as well as an industry with high level of regulations. In recent years, the official publication and execution of policy-oriented documents, namely the Generic drug and treatment consistency evaluation, the promotion of medicine marketing authorization holder system and the guidance principle on research technique about changing public chemical medicine procedures etc., signifies the higher standards and stricter supervision requirement on the R&D, production, circulation, usage etc. of medicine producing enterprises. The companies are facing the challenge of the constantly changing policies, which is accompanied by opportunities and risk.

Medicine, a product relates tightly with the national economy development and life, is influenced easily by the governmental policies. Accompanying the promotion of governmental medical revolution, the tightening on price limitation on medical insurance and prominent promotion of bidding price deduction in various provinces decreasing medicine price is the general trend in the future. Government proceeds to resolve the inflated medicine price, and the decreasing price will directly influence the economic efficiency of the medical production industry.

(C) Other disclosures

Applicable Not applicable

A. INFORMATION ON GENERAL MEETINGS OF SHAREHOLDERS

Session	Date of the meeting	Index on the designated website for publication of the resolution	The date of publication of the resolution
The First Extraordinary General Meeting in 2019	28 March 2019	http://www.sse.com.cn http://www.hkex.com.hk	29 March 2019 (SSE) 28 March 2019 (HKEx)
Annual General Meeting of 2019	28 June 2019	http://www.sse.com.cn http://www.hkex.com.hk	29 June 2019 (SSE) 28 June 2019 (HKEx)

B. PLAN FOR PROFIT DISTRIBUTION AND INCREASE IN SHARE CAPITAL FROM CAPITAL RESERVE

The Board of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2019, nor any increase in share capital by transfer from capital reserve.

Profit distribution scheme, plan on increase in share capital by transfer from capital reserve prepared for the half year

Any distribution or transfer	No
Number of bonus shares to be distributed for every ten shares (share)	/
Amount of dividends to be distributed for every ten shares (RMB) (inclusive of tax)	/
Number of shares to be transferred into share capital for every ten shares (shares)	/

C. PERFORMANCE OF UNDERTAKINGS BY THE COMPANY, ITS SHAREHOLDERS AND ACTUAL CONTROLLERS

Applicable Not applicable

Major Events

C. PERFORMANCE OF UNDERTAKINGS BY THE COMPANY, ITS SHAREHOLDERS AND ACTUAL CONTROLLERS (Continued)

(A) Undertakings related to which have not yet been transferred trademarks

Item	Content
Background of undertakings	Undertakings related to Major Assets Reorganization in 2013
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">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 (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.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.).

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

(A) Undertakings related to which have not yet been transferred trademarks *(Continued)*

Item	Content
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	Yes
Being complied with or not	Yes
Note	<p>The Company has entered the Confirmation of the Delivery of Assets for the Transfer of Wang Lao Ji Series Trademarks with GPLH on 30 April 2019. As verified by both sides, the referring transaction will be conducted upon the consideration price set from the asset appraisal of which base evaluation date is 30 June 2018. The transaction value is RMB1,389,122,631 (excluding value-added tax). Since there were two defensive trademarks registration application being declined before the issue date of the above Confirmation, according to the Agreement on Acquisition of Trademarks in Cash between Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Guangzhou Pharmaceutical Holdings Limited, the corresponding assessed value of the above 2 trademarks will be deducted from the transaction price, which resulted in a transaction price of RMB1,389,119,631 (excluding the value-added tax). The involving assets in the referring transaction had been delivered in accordance with the Agreements, and the Company had paid the transaction price to GPLH with full single payment, and had obtained the underlying assets in accordance with laws. As at and after the asset transfer date, GPLH is not required to pay the custody fee to the Company. The trademark license fee arising from the target assets belongs to the Company. In particular, the trademark license contracts signed in the name of the Company continue to be implemented by the Company; as for the trademark license contracts signed in the name of the GPLH, GPLH will notify the parties to the contracts to sign supplementary agreements in relation to the change of the parties to the contracts.</p>

Major Events

C. PERFORMANCE OF UNDERTAKINGS BY THE COMPANY, ITS SHAREHOLDERS AND ACTUAL CONTROLLERS (Continued)

(B) Undertakings related to Trademarks by Controlling Shareholder

Item	Content
Background of undertakings	Undertakings related to Major Assets Reorganization in 2013
Party given the undertaking	Controlling shareholder
Undertakings	<ol style="list-style-type: none">1. GPLH undertakes that, within two years from the date of satisfaction of any one of the conditions set out below, it will legally transfer the trademarks in Wang Lao Ji series (25 in total) and 4 other trademarks (comprising trademark 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 pre-emption right in Wang Lao Ji trademarks.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 4 other trademarks related to Wang Lao Ji, which are all obtained and owned in legal manner by GPLH after the Execution Day (inclusive of today) for the "Supplementary Agreement to the Agreement of Trademark Custody". The Company may obtain such by cash or by issuing shares for purchasing assets wherein the transfer price shall be legally confirmed based on such appraisal value as issued by an appraisal institute possessing the professional qualification of engaging in securities and as confirmed in the asset appraisal report verified by the State-owned assets authority.

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

(B) Undertakings related to Trademarks by Controlling Shareholder *(Continued)*

Item	Content
Time and period of undertaking	The original undertaking was given on 29 February 2012. GPLH gave a supplemental undertaking in respect of the relevant contents on 15 June 2012. The undertaking remains valid until it has been fully performed.
Valid period for performance	N/A
Whether timely and strictly performed	<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 at the 8th meeting of the sixth session of the Board, the resolution on the amendment to the performance period of injection of Wang Lao Ji trademark series was submitted to the first extraordinary general meeting in 2015 held on 13 March 2015 and was approved.</p>
Being complied with or not	Yes
Note	On 16 August 2017, the Supreme People’s Court of the PRC announced the judgment on the “case over red can decoration”, and the judgment is final. On the same day, GPLH and WLJ Great Health, the Company’s wholly-owned subsidiary, received the relevant civil judgment of the Supreme People’s Court of the PRC on the “case over red can decoration” (details please refer to the Announcement of the Final Judgment on the “Case over Wang Lao Ji Red Can Decoration” of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. dated 16 August 2017). According to GPLH’s undertaking made on 29 February 2012, the supplementary undertaking made on 15 June 2012 and the revised undertaking made in 2014, the conditions for GPLH to transfer “Wang Lao Ji” series trademarks to the Company had been satisfied.

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

(B) Undertakings related to Trademarks by Controlling Shareholder *(Continued)*

Item	Content
	<p>On 27 December 2018, the resolution regarding the proposal on purchasing trademarks in cash and the relevant agreements and connected transactions was considered and approved at the 18th meeting of the seventh session of the Board of the Company, by using the appraised value as the pricing basis, which was determined in the Assets Evaluation Report on Proposed Transfer of Trademarks by Guangzhou Pharmaceutical Holdings Limited Involving the 420 Exclusive Use Rights of Trademarks Owned by Guangzhou Pharmaceutical Holdings Limited (Zhong Lian Guo Ji Ping Zi [2018] No. WIGPZ0701) with valuation reference date of 30 June 2018, the Company intended to acquire all rights of Wang Lao Ji series of trademarks held by GPL, the controlling shareholder (including trademarks already registered in the PRC and other countries or regions and trademarks under application and pending for approval) in cash, and signed the Agreement on Acquisition of Trademarks in Cash between Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Guangzhou Pharmaceutical Holdings Limited and the Profit Compensation Agreement between Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Guangzhou Pharmaceutical Holdings Limited. The acquisition was considered and passed at the 2019 first extraordinary general meeting held on 29 March 2019.</p> <p>On 30 April 2019, the Company has entered into the Confirmation of the Delivery of Assets for the Transfer of Wang Lao Ji Series Trademarks with GPL, in accordance with which the involving assets in the referring transaction had been delivered.</p> <p>Up to 30 June, other than the 21 defensive trademarks of WLJ, which are still under certification process, the alteration application of all other trademarks, both within the state and internationally, have been submitted to the local intellectual property departments.</p>

D. APPOINTMENT, DISMISSAL OR CHANGE IN APPOINTMENT OF AUDITORS

Situation on appointment, dismissal or change in appointment of auditors

Applicable Not applicable

The 22nd meeting of the seventh session of the Board passed the resolution in relation to the appointment of Ruihua CPAs LLP as the auditor of the Company for year 2019 and the internal control auditor of the Company for year 2019. The term is one year.

Situation on change in appointment of auditors during the audit period

Applicable Not applicable

Explanation given by the Company on the “Non standard auditor’s report” issued by the auditors

Applicable Not applicable

Explanation given by the Company on the financial report in previous yearly report financial on the “Non standard auditor’s report” issued by the auditors

Applicable Not applicable

E. MATTERS RELEVANT TO BANKRUPTCY AND SCHEME OR ARRANGEMENT

Applicable Not applicable

Major Events

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

Applicable Not applicable

The litigation and arbitration involving the Group and controlling shareholders during the Reporting Period are as follows:

In April 2019, Wang Lao Ji Great Health, a wholly-owned subsidiary of the Group, and GPLH, the controlling shareholder of the Company, received the Written Civil Ruling captioned (2017) 30 ZuiGaoFaminShen No. 509 from Supreme People's Court of the PRC, relating to the retrial application of the case on false propaganda and commercial slander between GPLH and Wang Lao Ji Great Health, and Guangdong Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. Pursuant to the Written Civil Ruling, the retrial application of Guangdong Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. was dismissed.

For details, please refer to the announcement dated 29 April 2019 disclosed in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and the announcement on the websites of the SSE and the HKEx.

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

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

Applicable Not applicable

H. EXPLANATION ON THE INTEGRITY OF THE COMPANY AND ITS CONTROLLING SHAREHOLDER AND ACTUAL CONTROLLER DURING THE REPORTING PERIOD

Applicable Not applicable

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

Applicable Not applicable

The Employee Stock Ownership Scheme (2015) was approved at the Board meeting held on 12 January 2015 and at the first extraordinary general meeting in 2015, the Class Meeting of Holders of A Shares, the Class Meeting of Holders of Overseas Listed Foreign Capital Shares held on 13 March 2015 by the independent shareholders.

A total of 1,209 employees participated in the Employee Stock Ownership Scheme (2015), subscribing a total of 3,860,500 shares (“Aboved Shares”) at the amount of RMB90,953,380.00. On 17 August 2019, the Placement Prosperous Age Exclusive Account No. 66 (as the trustee of the Employee Stock Ownership Scheme (2015)) which held 3,860,500 A shares of the Company, completed the registration of the newly-issued shares at the Depository Corporation. The Aboved Shares are shares subject to trading restrictions with a lock-up period of 36 months. On 19 August, the Aboved Shares were trade on the SSE.

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

Major Events

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

J. MATERIAL RELATED PARTY TRANSACTIONS

(A) The related party transactions in relation to the ordinary operations

1. Events disclosed in temporary announcements and with no progress or change in subsequent implementation

Applicable Not applicable

2. Events disclosed in temporary announcements and with progress or change in subsequent implementation

Applicable Not applicable

During the Reporting Period, the details of the related party transactions in relation to the ordinary operations are as follows:

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
Hua Cheng	Controlled by the same parent company	Purchase of goods	Medicinal material or medicine	Market price	4,272	0.01	Cash
HWBYS	Joint venture	Purchase of goods	Medicinal material or medicine	Market price	92,587	0.31	Cash
Baxter Qiao Guang	Joint venture	Purchase of goods	Medicinal material or medicine	Market price	20,695	0.07	Cash
Subtotal					117,554	0.39	
Hua Cheng	Controlled by the same parent company	Sales of goods	Medicinal material or medicine	Market price	49,827	0.15	Cash
HWBYS	Joint venture	Sales of goods	Medicinal material or medicine	Market price	89,563	0.27	Cash
Nuo Cheng	Joint venture	Sales of goods	Medicinal material or medicine	Market price	61	0.00	Cash
Baxter Qiao Guang	Joint venture	Sales of goods	Medicinal material or medicine	Market price	757	0.00	Cash
Subtotal					140,208	0.42	

J. MATERIAL RELATED PARTY TRANSACTIONS (Continued)**(A) The related party transactions in relation to the ordinary operations** (Continued)**2. Events disclosed in temporary announcements and with progress or change in subsequent implementation** (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
GPHL	Parent Company	Rendering of service	Advertising agency service	Market price	744	2.99	Cash
Hua Cheng	Controlled by the same parent company	Rendering of service	Advertising agency service	Market price	5,461	21.95	Cash
HWBYS	Joint venture	Rendering of service	Advertising agency service	Market price	16,983	68.26	Cash
Baxter Qiao Guang	Joint venture	Rendering of service	Advertising agency service	Market price	23	0.09	Cash
Hua Cheng	Controlled by the same parent company	Rendering of service	Consigned processing	Market price	12,188	14.09	Cash
HWBYS	Joint venture	Rendering of service	Consigned processing	Market price	414	100.00	Cash
Subtotal					35,813		
GPHL	Parent Company	Acceptance the right to use patents, trademarks, etc.	Trademark use rights	Agreement price	96,910	95.03	Cash
HWBYS	Joint venture	Providing patents, trademarks, etc.	Trademark use rights	Agreement price	641	100.00	Cash
HWBYS	Joint venture	Others	Assets leased from related parties	Agreement price	2,189	2.00	Cash
GPHL	Parent Company	Others	Assets leased from related parties	Agreement price	3,733	3.40	Cash
GPHL	Parent Company	Others	Assets leased from related parties	Agreement price	201	0.54	Cash
Baxter Qiao Guang	Joint venture	Others	Assets leased from related parties	Agreement price	1,590	4.26	Cash
Nuo Cheng	Joint venture	Others	Assets leased from related parties	Agreement price	1,430	3.83	Cash
Total					400,269		

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

Major Events

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J. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(A) The related party transactions in relation to the ordinary operations *(Continued)*

3. Events undisclosed in temporary announcement

Applicable Not applicable

(B) Related party transactions from acquisition and disposal of assets or equity interests

1. Events disclosed in temporary announcements and with no progress or change in subsequent implementation

Applicable Not applicable

2. Events disclosed in temporary announcements but with progress or change in subsequent implementation

Applicable Not applicable

On 27 December 2018, the 18th meeting of the Company's 7th board of directors and the 12th meeting of the seventh session of the supervisory committee approved the Proposal on Purchasing Trademarks in Cash and the Relevant Agreements and Connected Transactions after discussion. The Company planned to adopt the assessed value, which was determined on the Asset Evaluation Report on the Planned Transfer of Right to Exclusive Use of 420 Trademarks Owned by Guangzhou Pharmaceutical Holdings Co., Ltd. (Zhong Lian Guo Ji Ping Zi [2018] No. WIGPZ0701) with base date of evaluation on 30 June 2018, in the pricing policy and to purchase the "Wang Lao Ji" series trademarks ("the target trademarks", including trademarks both registered and under application of register in domestic China and other countries or regions) held by the controlling shareholder GPLH in cash. The Company has signed The Agreement on Purchase of Trademarks in Cash between Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. ("Agreement on Purchase of Trademarks") and Guangzhou Pharmaceutical Holdings Limited and The Agreement on Compensation for Performance between Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. and Guangzhou Pharmaceutical Holdings Limited. According to the requirements and conditions stated in the Agreement on Purchase of Trademarks, the referring purchase, including the acquisition of the target trademarks and all of its subsidiary property rights and benefits, was conducted upon the consideration price set from the asset appraisal of which base evaluation date is 30 June 2018. The transaction value is RMB1,389,122,631 (excluding value-added tax).

J. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)***(B) Related party transactions from acquisition and disposal of assets or equity interests**
*(Continued)***2. Events disclosed in temporary announcements but with progress or change in subsequent implementation** *(Continued)*

On 28 March 2019, the Company has passed the relating matters about the referring transaction on the first Extraordinary Meeting of the Company in 2019. Due to the completion of the prerequisites of all purchases in the Agreement on Purchase of Trademarks, the Company has entered into the Confirmation of the Delivery of Assets for the Transfer of Wang Lao Ji Series Trademarks with GPLH on 30 April 2019 to facilitate the transaction of the target trademarks. There were two defensive trademarks registration application being declined before the issue date of the above Confirmation. According to the Agreement on Acquisition of Trademarks in Cash between Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Guangzhou Pharmaceutical Holdings Limited, the corresponding assessed value of the above 2 trademarks will be deducted from the transaction price, which resulted in a transaction price of RMB1,389,119,631 (excluding the value-added tax). The involving assets in the referring transaction had been delivered in accordance with the Agreements.

For details, please refer to the announcement dated 28 March 2019 and 30 April 2019 disclosed in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) and the website of SSE, and the announcements dated 27 December 2018, 28 March 2019, 30 April 2019 and the circular dated 31 January 2019 disclosed on the website of HKEx.

Up to 30th June 2019, other than the 21 defensive trademarks of WLJ, which are still under certification process, the alteration application of all other trademarks, both within the state and internationally, have been submitted to the local intellectual property departments.

3. Events undisclosed in temporary announcements

Applicable Not applicable

4. If agreement upon performance is involved, the performance achievements during the Reporting Period shall be disclosed

Applicable Not applicable

Major Events

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

J. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(C) Material related party transactions on the joint external investment

1. **Events disclosed in the temporary announcements and with no progress or change in subsequent implementation**

Applicable Not applicable

2. **Events disclosed in the temporary announcements but with progress or change in subsequent implementation**

Applicable Not applicable

3. **Events undisclosed in temporary announcements**

Applicable Not applicable

(D) Claims and liabilities between related parties

1. **Events disclosed in the temporary announcements and with no progress or change in subsequent implementation**

Applicable Not applicable

2. **Events disclosed in the temporary announcements but with progress or change in subsequent implementation**

Applicable Not applicable

3. **Events undisclosed in temporary announcements**

Applicable Not applicable

J. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(E) Others

No.	Approval body	Subject matter	Status
1	8th meeting of the sixth session of the Board, 7th meeting of the Strategic Development and Investment Committee in 2016	According to the arrangements of the industrial structure adjustment, 11 enterprises under the Company planned to relocate to the Baiyun base in the Biological Medicine Town of GPL. Four enterprises under the Company, namely Ming Xing, He Ji Gong, HYBYS and GP Corp. have in aggregate acquired the land use rights of 303 mu of land available for construction in the first phase.	In progress.
2	5th meeting of the Strategic Development and Investment Committee in 2016	The Company's subsidiary Chemical & Pharmaceutical Technology Company and Zhuhai Fushan Industrial Park Management Committee entered into the "Investment Agreement between Zhuhai Fushan Industrial Park Management Committee and Guangzhou Baiyunshan Chemical & Pharmaceutical Technology Co., Ltd." ("Zhuhai Project"), with an initial investment amount of RMB55 million.	The Company has contributed additional capital of RMB12.47 million to Chemical & Pharmaceutical Technology Company and completed the environment assessment, planning design and infrastructure design of the Zhuhai Project; in addition, the Company has completed the first phase capital contribution (RMB42 million) and established Chemical Pharmaceutical (Zhuhai) Company. Currently, the Zhuhai Project has entered into the construction design stage.
	1st meeting of the Strategic Development and Investment Committee in 2017	The Company contributed additional capital in cash of RMB12.47 million to Chemical & Pharmaceutical Technology Company for the use of project design and environmental assessment of the Zhuhai Project.	

Major Events

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J. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(E) Others (Continued)

No.	Approval body	Subject matter	Status
	1st meeting of the Strategic Development and Investment Committee in 2018	The Company contributed additional capital of RMB100 million to Chemical & Pharmaceutical Technology Company for use in the establishment of Guangyao Baiyunshan Chemical Pharmaceutical (Zhuhai) Co., Ltd. ("Chemical Pharmaceutical (Zhuhai) Company").	
	11th meeting of the seventh session of the Board	Initiation of the Zhuhai Project with a total investment amount of RMB731,879,100	
3	11th meeting of the Strategic Development and Investment Committee in 2015	The capital of HK\$177,500,000 or the equivalent amount of RMB will be injected to Guangyao Baiyunshan Hong Kong Company by the Company.	The first phase and the second phase of capital injection has been completed. The total capital injection is RMB105,090,750.
4	5th meeting of the Strategic Development and Investment Committee in 2017	Medical Instrument Investment Company, a subsidiary of the Company, set up a joint venture jointly with Shanghai Xiecheng Investment Management Co., Ltd. (上海協成投資管理有限公司) and Guangzhou OSMUNDA Medical Device Technology Inc., Ltd. (廣州奧諮達醫療器械技術股份有限公司) to build an operating platform for the medical equipment innovation incubator park, and Medical Instrument Investment Company intends to contribute capital in cash of RMB17 million, accounting for 34% of the equity interest.	Medical Instrument Investment Company has invested initial capital contribution of RMB3.4 million has been completed.

J. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(E) Others (Continued)

No.	Approval body	Subject matter	Status
5	1st meeting of the Strategic Development and Investment Committee in 2018	GP Corp., a subsidiary of the Company, acquired Zhuhai A&Z Pharmaceutical Co., Ltd. (珠海安士藥業有限公司) for RMB2.5 million to establish a subsidiary in Zhongshan region.	Completed
6	2nd meeting of the Strategic Development and Investment Committee in 2018	Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, acquired 33,785 shares in PT Sano Gratia Farma for RMB20.496 million (or equivalent in Indonesian Rupiah) and subscribe for new shares issued by PT Sano Gratia Farma for RMB15 million (or equivalent in Indonesian Rupiah). Upon completion of the transactions, Guangyao Baiyunshan Hong Kong Company will hold 58,510 shares in PT Sano Gratia Farma, accounting for 51% of the paid-up capital.	In progress
7	3rd meeting of the Strategic Development and Investment Committee in 2018	Cai Zhi Lin, a subsidiary of the Company, and Guangzhou Hendon Medical Technology Co., Ltd. (廣州亨頓醫藥科技有限公司) established a joint venture Guangzhou Cai Zhi Lin Traditional Chinese Medical Center Co., Ltd. (廣州采芝林國醫館有限公司) with a registered capital of RMB10 million, and Cai Zhi Lin will hold 51% of the equity interest (with an investment of RMB5.1 million).	The establishment of the joint venture is under preparation.

Major Events

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

J. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(E) Others (Continued)

No.	Approval body	Subject matter	Status
8	5th meeting of the Strategic Development and Investment Committee in 2018	The Company's subsidiary WLJ Great Health and the Trade Promoting Bureau of Nansha Development Zone in Guangzhou entered into the Agreement on the Investment of and Cooperation with WLJ Great Health for a Series of Projects in Nansha to construct operation headquarters and R&D headquarters for the Great Health segment and a bottling base of WLJ in Nansha District, Guangzhou with a total investment of approximately RMB1.0 billion.	The agreement has been entered into. The preliminary preparation and environment protection assessment of the project are in progress.
	18th meeting of the seventh session of the Board	The Company's subsidiary WLJ Great Health invested and commenced the construction of Nansha Base (Phase I) project with a total investment of RMB750 million.	
9	5th meeting of the Strategic Development and Investment Committee in 2018	The Company's subsidiary Cai Zhi Lin established Longxi Guangyao Cai Zhi Lin Pharmaceutical Co., Ltd. and owned its 100% equity, which has a registered capital of RMB50.00 million, with initial contribution of RMB28.38 million completed through the additional contribution made by the Company to Cai Zhi Lin.	Completed
10	6th meeting of the Strategic Development and Investment Committee in 2018	WLJ Ya'an Company, a wholly-owned subsidiary of the Company's subsidiary WLJ Great Health, commenced the second phase construction with a total investment of approximately RMB47.00 million.	In progress

J. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(E) Others *(Continued)*

No.	Approval body	Subject matter	Status
11	6th meeting of the Strategic Development and Investment Committee in 2018	The Company made an additional contribution of RMB30 million to its wholly-owned subsidiary Guangyao General Institute, with the first phase of RMB18 million and the second phase of RMB12 million.	First phase of capital increase completed.
12	7th meeting of the Strategic Development and Investment Committee in 2018	The Company's subsidiary, WLJ Great Health, intended to build a production base in Lanzhou, Gansu with a total investment of RMB350.00 million.	Pre-work has started.
		The Company's subsidiary, WLJ Great Health, established Wang Lao Ji Great Health Industry (Lanzhou) Co., Ltd., subject to the final approval of name by the Administration of Industry and Commerce, with a registered capital of RMB50.00 million.	Completed
13	8th meeting of the seventh session of the Board	The Company established Baiyunshan Yi Xin Tang, with a registered capital of RMB300 million which shall be paid in installments, of which, the Company contributed RMB90 million, accounting for 30% of its registered capital.	The second phase of capital contribution completed amounts to RMB72 million.
14	11th meeting of the seventh session of the Board	The Company invested in the establishment of GYBYS Biological Medicine and Health R&D Sales Headquarters project	In progress.

Major Events

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

J. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(E) Others (Continued)

No.	Approval body	Subject matter	Status
15	1st meeting of the Strategic Development and Investment Committee in 2019	The Company increase capital investment of RMB61,650,000 in Guangzhou Bai Di	Completed
		GP Group, a share holding subsidiary of the Company, merged and acquired Qingyuan Zhiling Pharmaceutical Technology Co., Ltd.	In progress
16	2nd meeting of the Strategic Development and Investment Committee in 2019	Hainan Chenfei Pharmaceutical Co., Ltd, a holding subsidiary of the GP Corp., established a wholly-owned company, Hainan Guangyao Chenfei Pharmaceutical Chain Limited	Completed
		The Company has participated in the subscription of Yi Xin Tang's convertible bonds according to the stock holding ratio, which the subscription capital is less than RMB 44,474,800	Completed

K. MATERIAL CONTRACTS AND THEIR PERFORMANCE

- (A) On 27 December 2018, the Company acquired the trademark series “Wang Lao Ji” from the GPLH, and had entered into the Agreement on Acquisition of Trademarks in Cash between Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Guangzhou Pharmaceutical Holdings Limited and the Profit Compensation Agreement between Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Guangzhou Pharmaceutical Holdings Limited. The aforesaid matter was approved by the 18th meeting of the Company’s 7th board of directors, the 12th meeting of the seventh session of the supervisory committee and the first extraordinary general meeting of 2019. The assets delivery of the trademarks series “Wao Lao Ji” was completed on 30 April 2019. Due to the fulfilment of the prerequisites of all purchases in the Agreement on Purchase of Trademarks, the Company has entered the Agreement “About the Series of ‘Wang Lao Ji’ s Trademarks Transaction: Confirmation on Settlement and Delivery of Assets ” with GPLH on 30th April 2019. The transaction in respect of assets of the “Wang Lao Ji” series trademarks has been completed. For details, please refer to the relevant contents in “(2) Related party transactions from acquisition and disposal of assets or equity interests” under “10. MAJOR CONNECTED TRANSACTIONS” under section V. Major Events for details.
- (B) During the Reporting Period, the Group did not hold on trust or sub-contract of other companies or vice versa, which generated profit that accounted for 10% or more of the total profits for the Reporting Period.

Major Events

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

K. MATERIAL CONTRACTS AND THEIR PERFORMANCE (Continued)

(C) Guarantees

Applicable Not applicable

Guarantees provided to parties other than the Group's subsidiaries

Guaranteed parties	Date of signing of agreements	Amount involved (RMB'000)	Type of guarantees	Term of guarantees	Executed or not	Guarantees for connected parties (yes or no)
-	-	-	-	-	-	-
Accumulated amount of guarantees provided during the Reporting Period (RMB'000)						-
Balance of guarantees as at the end of the Reporting Period (RMB'000)						-

The Company's guarantees provided to its subsidiaries

Accumulated amount of guarantees provided to the Company's holding subsidiaries during the Reporting Period (RMB'000)	1,315,000
Balance of guarantees provided to the Company's holding subsidiaries as at the end of the Reporting Period (RMB'000)	1,315,000

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

Total amount of guarantees provided (RMB'000)	1,315,000
Total amount of guarantees provided amount the net assets of the Group (%)	5.21
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)	1,315,000
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)	1,315,000

L. NEEDY ALLEVIATION EFFORTS OF LISTED COMPANIES

Applicable Not applicable

1. Plan of targeted approach to aid the needy

We actively echoed the national policy of “targeted poverty alleviation”, and continuously improved the self-development ability of poverty-stricken areas and poor people through development-oriented aid. Xing Qun, Guang Hua and Cai Zhi Lin, the subsidiaries of the Company, established poverty alleviation partnership with the three poverty-stricken villages, namely Meizhoujingkou, Wanxi and Yuanling”, continued to follow the general concept of poverty alleviation of “targeted, early and distinct” and residential safety are guaranteed” in accordance with the guideline of “targeted approach to aid the needy towards each village and household with the industry driving the whole village forward”.

2. Outline of targeted approach to aid the needy for the half year

During the Reporting Period, in addition to implementing the regular poverty alleviation measures, the Group focused on investigating the situations of the 9 poor households and formulated effective poverty alleviation measures to eliminate poverty for them. During the 1st June period, the Group carried out a wide range of poverty alleviation measures to reduce the educational burden of poor households. Besides, the Group will continue to send seedling and auxiliary production equipment to poor households so as to improve their production capability and protect their income sources.

Major Events

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

L. NEEDY ALLEVIATION EFFORTS OF LISTED COMPANIES (Continued)

3. Statistical Table of the Targeted Poverty Alleviation by the Company during the Reporting Period

(RMB'0000)

Index	Number and implementation information of GYBYS
1. General information	
Including: 1. Fund	48.89
2. Materials traded	1.09
3. Number of poor people helped to be removed from administrative record for poverty registering (Person)	5
2. Itemized input	
1. Poverty alleviation through industrial development	
Including: 1.1 Type of industrial poverty alleviation projects	<input checked="" type="checkbox"/> Poverty alleviation through agriculture and forestry <input type="checkbox"/> Poverty alleviation through tourism <input type="checkbox"/> Poverty alleviation through E-commerce <input checked="" type="checkbox"/> Poverty alleviation through assets income <input type="checkbox"/> Poverty alleviation through science and technology <input type="checkbox"/> Others
1.2 Number of industrial poverty alleviation projects	12
1.3 Amount invested in industrial poverty alleviation projects	1.24
1.4 Number of poor people helped to be removed from administrative record for poverty registering (Persons)	0
2. Poverty alleviation through employment	
Including: 2.1 Amount invested in vocational training	0
2.2 Number of people received vocational training (Persons/Time)	94

L. NEEDY ALLEVIATION EFFORTS OF LISTED COMPANIES *(Continued)*

3. Statistical Table of the Targeted Poverty Alleviation by the Company during the Reporting Period *(Continued)*

Index	Number and implementation information of GYBYS
2.3 Number of poor people in administrative record for poverty registering employed (Persons)	86
3. Poverty alleviation through relocation	
Including: 3.1 Number of relocated people employed (Persons)	0
4. Poverty alleviation through education	
Including: 4.1 Amount invested in subsidizing poor students	3.89
4.2 Number of students received allowance (Persons)	57
4.3 Amount invested in improvement of education resources in poverty area	0
5. Poverty alleviation through health enhancement	
Including: 5.1 Amount invested in medical and health resources in poverty area	0
6. Poverty alleviation through ecological protection	
Including: 6.1 Name of project	<input type="checkbox"/> Launching ecological protection and construction <input type="checkbox"/> Establishing compensation for the ecological protection <input type="checkbox"/> Creating ecological and public welfare positions <input type="checkbox"/> Others
6.2 Amount invested	0
7. Protection for the most impoverished people	
Including: 7.1 Amount invested in helping the three left-behind groups	0
7.2 Number of people of the three left-behind groups helped (Persons)	0

Major Events

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

L. NEEDY ALLEVIATION EFFORTS OF LISTED COMPANIES (Continued)

3. Statistical Table of the Targeted Poverty Alleviation by the Company during the Reporting Period (Continued)

Index	Number and implementation information of GYBYS
7.3 Amount invested in helping poor people with disabilities	0
7.4 Number of poor people with disabilities helped (Persons)	0
8. Poverty alleviation in the society	
Including: 8.1 Amount invested in poverty alleviation in the eastern and western parts of the country	0
8.2 Amount invested in fixed-point poverty alleviation work	0
8.3 Poverty alleviation fund	0
9. Other projects	
Including: 9.1 Number of projects (Project)	14
9.2 Amount invested	44.85
9.3 Number of poor people helped to be removed from administrative record for poverty registering (Persons)	5
9.4 Details of other projects	Dam project, solar street lighting project, night school construction project for peasants, etc.
3. Awards (details and levels)	Each of Xing Qun, Guang Hua and Cai Zhi Lin obtained the Bronze Medal of Poverty Alleviation of Meizhou 2018

4. Updates on Fulfilling Social Responsibility of Targeted Poverty Alleviation

As at the end of the Reporting Period, the Group continued to fulfill its social responsibility of poverty alleviation and effectively facilitated the development of poverty-stricken villages via investment in industry. Through the joint efforts of all parties, the poverty alleviation work has achieved excellent results. The Group has eliminated poverty for 92% of the poor households in three villages of Meizhou. The Jingkou Village, which was assisted by Xing Qun, built the first night school for peasants in Meizhou and became the first village-level demonstration site for party member education and training in Meixian District.

5. Follow-up alleviation plan

During the second half of 2019, the Group will continue to promote industrial poverty alleviation, construction of farmland irrigation canals, renovation and restoration of houses for poverty-stricken families, etc. With the mixture of financial assistance and education, the Group aims to increase the production and income of poverty-stricken families via multiple channels and methods and broadens the range of supporting industries.

M. CONVERTIBLE BONDS

Applicable Not applicable

N. PROJECT UNDER DEVELOPMENT AND FOR SALE

During the Reporting Period, the Group did not have any investment properties the contribution of which accounted for more than 5% of the Group's operating profit before tax as provided under Rule 23 of Appendix 16 to the Listing Rules of HKEx.

O. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company adopted the Model Code and "Measures for the Administration of Trading Shares of the Company by directors, supervisors and senior management" as stipulated by the Company as the codes and criteria for securities transactions by directors and supervisors of the Company. After making specific inquiry to all the directors and supervisors, the Company confirmed that its directors and supervisors had fully complied with the standards relating to directors' and supervisors' dealing in securities as set out in the above codes and criteria during the Reporting Period.

P. CORPORATE GOVERNANCE

The Company has been strictly complying with the Company Law, the Securities Law, Corporate Governance Guidelines for the Listed Companies (2018 revision), related laws and regulations of the CSRC and the Listing Rules of the SSE and the HKEx to continuously improving the management structure and regulating 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 of HKEx ("CG Code") and the code provisions of the CG Code except that (i) Mr. Li Chuyuan, Chen Mao, Mr. Ni Yidong and Mr. Wu Changhai all being the executive directors of the Company, Ms. Wang Weihong, being the independent non-executive director of the Company, were unable to attend the First Extraordinary General Meeting in 2019, which constituted a deviation from code provision A.6.7, and (ii) Ms. Liu Juyan being the executive director of the Company, and Ms. Wang Weihong, being the independent non-executive director of the Company, were unable to attend the 2018 Annual General Meeting due to business matters which constituted a deviation from code provision A.6.7.

The Board kept monitoring and reviewing the Company's corporate governance practices to ensure compliance with the provisions of the corporate governance code.

P. CORPORATE GOVERNANCE *(Continued)*

The Group is committed to: (1) Chinese and Western medicine, chemical raw materials, natural medicine, biological medicine, research and development, manufacturing and sales of chemical raw materials inter mediates; (2) wholesale, retail and import and export business of Western medicine, Chinese medicine and medical equipment; (3) the research and development, production and sales of great health product; (4) the health industry investment in medical services, health management, health maintenance and elderly care, etc., 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 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 during the Reporting Period is set out in the section headed "Discussion and analysis of operations" in the interim report of this year.

During the Reporting Period, the corporate governance related work performed by the Company included:

- (I) The Company performed review on its internal control and fulfillment of social obligations for the year ended 31 December 2018 pursuant to the requirements of the "Notice on Proper Preparation of the 2018 Annual Report by Listed Companies" issued by the SSE, and the "Self-assessment Report on Internal Control for 2018" and the "Report on Performance of Social Responsibilities for 2018" were prepared accordingly, which were disclosed after being duly considered and approved at the Board meeting of the Company held on 15 March 2019.
- (II) According to the Company Law, the Securities Law, the Code of Corporate Governance of Listed Companies (2018 Revision) and relevant regulations, which the Company has combined with its operational practice in accordance with the standards, the Company has revised its Articles of Association, Rules of Procedure for the Board of Directors and relevant clauses. The above revision has been approved by the Board on 15 March 2019 and the Shareholder's meeting on 28 June 2019.
- (III) In order to perfect the company governance, integrating the practical operation of the Company, the Company has revised relating clauses in the Implementation Rules on the Strategic Development and Investment Committee of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd., Implementation Rules on the Audit Committee of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. and Implementation Rules on the Nomination and Remuneration Committee of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. The above revision has been approved on the Board meeting on 15 March 2019.

P. CORPORATE GOVERNANCE *(Continued)*

(IV) During the Reporting Period, the Company continued to strengthen and improve the three defense lines of “internal control system, risk control system, and audit supervision” to enhance our corporate risk prevention ability, reduce the corporate operational management risk, and focused on the following tasks:

1. We developed internal control project check, and have organized development of internal control system check for the situation in more than 20 subsidiary companies and self-evaluated internal control project of year 2018, promoted the companies to implement the standardized construction of internal control system, ensured the efficacy of internal control system and improved the operational and management level and risk prevention ability of the companies.
2. We continued to enforce comprehensive risk management, conducted assessment and examination on the effectiveness of performing comprehensive risk management tasks, and further implemented corporate material risk management. Analysis on key subsidiaries of the Company was conducted regularly from time to time, attention was focused on risk management for receivables of large amounts and aged over one year, credit extension to the same customer by several enterprises, large credit facilities and risk-related receivables, alerts were issued to enterprises to remind them of hidden hazards of risks and to urge them to put in place effective measures to prevent risks. Risk reviews were conducted on material economic contracts of subsidiaries of the Company and assisted the subsidiaries to avoid the risks involving material economic contracts.
3. Initiate audit projects. We have conducted various audits for economic responsibility and special project, discovered potential issues of the companies and identified room to improve the operation and management of the enterprises.

Q. THE AUDIT COMMITTEE OF THE SEVENTH SESSION OF THE BOARD IS COMPRISED OF FOUR INDEPENDENT NON-EXECUTIVE DIRECTORS AND ONE OF THEM POSSESSED APPROPRIATE PROFESSIONAL QUALIFICATION. THE AUDIT COMMITTEE HAD REVIEWED THE GROUP’S ACCOUNTING PRINCIPLES, ACCOUNTING STANDARDS AND METHOD AS WELL AS DISCUSSED THE AUDIT AFFAIRS, RISK MANAGEMENT, INTERNAL CONTROLS AND FINANCIAL REPORT WITH THE MANAGEMENT, INCLUDING THE UNAUDITED INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2019.

Major Events

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

R. ENVIRONMENTAL INFORMATION

1. Descriptions of environmental protection status of key pollutant-discharging companies and their KEY subsidiaries published by the environmental protection authority

√ Applicable □ Not applicable

(A) Sewage Disposal Information

Chemical Pharmaceutical Factory, a branch of the Company and the subsidiaries of the Company, Ya An and Weiling were both the key pollutant discharging units, the key item of waste emission being monitored was exhaust gas and wastewater.

Company name	The names of major pollutants and characteristic pollutants	Emission mode	Number of emission		Annual average emission concentration (mg/m ³)	Implementation of pollutant emission standards (mg/m ³)	Total annual emissions (ton)	Approved total emissions (ton)	Excessive emissions
			ports	Distribution of emission ports					
Chemical Pharmaceutical Factory	Sulfur dioxide	Interval	1	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC		"Integrated emission standard of air pollutants", ≤50			None
	Nitrogen oxides	Interval	1	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC		"Integrated emission standard of air pollutants", ≤200			None
	Particulate matter (smoke dust)	Interval	4	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC		"Integrated emission standard of air pollutants", ≤30			None
	Total VOCs	Interval	5	No. 78 Tongbao Road, Tonghe Street, Baiyun District, Guangzhou City, Guangdong Province, the PRC		"Integrated emission standard of air pollutants", ≤120			None
WU Ya'an	COD	Discharge after treatment	1	No.1 Deguang Road, Ya'an Economic Development Zone, Sichuan Province	55.36	"Integrated Wastewater Discharge Standard (III-class criteria)"	2.10	5.86	None
Weiling	COD	Discharge after treatment	1	No. 36, Huancheng East Road, Heshan Community, Hepo Street, Jieji County, Guangdong Province	73.80	"Integrated Wastewater Discharge Standard (III-class criteria)"	1.85	4.50	None

Note: COD refers to Chemical Oxygen Demand, VOCs refers to volatile organic compounds.

R. ENVIRONMENTAL INFORMATION (Continued)

1. Descriptions of environmental protection status of key pollutant-discharging companies and their KEY subsidiaries published by the environmental protection authority (Continued)

(B) Construction and operation of pollution prevention and control facilities

Construction and operation of pollution prevention and control facilities Chemical Pharmaceutical Factory, WLJ Ya'an and Weiling through various pollution preventive facilities and measures to ensure that the emission of exhaust gas did not exceed the permitted limit and strictly observed the relevant requirements under the "Integrated Emission Standard for Air Pollutants" and "Integrated Wastewater Discharge Standard (III-class criteria)". Details of the pollution preventive facilities and measures undertaken by Chemical and Pharmaceutical Factory, Xing Zhu, WLJ Ya'an and Weiling and their implementations (exhaust gas) are as follows:

Company name	Name of pollution preventing facility	Put into use date	Pollution category	Procedures	Average daily processing capacity (m ³ /h)
Chemical Pharmaceutical Factory	Sewage treatment facility tail gas treatment system DA008 (6#)	2018.02.01	Odor, VOCs	Washing+biofilter	3,895
	202 production exhaust gas treatment facility DA010 (7#)	2007.10.01	Particulate matter, VOCs	Bag-type dust collecting+ lye spray+ activated carbon adsorption	3,672
	205 cephalosporin sterile APIs production exhaust gas treatment facility DA004 (5#)	2009.06.01	VOCs	Condensation+absorber recovery	360
	203 oral APIs production exhaust gas treatment facility DA003 (9#)	2014.10.01	VOCs, sulfuric acid mist	Condensation+lye spray	714
	205 oral cephalosporin APIs production acidic organic gas treatment facility DA001 (11#)	2016.01.20	VOCs, Hydrochloride	Lye spray+ photo catalytic oxidation	2,579
	205 oral cephalosporin APIs production dust and exhaust gas treatment facility DA002 (10#)	2016.01.20	Particulate matter	Cellulose filter cylinder filtration	5,350
	203 oral raw medicine production dust and exhaust gas treatment facility DA009 (8#)	2014.10.01	Particulate matter	Cellulose filter cylinder filtration	4,870
	205 cephalosporin sterile raw medicine production dust treatment facility DA007 (2#)	2009.06.01	Particulate matter	Cellulose filter cylinder filtration	7,205

Major Events

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

R. ENVIRONMENTAL INFORMATION *(Continued)*

1. Descriptions of environmental protection status of key pollutant-discharging companies and their KEY subsidiaries published by the environmental protection authority *(Continued)*

(B) Construction and operation of pollution prevention and control facilities *(Continued)*

Company name	Name of pollution preventing facility	Put into use date	Pollution category	Procedures	Average daily processing capacity (m ³ /h)
Chemical Pharmaceutical Factory	VOCs treatment system (dichloromethane; acetone and ethanol treatment)	2018.11.22	VOC	VOC Dichloromethane: water spray + L2 T-HPs resin adsorption method Acetone and ethanol: closed absorption through water circulation + water spray + biosorption	3000; 2200
WU Ya'an	Sewage Treatment Station	2015.09.01	COD, ammonia nitrogen	AO Process	40
Weiling	Sewage Treatment Station	2016.06.07	COD, ammonia nitrogen	AO Process	40

R. ENVIRONMENTAL INFORMATION *(Continued)*

1. Descriptions of environmental protection status of key pollutant-discharging companies and their KEY subsidiaries published by the environmental protection authority *(Continued)*

(C) Environmental impact assessment of construction projects and other administrative licenses for environmental protection

The designing, construction and trial run of plants, new projects and reconstruction and expansion projects of each key sewage-discharging entity of the Company went through the environmental impact assessment and the environmental protection completion period, the environmental protection facilities were running smoothly, ensuring the legal discharge of water, air and sound and standardized management of hazardous waste. There was no newly-commenced project in the Reporting Period.

(D) Environmental emergency response plan

Each key sewage-discharging entity of the Company prepared the Environmental Emergency Response Plan according to standard specifications and organized drills of the environmental emergency response and rescue plan on its own.

(E) Environmental self-monitoring program

Each key sewage-discharging entity of the Company prepared the Environmental Self-monitoring Program and strictly conducted daily monitoring according to the self-monitoring program and disclosed information to external parties. Meanwhile, such entities entered into the Environmental Monitoring Technology and Service Contract with a qualified third-party monitoring authority having relevant qualifications whereby such authority is entrusted to conduct a third-party test of the sewage, exhaust gas and noise discharged by each plant in accordance with environmental protection and administration requirements and provide a test report.

(F) Other disclosable environmental information

Applicable Not applicable

R. ENVIRONMENTAL INFORMATION *(Continued)*

2. Explanations on environmental protection of companies other than key sewage-discharging entities

Applicable Not applicable

Apart from the above three subsidiaries which are listed as the key pollutant discharge units in Guangzhou, all the other affiliated enterprise are low-energy and low-emission enterprises, and most of them are provincial and municipal cleaner production units as well as natural, provincial and municipal green enterprises. They have strictly in compliance with national, provincial and municipal laws and regulations related to environmental protection, and have not discharge excessive pollutants.

3. Reasons for the non-disclosure of environmental information by companies other than key sewage-discharging entities

Applicable Not applicable

4. Explanations for subsequent progress on or changes in environmental information disclosed in the Reporting Period

Applicable Not applicable

Through increasing environmental protection investment in 2018, completing a VOCs relevant "One company – One Policy" project, implementing and being approved on its automatic monitoring system, Xing Zhu was able to be removed from the key pollutants discharging units after being verified by the local environmental protection department.

S. OTHER MAJOR MATTERS

(A) Changes in accounting policy compared with the previous accounting period, the reasons and the impact

Applicable Not applicable

1. Changes in accounting policies due to the implementation of the new Accounting Standards for Business Enterprises.

Changes in accounting policies resulting from the implementation of new leases standards

On 7 December 2018, the Ministry of Finance issued the “Accounting Standards for Business Enterprises No. 21 – Leases (Revised in 2018)” (Accounting [2018] No. 35, hereinafter referred to as the “New Lease Standards”), and requested enterprises that are concurrently listed both at home and abroad, as well as enterprises listed overseas and preparing financial statements according to the International Financial Reporting Standards or the Accounting Standards for Business Enterprises shall apply these Standards from 1 January 2019.

As approved by the resolution of the 21st meeting of the 7th Board of Directors of the Company, the Group began implementing the aforementioned New Lease Standards on 1st January 2019 (hereinafter referred to as the “First Implementation Date”) complied with the requirements of the Ministry of Finance and making changes to the relevant accounting policies in accordance with the New Lease Standards.

According to the New Lease Standards, for the existed contracts before First Implementation Day, the Group chooses not to re-evaluate whether it is a lease or including lease on the First Implementation Day. For the lease contracts of the Group as a lessee, the Group chooses to adjust only the cumulative impact of the lease contract that was not completed on 1 January 2019. The cumulative impact amount adjusted the opening balance of retained earnings and other related items in the financial statements of the current period (1 January 2019). It won't adjust the information for the comparable period. Details as follows:

Major Events

S. OTHER MAJOR MATTERS *(Continued)*

(A) Changes in accounting policy compared with the previous accounting period, the reasons and the impact *(Continued)*

1. Changes in accounting policies due to the implementation of the new Accounting Standards for Business Enterprises. *(Continued)*

- (1) For the financial lease on the First Implementation Day, the Group measures the right-of-use assets and the lease liabilities separately according to the original book value of the finance leased assets and the finance lease payable.
- (2) For the operating lease on the First Implementation Day, the Group measures the lease liability based on the present value of the residual lease payment at the incremental borrowing rate on the First Implementation Day. The unpaid payable on the accrual basis under the original lease standard is included in the remaining lease payments.

The Group selects one of the following measures to measure the right-of-use assets depending on each lease:

- ① Assume that the book value of the New Lease Standards is adopted from the date of the lease term (using the incremental borrowing rate on the First Implementation Day as the discounting rate);
- ② The amount equal to the lease liability and the necessary adjustments based on the prepaid rent.

S. OTHER MAJOR MATTERS *(Continued)*

(A) Changes in accounting policy compared with the previous accounting period, the reasons and the impact *(Continued)*

1. Changes in accounting policies due to the implementation of the new Accounting Standards for Business Enterprises. *(Continued)*

On the First implementation Day, the Group conducted impairment test on the right-of-use assets in accordance with the "Accounting Standards for Business Enterprises No. 8 – Impairment of Assets" and conducted corresponding accounting treatment.

The impact of the implementation of new Accounting Standards-Leases on the Group is as follows:

CONSOLIDATED BALANCE SHEET

ITEMS	Book value on 31 December 2018 before the change of accounting policy <i>(RMB)</i>	Effect of the new leases accounting standards <i>(RMB)</i>	Book value on 1 January 2019 after change of accounting policy <i>(RMB)</i>
ASSETS			
Fixed assets	3,165,746,536.73	(215,165,155.44)	2,950,581,381.29
Right-of-use assets	–	846,762,689.48	846,762,689.48
LIABILITIES			
Current portion of non-current liabilities	204,024,196.93	139,291,507.59	343,315,704.52
Lease liabilities	–	600,490,563.19	600,490,563.19
Long-term payables	135,795,848.74	(108,184,536.74)	27,611,312.00

The weighted average of the incremental borrowing rates used by the Group in the lease liability that is included in the balance sheet on the First Implementation Day is 4.35%.

The present value of the unpaid minimum lease payments for major operating leases at the end of 2018 disclosed in the Group's 2018 annual financial statements is RMB0.00 discounted at incremental borrowing rate of 4.35% on the First Implementation Day, and the difference compared with the First Implementation Day's lease liability is RMB846,762,689.48.

Major Events

S. OTHER MAJOR MATTERS (Continued)

(A) Changes in accounting policy compared with the previous accounting period, the reasons and the impact (Continued)

1. Changes in accounting policies due to the implementation of the new Accounting Standards for Business Enterprises. (Continued)

BALANCE SHEET OF THE COMPANY

ITEMS	Book value on 31 December 2018 before the change of accounting policy (RMB)	Effect of the new leases accounting standards (RMB)	Book value on 1 January 2019 after change of accounting policy (RMB)
ASSETS:			
Right-of-use assets	-	7,786,057.78	7,786,057.78
LIABILITIES:			
Current portion of non-current liabilities	-	2,820,472.89	2,820,472.89
Lease liabilities	-	4,965,584.89	4,965,584.89

The weighted average of the incremental borrowing rates used by the Company in the lease liability that is included in the balance sheet on the First Implementation Day is 4.35%.

The present value of the unpaid minimum lease payments for major operating leases at the end of 2018 disclosed in the Company's 2018 annual financial statements is RMB0.00 discounted at incremental borrowing rate of 4.35% of the First Implementation Day, and the difference compared with the First Implementation Day's lease liability is RMB7,786,057.78.

S. OTHER MAJOR MATTERS (Continued)**(A) Changes in accounting policy compared with the previous accounting period, the reasons and the impact** (Continued)**2. Financial statement presentation adjustment**

The Group prepared the financial statements for the period from January to June 2019 in accordance with the financial statement format specified in Accounting [2019] No. 6, and changed the presentation of relevant financial statements using the retrospective adjustment method.

The related presentation adjustments are as follows:

CONSOLIDATED BALANCE SHEET

ITEMS	Before Adjustment (RMB)	Amount adjusted (RMB)	After Adjustment (RMB)
ASSETS			
Notes receivable	2,780,597,684.01	(1,452,402,183.47)	1,328,195,500.54
Accounts receivable financing	–	1,452,402,183.47	1,452,402,183.47

BALANCE SHEET OF THE COMPANY

ITEMS	Before Adjustment (RMB)	Amount adjusted (RMB)	After Adjustment (RMB)
ASSETS			
Notes receivable	615,391,740.80	(167,667,277.86)	447,724,462.94
Accounts receivable financing	–	167,667,277.86	167,667,277.86

(B) Changes in accounting estimation and calculation as compared to the last accounting period, the reasons and the impact

Applicable Not applicable

Major Events

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

T. ACCORDING TO THE REQUIREMENTS OF RULES 11A AND 11(8) OF APPENDIX 16 TO THE LISTING RULES OF HKEX, THE REMAINING PROCEEDS FROM ANY ISSUE OF EQUITY SECURITIES MADE IN PREVIOUS FINANCIAL YEAR(S) WERE BROUGHT FORWARD TO THIS FINANCIAL YEAR, AND THE LISTED ISSUER SHALL DISCLOSE THE AMOUNT OF PROCEEDS BROUGHT FORWARD AND THE DETAILS OF THE USE OF PROCEEDS.

Upon the receipt of The Approval on the Non-public Offering of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (zhengjianxuke [2016] No. 826) from the CSRC, the Company, through the nonpublic offering, issued 334,711,699 A shares, with the total proceeds of RMB7,885,807,628.44 and the net proceeds of RMB7,863,446,528.33 (after deducting all relevant expenses) raised. For details, please refer to the circular to the shareholders of the Company dated 26 February 2015 and the announcement of the Company dated 18 August 2016 on the websites of SSE and HKEx.

The Company used the proceeds of RMB1,142,636,900 in January to June 2019. As of 30 June 2019, the aggregate proceeds invested amounted to RMB4,239,281,300, and the aggregate proceeds invested (after the deduction of bank charges and addition of accrued interest income) amounted to RMB3,979,569,300. The details are as follows:

No.	Name of projects	Proposed investment amount (updated) (RMB'0000)	Amount invested as of 30 June 2019 (RMB'0000)	Difference between the accumulated total amount invested and the total amount committed for investment as at the end of the year	Date of the projects becoming ready for intended use
1	The construction project of the Great Southern TCM research and development platform	150,000.00	11,126.94	(138,873.06)	31 December 2019
2	The construction project of the Great Southern TCM production base (phase 1)	100,000.00	4,154.44	(95,845.56)	31 January 2021 (note a)
3	The project for acquiring the "Wang Lao Ji" series trademarks held by GPLH (the controlling shareholder of the Company)	108,000.00	108,000.00	0.00	Charged use (note b)
4	The project for establishment of channels and brands	200,000.00	80,000.78	(119,999.22)	N/A
5	The project for establishment of information platform	12,000.00	2,140.77	(9,859.23)	31 December 2020 (notes a and b)
6	Replenishment of liquidity	216,344.65	218,505.20 (including the use of deposits interest)	2,160.55	N/A
	Total	786,344.65	315,928.13	(362,416.52)	-

T. ACCORDING TO THE REQUIREMENTS OF RULES 11A AND 11(8) OF APPENDIX 16 TO THE LISTING RULES OF HKEX, THE REMAINING PROCEEDS FROM ANY ISSUE OF EQUITY SECURITIES MADE IN PREVIOUS FINANCIAL YEAR(S) WERE BROUGHT FORWARD TO THIS FINANCIAL YEAR, AND THE LISTED ISSUER SHALL DISCLOSE THE AMOUNT OF PROCEEDS BROUGHT FORWARD AND THE DETAILS OF THE USE OF PROCEEDS. (Continued)

Notes:

- a. The Company convened the 18th meeting of the seventh session of the Board and the 12th meeting of the seventh session of the Supervisory Committee on 27 December 2018. The proposals in relation to the postponement of certain fund-raising investment projects were approved at the first EGM in 2019 held on 28 March 2019. Due to the slow progress of the construction project of the Great Southern production base (phase 1) and the project for establishment of information platform, the Company proposed to postpone the implementation date of the construction project of the Great Southern production base (phase 1) and the project for establishment of information platform to 31 January 2021 and 31 December 2020, respectively. For details, please refer to the announcements of the Company dated 27 December 2018, 30 December 2018, 4 January 2019 and 28 March 2019 and the circular of the Company dated 31 January 2019 on the websites of SSE and HKEx.
- b. Taking into account the development trend of extending modern medical logistics services, changing industry landscape, changes in the equity interest in GP Corp., the availability of the balance of proceeds for the project for establishment of information platform, the 18th meeting of the seventh session of the Board and the 12th meeting of the seventh session of the supervisory committee were held on 27 December 2018. The proposals in relation to the postponement of certain fund-raising investment projects were approved at the first EGM in 2019 held on 28 March 2019. The Company intends to change the use of RMB1,000 million and RMB80 million out of the proceeds for the extension project of modern medical logistics services and the project for the establishment of information platform respectively to the acquisition of the “Wang Lao Ji” series trademarks held by GPLH, the controlling shareholder of the Company. The change of proceeds above is subject to the approval of the extraordinary general meeting of the Company. For details, please refer to the announcements of the Company dated 27 December 2018, 30 December 2018 and 4 January 2019 and the circular of the Company dated 31 January 2019 on the websites of SSE and HKEx.

As of 30 June 2019, the use of the proceeds through the non-public offering of A shares above was in line with the use of the proceeds as disclosed previously.

In addition, pursuant to the requirements of the Supervisory Guidelines No. 2 for Listed Companies – Supervisory Requirements for Management and Use of Proceeds of Listed Companies (Announcement of CSRC [2012] No.44) issued by CSRC and the Measures for the Management of Proceeds of Listed Companies on the Shanghai Stock Exchange (revised in 2013) (Shang Zheng Gong Zi [2013] No.13) and other relevant guidelines, the Company made a special report on the deposit and actual use of the proceeds in interim report in 2019 (the full text of which had been uploaded to the website of SSE).

Changes in Share Capital and Shareholders

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A. CHANGES IN SHARE CAPITAL

(A) Changes in share capital

During the Reporting Period, the Company's share capital has not changed.

(B) Change in shares subject to selling restrictions

Applicable Not applicable

B. INTERNAL STAFF SHARES

The Company did not have any internal staff shares.

C. INFORMATION ON SHAREHOLDERS

(A) As at 30 June 2019, there were 65,693 shareholders in total, out of which 65,666 were holders of domestically listed Reminbi-denominated ordinary shares (A shares) and 27 were holders of overseas listed foreign share (H shares).

Changes in Share Capital and Shareholders

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

C. INFORMATION ON SHAREHOLDERS (Continued)

(B) Shareholdings of the top ten shareholders of the Company as at the end of the Reporting Period

Shareholders	Increase/ (Decrease) during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Approximate percentage of the total issued share capital (%)	Number of shares subject to selling restrictions (share)	Number of shares pledged or locked shares (share)	Nature of shares
GPHL	0	732,305,103	45.04	148,338,467	0	State-owned legal person
HKSCC Nominees Limited	26,000	219,765,409	13.52	0	0	Overseas Legal Person
GZ SOA Development	0	87,976,539	5.41	87,976,539	0	State-owned legal person
GZ Chengfa	0	73,313,783	4.51	73,313,783	0	Other
China Securities Finance Corporation Limited	0	47,278,008	2.91	0	0	Other
Yunfeng Investment	0	21,222,410	1.31	21,222,410	21,222,410	Other
Central Huijin Investment Limited	0	15,260,700	0.94	0	0	Other
HKSCC	382,597	10,555,206	0.65	0	0	Other
China AMC – Agricultural Bank – Huaxia China Securities Financial Asset Management Plan	0	8,795,136	0.54	0	0	Other
China-Europe Fund – Agricultural Bank – China-Europe China securities Financial Asset Management Plan	0	8,680,636	0.53	0	0	Other

Changes in Share Capital and Shareholders

C. INFORMATION ON SHAREHOLDERS (Continued)

(B) Shareholdings of the top ten shareholders of the Company as at the end of the Reporting Period are set out as follows: (Continued)

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

Shareholders	Number of shares without selling restrictions	Class and number of shares	
	(share)	Class of shares	The number of shares (share)
GPHL	583,966,636	Domestic Shares	732,305,103
HKSCC Nominees Limited	219,765,409	H Shares	219,765,409
China Securities Finance Corporation Limited	47,278,008	Domestic Shares	47,278,008
Central Huijin Asset Management Co., Ltd. Limited	15,260,700	Domestic Shares	15,260,700
HKSCC	10,555,206	Domestic Shares	10,555,206
China AMC – Agricultural Bank of China – Huaxia China Securities Financial Asset Management Plan	8,795,136	Domestic Shares	8,795,136
China-Europe Fund – Agricultural Bank – China-Europe China Securities Financial Asset Management Plan	8,680,636	Domestic Shares	8,680,636
Bosera Fund – Agricultural Bank – Bosera China Securities Financial Asset Management Plan	8,662,836	Domestic Shares	8,662,836
Dacheng Fund-Agricultural Bank – China Securities Financial Asset Management Plan	8,657,836	Domestic Shares	8,657,836
Yinhua Fund – Agricultural Bank – China Securities Financial Asset Management Plan	8,645,036	Domestic Shares	8,645,036

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

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

Changes in Share Capital and Shareholders

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C. INFORMATION ON SHAREHOLDERS (Continued)

(C) Number of shares held by the top ten shareholders subject to selling restrictions and the selling restrictions.

Name of holders whose shares are subject to selling restrictions	Number of shares subject to selling restrictions (share)	Circumstances under which shares subject to selling restrictions can be traded		Selling restrictions undertaken
		Timing at which shares are permitted to trade	Newly increased number of shares that are permitted to trade (share)	
GPHL	148,338,467	17 August 2019	0	Note
GZ SOA Development	87,976,539	17 August 2019	0	Note
GZ Chengfa	73,313,783	17 August 2019	0	Note
Yunfeng Investment	21,222,410	17 August 2019	0	Note
Placement Prosperous Age Exclusive Account No.66	3,860,500	17 August 2019	0	Note

Note: The A shares were offered by non-public offering to 5 investors, namely GPHL, Placement Prosperous Age Exclusive Account No.66, GZ SOA Development, GZ Chengfa and Yunfeng Investment. The registration and custody procedures for the newly-issued shares had been completed on 17 August 2016 at the Depository Corporation. The newly-offered shares are shares subject to trading restrictions with a lock-up period of 36 months. In 19 August 2019, the newly-issued were listed on the SSE.

Changes in Share Capital and Shareholders

C. INFORMATION ON SHAREHOLDERS (Continued)

(D) As at 30 June 2019 the interests and short positions held by the persons (not being the directors, supervisors and senior management of the Company) in the shares and underlying shares of the Company which were required to be notified to the Company and the HKEx pursuant to Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required maintained by the Company under Section 336 of the SFO were as follows:

Shareholder	Nature of shares	Number of shares held (share)	Capacity	Approximate % of the total issued domestic shares (%)	Approximate % of the total issued H shares (%)
GPHL	Domestic shares	732,305,103 (Long position)	Beneficial owner	About 52.09	–
GZ SOA Development	Domestic shares	87,976,539 (Long position)	Beneficial owner	About 6.26	–
GZ Chengfa	Domestic shares	73,313,783	Beneficial owner	About 5.21	–
Norges Bank	Foreign shares	24,948,000 (Long Position)	Beneficial owner	–	About 11.35
Citigroup Inc. ^(Note 1)	Foreign shares	22,043,848 (Long Position)	–	–	About 10.02
	Foreign shares	12,000 (Long position)	Interest in controlled corporation	–	About 0.01
		12,151 (Short Position) ^(Note 2)	Interest in controlled corporation	–	About 0.01
	Foreign shares	22,043,848 (Long Position) (Loanable share)	Approved lending agent	–	About 10.02

Changes in Share Capital and Shareholders

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C. INFORMATION ON SHAREHOLDERS *(Continued)*

(D) *(Continued)*

Notes:

1. According to the notice of major corporation shareholders submitted by the CitiGroup Inc.,
 - (a.) Interests in 12,000 long position foreign shares and short position in 12,151 foreign shares in the Company were held by Citigroup Global Markets Limited, which was owned as to 100% by Citigroup Global Markets Holdings Bahamas Limited. Citigroup Global Markets Holdings Bahamas Limited was owned as to 90% by Citigroup Financial Products Inc. which was wholly owned by Citigroup Global Markets Holdings Inc. Citigroup Global Markets Holdings Inc. was wholly owned by Citigroup Inc. Therefore, CitiGroup Inc. were deemed to be interested the shares held by Citigroup Global Markets Limited under the SFO.
 - (b.) Interests in 22,043,848 long position foreign shares in the Company was held by Citibank, N.A. which was wholly owned by Citicorp LLC. Citicorp LLC was wholly owned by Citigroup Inc. Citigroup Inc. were deemed to be interested in the shares held by Citibank, N.A. under the SFO.
2. This is an unlisted derivative to be settled in cash.

As far as the directors are aware, as at 30 June 2019, other than those listed above, there was no other person or corporation having an interest or short position in the shares and underlying shares of the Company which were required to be notified to the Company and the HKEx pursuant to Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be maintained by the Company under Section 336 of the SFO.

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

E. 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 interim report.

F. PRE-EMPTIVE RIGHTS

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

G. THERE WAS NO PURCHASE, DISPOSAL AND REDEMPTION OR CANCELLATION OF THE LISTED SHARES OF THE COMPANY BY THE COMPANY OR ITS SUBSIDIARIES DURING THE REPORTING PERIOD.



Relevant Information on Preferred Shares

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

Directors, Supervisors, Senior Management

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A. CHANGES IN SHAREHOLDINGS

(A) As at the end of the Reporting Period, the interest of directors', supervisors' and senior managements in shares (A shares) of the Company were as follows

Name	Position	Shares held as at the beginning of the Reporting Period (share)	Shares held as at the end of the Reporting Period (share)	Reason for changes
Li Chuyuan	Chairperson	100,000	100,000	/
Cheng Ning	Vice Chairperson (Appointed on 3 June 2019)	21,500	21,500	/
Liu Juyan	Executive director	13,000	13,000	/
Ni Yidong	Executive director	0	0	/
Li Hong	Executive director, general manager	10,000	10,000	/
Wu Changhai	Executive director, deputy general manager	13,000	13,000	/
Zhang Chunbo	Executive director (Appointed on 28 June 2019), deputy general manager	10,000	10,000	/
Chu Xiaoping	Independent non-executive director	0	0	/
Jiang Wenqi	Independent non-executive director	0	0	/
Wong Hin Wing	Independent non-executive director	0	0	/
Wang Weihong	Independent non-executive director	0	0	/
Chen Mao	Vice Chairperson (Resigned on 31 May 2019)	50,000	50,000	/
Xian Jiaxiong	Chairperson of the Supervisory Committee	11,000	11,000	/
Li Jinyun	Supervisor	10,000	10,000	/
Gao Yanzhu	Supervisor	5,000	5,000	/
Huang Xuezhen	Secretary to the Board	2,500	2,500	/

Note: In the above, the shares held by the directors, supervisors and senior management are held under the Employee Stock Ownership Scheme (2015).

(B) Information on grant of incentive to the directors, supervisors and senior management during the Reporting Period.

Applicable Not applicable

Directors, Supervisors, Senior Management

A. CHANGES IN SHAREHOLDINGS (Continued)

(C) Interests and short positions of directors, supervisors and senior management, underlying shares and debentures of the Company.

- As at 30 June 2019 the directors, supervisors, senior management and their associates who had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which were required, pursuant to the Model Code of the Listing Rules, to be notified to the Company and the HKEx were as follows.

Directors	Capacity	Company	Number of shares (long position) (share)	Percentage of issued A shares (%)
Li Chuyuan	Beneficial Owner	Company (A shares)	100,000	0.0071
Chen Mao	Beneficial Owner	Company (A shares)	50,000	0.0036
Liu Juyan	Beneficial Owner	Company (A shares)	13,000	0.0009
Cheng Ning	Beneficial Owner	Company (A shares)	21,500	0.0015
Li Hong	Beneficial Owner	Company (A shares)	10,000	0.0007
	Beneficial Owner	Tian Xin	5,000	Note
Wu Changhai	Beneficial Owner	Company (A shares)	13,000	0.0009
Zhang Chunbo	Beneficial Owner	Company (A shares)	10,000	0.0007

Supervisors	Capacity	Company	Number of shares (long position) (share)	Percentage of issued A shares (%)
Xian Jiaxiong	Beneficial Owner	Company (A share)	11,000	0.0008
Li Jinyun	Beneficial Owner	Company (A share)	10,000	0.0007
Gao Yanzhu	Beneficial Owner	Company (A share)	5,000	0.0003

Note: In the table above, the shares of Tian Xin held by Mr. Li Hong are company shares, which are non-listed company shares, accounting for 0.01% of the shares of Tian Xin. The A shares of the Company held by the remaining directors and supervisors are held under the Employee Stock Ownership Scheme (2015).

Directors, Supervisors, Senior Management

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A. CHANGES IN SHAREHOLDINGS *(Continued)*

(C) Interests and short positions of directors, supervisors and senior management, underlying shares and debentures of the Company. *(Continued)*

2. Saved as disclosed above, as at 30 June 2019, none of the directors, supervisors, chief executive of the Company and their associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which were required, pursuant to the Model Code to be notified to the Company and the HKEx.

B. INFORMATION ABOUT THE CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

1. During the Reporting Period

- (a) The Board of the Company received the written resignation and confirmation from vice Chairperson Mr. Chen Mao on 31 May 2019. Mr. Chen Mao applied to resign his positions as vice president and executive director due to personal reasons.
- (b) At the 23rd meeting of the seventh session of the Board of the Company held on 3 June 2019, Ms. Chen Ning was elected as the vice chairperson of the seventh session of the Board. The term of office of director of the Company commenced from the date of appointment up to the date on which members of the new session of the Board are elected.
- (c) On 28 June 2019, the Company held the Annual General Meeting of 2018, which approved the election of Mr. Zhang Chunbo as the executive director of the seventh session of the Board of the Company.

Directors, Supervisors, Senior Management

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B. INFORMATION ABOUT THE CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY *(Continued)*

2. After the Reporting Period

At the 24th meeting of the seventh session of the Board of the Company held on 12 July 2019, Mr. Huang Haiwen and Ms. Zheng Haoshan were appointed as the deputy general managers. The term of office of deputy general managers of the Company commenced from the date of appointment up to the date on which members of the new session of the Board are elected.

In accordance with the Note 13.51(B)(1) to the Listing Rule, the details of changes in directors' information after the publication of the annual report for the year ended 31 December 2018 are as below:

Name of Directors	Details of the changes
Cheng Ning	Appointed as vice chairperson of the Company of the seventh session of the Board on 3 June 2019.
Chen Mao	Resigned as the vice Chairperson and executive director of the Company on 31 May 2019.
Zhang Chunbo	Appointed as executive director of the Company of the seventh session of the Board on 28 June 2019.
Chu Xiaoping	Resigned as the independent non-executive director of Lafang China Co., Ltd on 15 March 2019.

Directors, Supervisors, Senior Management

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

C. EMPLOYEES OF THE GROUP

(I) At the end of the Reporting Period, the number of employees on the payroll register of the Group was 24,947. The total salary payment for the first half of 2019 was approximately RMB1,666 million.

(II) The remuneration policy

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

(III) Employees training plan

In view of staffs' career development needs, the Group improved the training organizational structure through preparing Staff Training Management System and Internal Lecturer Training Management Measures. By virtue of the characteristics of each type of talents, the Group combined the internal and external training to build a comprehensive training system, with personnel levels covering staff at all levels from frontline production to senior management of the Company, and including the contents such as professional skills, safety education, quality management and leadership development, so as to promote the growth of staff at all levels and enterprises.



Relevant Information of Company Bonds

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THERE WAS NO INFORMATION OF BONDS OF THE COMPANY DURING THE REPORTING PERIOD.

Consolidated Balance Sheet

30 June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

Item	Notes	30 June 2019	1 January 2019	31 December 2018
Current assets:				
Cash at bank and on hand	VI.1	16,149,474,568.74	16,114,883,673.51	16,114,883,673.51
Financial assets held for trading		-	-	-
Financial assets measured at fair value through profit or loss for the current period		-	-	-
Derivative financial assets		-	-	-
Notes receivable	VI.2	1,418,119,952.33	1,328,195,500.54	2,780,597,684.01
Accounts receivable	VI.3	13,339,877,618.66	10,872,458,472.34	10,872,458,472.34
Accounts receivable financing	VI.4	1,149,913,285.25	1,452,402,183.47	
Advances to suppliers	VI.5	686,098,867.31	837,808,116.68	837,808,116.68
Other receivables	VI.6	1,110,668,698.71	1,056,551,186.68	1,056,551,186.68
Including: Interest receivable	VI.6	666,666.68	1,367,876.63	1,367,876.63
Dividends receivable	VI.6	90,025,032.99	40,036,044.47	40,036,044.47
Inventories	VI.7	8,414,561,105.40	9,231,739,097.84	9,231,739,097.84
Contract assets		-	-	-
Assets held for sales		-	-	-
Current portion of non-current assets		-	-	-
Other current assets	VI.8	382,466,651.14	2,137,248,054.33	2,137,248,054.33
Total current assets		42,651,180,747.54	43,031,286,285.39	43,031,286,285.39
Non-current assets:				
Debt investment		-	-	-
Available-for-sale financial assets		-	-	-
Other debt investment		-	-	-
Hold-to-maturity investment		-	-	-
Long-term receivables		-	-	-
Long-term equity investment	VI.9	1,805,481,035.79	1,759,958,035.39	1,759,958,035.39
Other equity instrument investment	VI.10	83,481,132.33	84,897,870.89	84,897,870.89
Other non-current financial assets	VI.11	237,764,331.16	226,938,456.16	226,938,456.16
Investment properties	VI.12	222,670,504.50	228,084,499.83	228,084,499.83
Fixed assets	VI.13	2,880,142,826.86	2,950,581,381.29	3,165,746,536.73
Construction in progress	VI.14	682,006,058.88	480,305,723.50	480,305,723.50
Bearer biological assets	VI.15	3,678,000.00	-	-
Oil and gas assets		-	-	-
Right-of-use assets	VI.16	852,652,848.54	846,762,689.48	-
Intangible assets	VI.17	2,417,927,055.13	1,013,353,424.62	1,013,353,424.62
Development expenditure	VI.18	-	-	-
Goodwill	VI.19	825,573,066.90	825,573,066.90	825,573,066.90
Long-term prepaid expenses	VI.20	103,338,609.65	94,315,140.82	94,315,140.82
Deferred tax assets	VI.21	587,949,658.82	569,144,829.25	569,144,829.25
Other non-current assets	VI.22	-	2,580,000.00	2,580,000.00
Total non-current assets		10,702,665,128.56	9,082,495,118.13	8,450,897,584.09
Total Assets		53,353,845,876.10	52,113,781,403.52	51,482,183,869.48

Consolidated Balance Sheet

30 June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

Item	Notes	30 June 2019	1 January 2019	31 December 2018
Current liabilities:				
Short-term borrowings	VI.23	6,933,817,782.13	5,905,703,286.10	5,905,703,286.10
Financial liabilities held for trading		–	–	–
Financial liabilities measured at fair value through profit or loss for the current period		–	–	–
Derivative financial liabilities		–	–	–
Notes payable	VI.24	2,519,190,112.19	2,656,176,505.09	2,656,176,505.09
Accounts payable	VI.25	9,426,483,781.28	9,313,277,657.72	9,313,277,657.72
Advances from customers		–	–	–
Employee benefits payable	VI.26	751,443,453.78	753,034,630.86	753,034,630.86
Taxes payable	VI.27	371,040,554.42	963,543,253.64	963,543,253.64
Other payables	VI.28	4,057,351,352.04	3,466,357,353.39	3,466,357,353.39
Including: Interest payable	VI.28	28,229,432.88	41,637,538.72	41,637,538.72
Dividends payable	VI.28	752,951,857.75	65,917,238.98	65,917,238.98
Contract liabilities	VI.29	1,600,367,298.75	3,686,647,223.24	3,686,647,223.24
Liabilities held for sales		–	–	–
Current portion of non-current liabilities	VI.30	712,351,930.67	343,315,704.52	204,024,196.93
Other current liabilities	VI.31	179,667,958.20	–	–
Total current liabilities		26,551,568,223.46	27,088,055,614.56	26,948,764,106.97
Non-current liabilities:				
Long-term borrowings	VI.32	13,500,000.00	413,553,706.06	413,553,706.06
Bonds payable		–	–	–
Including: Preferred stock		–	–	–
Perpetual bond		–	–	–
Lease liabilities	VI.33	596,315,303.12	600,490,563.19	–
Long-term payables	VI.34	27,685,411.94	27,611,312.00	135,795,848.74
Long-term employee benefits payable	VI.35	323,529.64	325,325.54	325,325.54
Provisions	VI.36	48,369,810.40	49,601,312.48	49,601,312.48
Deferred income	VI.37	558,721,635.79	490,423,604.73	490,423,604.73
Deferred tax liabilities	VI.21	261,126,998.21	249,762,210.96	249,762,210.96
Other non-current liabilities	VI.38	55,802,234.23	50,225,000.00	50,225,000.00
Total non-current liabilities		1,561,844,923.33	1,881,993,034.96	1,389,687,008.51
Total Liabilities		28,113,413,146.79	28,970,048,649.52	28,338,451,115.48

Consolidated Balance Sheet

30 June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

Item	Notes	30 June 2019	1 January 2019	31 December 2018
Shareholders' equity:				
Share capital	VI.39	1,625,790,949.00	1,625,790,949.00	1,625,790,949.00
Other equity instruments		-	-	-
Including: Preferred stock		-	-	-
Perpetual bond		-	-	-
Capital surplus	VI.40	9,865,084,049.39	9,865,084,049.39	9,865,084,049.39
Less: Treasury shares		-	-	-
Other comprehensive income	VI.41	(2,452,975.17)	(477,139.10)	(477,139.10)
Special reserve		-	-	-
Surplus reserve	VI.42	1,368,735,157.63	1,368,735,157.63	1,368,735,157.63
General risk provision		-	-	-
Undistributed profits	VI.43	10,684,014,649.99	8,825,776,191.86	8,825,776,191.86
Total equity attributable to shareholders of the parent company		23,541,159,356.84	21,684,909,208.78	21,684,909,208.78
Minority interest		1,699,273,372.47	1,458,823,545.22	1,458,823,545.22
Total Shareholders' Equity		25,240,432,729.31	23,143,732,754.00	23,143,732,754.00
Total Liabilities and Shareholders' Equity		53,353,845,876.10	52,113,781,403.52	51,482,183,869.48

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Consolidated Income Statement

January to June of 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

Item	Note	Current period	Prior period
I. Total operating income		33,340,827,754.37	14,840,013,680.03
Including: operating income	VI.44	33,340,827,754.37	14,840,013,680.03
II. Total operating costs		30,581,143,384.60	13,248,728,329.08
Including: Operating costs	VI.44	25,893,938,576.96	10,050,615,335.69
Taxes and surcharges	VI.45	163,205,528.11	140,027,491.74
Selling and distribution expenses	VI.46	3,181,214,811.53	2,175,615,387.82
General and administrative expenses	VI.47	986,091,286.20	708,303,863.19
R&D expenses	VI.48	276,819,755.65	242,287,110.45
Financial expenses	VI.49	79,873,426.15	(68,120,859.81)
Including: Interest expense	VI.49	195,416,581.75	28,496,077.13
Interest income	VI.49	140,283,812.18	104,730,231.45
Add: Other income	VI.50	356,510,384.29	116,850,169.63
Investment income ("-" for loss)	VI.51	117,959,938.64	1,056,227,582.23
Including: Share of profit or loss of associates and joint ventures	VI.51	81,252,582.98	192,362,082.74
Gains on termination of financial assets measured at amortized cost ("-" for loss)		-	-
Gains on hedging of net exposure ("-" for loss)		-	-
Gains from changes in fair value ("-" for loss)	VI.52	10,825,875.00	251,276,901.50
Impairment losses in respect of credit ("-" for loss)	VI.53	(60,985,163.92)	(29,224,053.15)
Impairment losses in respect of assets ("-" for loss)	VI.54	(7,142,028.16)	(4,078,787.97)
Gains on disposal of assets ("-" for loss)	VI.55	(41,511.02)	-
III. Operating profit ("-" for loss)		3,176,811,864.60	2,982,337,163.19
Add: Non-operating income	VI.56	38,597,028.40	33,876,268.66
Less: Non-operating expenses	VI.57	3,646,935.75	5,050,751.50
IV. Total profit ("-" for loss)		3,211,761,957.25	3,011,162,680.35
Less: Income tax expenses	VI.58	533,950,783.49	351,799,391.67

Consolidated Income Statement

January to June of 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

Item	Note	Current period	Prior period
V. Net profit ("-" for net loss)		<u>2,677,811,173.76</u>	<u>2,659,363,288.68</u>
(I) Classified by the continuity of operations			
1. Net profit from continuing operations ("-" for loss)		2,677,811,173.76	2,659,363,288.68
2. Net profit from discontinued operation ("-" for loss)		-	-
(II) Classified by ownership of the equity			
1. Net profit attributable to the parent company's shareholders ("-" for loss)		2,547,561,346.51	2,618,999,726.26
2. Minority interest ("-" for loss)		130,249,827.25	40,363,562.42
VI. Other comprehensive income, net of tax		<u>(1,975,836.07)</u>	<u>3,171,069.18</u>
Other comprehensive income, net of tax attributable to the parent company's shareholders		(1,975,836.07)	3,171,069.18
(1) Other comprehensive income that will not be reclassified to profit or loss		(1,204,227.78)	(927,633.56)
1. Changes arising from the remeasurement of defined benefit obligation		-	-
2. Other comprehensive income that will not be reclassified to profit or loss under equity method		-	-
3. Change in fair value of other equity instrument investments	VI.59	(1,204,227.78)	(927,633.56)
4. Change in fair value of the company's own credit risk		-	-
5. Others		-	-
(2) Other comprehensive income that may be reclassified into profit or loss		(771,608.29)	4,098,702.74
1. Other comprehensive income that may be reclassified to profit or loss under equity method	VI.59	31,704.40	(227,055.34)
2. Change in fair value of other debt investments		-	-
3. Gains and losses arising from changes in fair value of available-for-sale financial assets		-	-
4. The amount of financial assets reclassified into other comprehensive income		-	-
5. Gains and losses arising from reclassification of held-to-maturity investments to available-for-sale financial assets		-	-

Consolidated Income Statement

January to June of 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

Item	Note	Current period	Prior period
6. Provision for credit loss of other debt investments		-	-
7. Cash flow hedge reserve		-	-
8. Difference arising from the translation of foreign currency financial statements	VI.59	(803,312.69)	4,325,758.08
9. Others		-	-
Other comprehensive income, net of tax attributable to minority shareholders		-	-
VII. Total comprehensive income		<u>2,675,835,337.69</u>	<u>2,662,534,357.86</u>
Total comprehensive income attributable to shareholders of the parent company		2,545,585,510.44	2,622,170,795.44
Total comprehensive income attributable to minority shareholders		130,249,827.25	40,363,562.42
VIII. Earnings per share (EPS):			
1. Basic earnings per share		1.567	1.611
2. Diluted earnings per share		1.567	1.611

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Consolidated Statement of Cash Flow

January to June of 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

Item	Note	Current period	Prior period
I. Cash flow from operating activities:			
Cash receipts from the sale of goods and the rendering of services		29,310,567,278.10	13,451,313,120.97
Receipts of taxes refunds		12,722,103.04	4,062,082.96
Other cash receipts relating to operating activities	VI.60	353,170,660.47	466,680,277.24
Subtotal of cash inflow from operating activities		29,676,460,041.61	13,922,055,481.17
Cash payments for goods purchased and services received		24,529,995,630.53	7,579,809,589.31
Cash payments to and on behalf of employees		2,451,382,608.90	1,871,381,827.54
Payments of all types of taxes		1,835,816,401.89	1,299,454,475.99
Other cash payments relating to operating activities	VI.60	1,752,832,980.69	1,968,632,460.01
Subtotal of cash outflow from operating activities		30,602,203,386.88	12,719,278,352.85
Net cash flow from operating activities		(925,743,345.27)	1,202,777,128.32
II. Cash flow from investing activities:			
Cash receipts from returns of investments		1,624,074,800.00	1,865,943,118.02
Cash receipts from returns on investments		56,543,695.86	66,997,712.90
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		466,987.48	158,342.16
Net cash receipts from the disposals of subsidiaries and other business units		—	—
Other cash receipts relating to investing activities	VI.60	42,083.41	430,811,452.98
Subtotal of cash inflow from investment activities		1,681,127,566.75	2,363,910,626.06
Cash payments to acquire and construct fixed assets, intangible assets and other long-term assets		1,815,332,460.06	116,683,080.00
Cash payments to acquire investments		122,874,800.00	1,570,653,877.62
Net cash payments for acquisitions of subsidiaries and other business units		—	—
Other cash payments relating to investing activities	VI.60	—	161,611.03
Subtotal of cash outflow from investment activities		1,938,207,260.06	1,687,498,568.65
Net cash flow from investing activities		(257,079,693.31)	676,412,057.41

Consolidated Statement of Cash Flow

January to June of 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

Item	Note	Current period	Prior period
III. Cash flow from financing activities:			
Cash receipts from investors making investment in the enterprise		110,200,000.00	28,630,000.00
Including: cash receipts from minorities making investment in subsidiaries		110,200,000.00	28,630,000.00
Cash receipts from borrowing		4,751,974,594.89	901,153,286.02
Cash receipts from issue of bonds		-	-
Other cash receipts relating to financing activities	VI.60	1,139,621,703.91	1,300,000.00
Subtotal of cash inflow from financing activities		6,001,796,298.80	931,083,286.02
Cash repayments of amounts borrowed		3,356,352,241.79	468,705,389.94
Cash payments for distribution of dividends, profits or interest expenses		182,266,206.36	53,833,160.11
Including: payments for distribution of dividends or profit to minorities of subsidiaries		2,673,925.31	5,318,280.02
Other cash payments relating to financing activities	VI.60	1,209,728,120.13	9,856,322.48
Subtotal of cash outflow from financing activities		4,748,346,568.28	532,394,872.53
Net cash flow from financing activities		1,253,449,730.52	398,688,413.49
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
		(32,678.41)	1,024,953.78
V. Net increase in cash and cash equivalents			
	VI.61	70,594,013.53	2,278,902,553.00
Add: opening balance of cash and cash equivalents	VI.61	15,071,612,198.38	11,495,535,159.70
VI. Closing balance of cash and cash equivalents			
	VI.61	15,142,206,211.91	13,774,437,712.70

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Consolidated Statement of Changes in Shareholders' Equity

January to June of 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

Item	Equity attributable to the Shareholders of Parent Company											Total Shareholders' Equity			
	Current period										Total Shareholders' Equity				
	Share Capital	Preferred stock	Perpetual bond	Others	Capital Reserve	Treasury shares	Less Comprehensive Income	Other Comprehensive Income	Special reserve	Surplus Reserve			General risk provision	Undistributed profits	Other
I. Balance at 31 December 2018	1,657,909,949.00	-	-	-	9,965,094,049.39	-	(477,139.10)	-	1,387,735,157.63	-	8,823,716,191.86	-	21,684,499,208.78	1,458,823,545.22	23,143,322,754.00
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Correction of prior year's errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contribution of businesses under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance at 1 January 2019	1,657,909,949.00	-	-	-	9,965,094,049.39	-	(477,139.10)	-	1,387,735,157.63	-	8,823,716,191.86	-	21,684,499,208.78	1,458,823,545.22	23,143,322,754.00
III. Increase (decrease) in the current year ("+" for losses)															
(1) Total comprehensive income							(1,975,836.07)				1,852,235,984.13		1,856,235,148.06	249,449,827.25	2,086,699,975.31
(2) Shareholders' contributions and reduction in capital							(1,975,836.07)				2,507,581,346.51		2,545,585,510.44	130,249,827.25	2,675,835,337.69
1. Capital contribution from owners														110,200,000.00	110,200,000.00
2. Capital contribution from other equity instruments holders															
3. Share-based payment recognized in shareholders' equity															
4. Others															
(3) Profit distribution															
1. Appropriation to surplus reserve															
2. Appropriation to general risk reserve															
3. Profit distribution to shareholders															
4. Others															
(4) Internal carry-forward of shareholders' equity															
1. Transfer from capital reserve to capital (or share capital)															
2. Transfer from surplus reserve to capital (or share capital)															
3. Surplus reserve used to offset accumulated losses															
4. Transfer from changes in defined benefit obligation to retained earnings															
5. Transfer from other comprehensive income to retained earnings															
6. Others															
(5) Special reserve															
1. Current appropriation															
2. Current utilization															
(6) Others															
IV. Balance at 31 June 2019	1,657,909,949.00	-	-	-	9,965,094,049.39	-	(2,452,975.17)	-	1,385,735,157.63	-	10,684,002,175.99	-	23,541,159,366.84	1,699,273,374.47	25,240,432,729.31

Consolidated Statement of Changes in Shareholders' Equity

January to June of 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

Item	Prior period										Total Shareholders' Equity					
	Equity attributable to the Shareholders of Parent Company															
	Other equity instruments															
	Share Capital	Preferred stock	Perpetual bond	Others	Capital Reserve	Treasury shares	Less Comprehensive Income	Other	Special reserve	Surplus Reserve	General risk provision	Undistributed profits	Other	Subtotal	Minority Equity	
I. Balance at 31 December 2017	1,657,790,949.00	-	-	-	9,875,177,958.43	-	(70,006,938.27)	-	-	1,154,762,193.41	-	6,285,996,409.09	-	18,897,520,571.66	391,652,221.51	19,263,153,793.17
Add: Changes in accounting policies	-	-	-	-	-	-	63,388,106.49	-	-	-	-	(67,801,045.52)	-	(4,412,888.03)	-	(4,412,888.03)
Correction of prior year's errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Combination of businesses under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance at 1 January 2018	1,657,790,949.00	-	-	-	9,875,177,958.43	-	(6,618,831.78)	-	-	1,154,762,193.41	-	6,218,195,404.57	-	18,887,107,673.63	391,652,221.51	19,285,740,895.14
III. Increase (decrease) in the current year (* for losses)																
(1) Total comprehensive income							3,171,069.18					1,999,573,374.69		2,002,744,443.87	837,288,817.33	2,840,033,261.20
(2) Shareholders' contributors and reduction in capital							3,171,069.18					2,618,999,726.26		2,622,170,795.44	40,363,362.42	2,662,534,357.86
1. Capital contribution from owners																
2. Capital contribution from other equity instruments holders																
3. Share-based payment recognized in shareholders' equity																
4. Others																
(3) Profit distribution																
1. Appropriation to surplus reserve																
2. Appropriation to general risk reserve																
3. Profit distribution to shareholders																
4. Others																
(4) Internal contribution of shareholders' equity																
1. Transfer from capital reserve to capital (or share capital)																
2. Transfer from surplus reserve to capital (or share capital)																
3. Surplus reserve used to offset accumulated losses																
4. Transfer from changes in defined benefit obligation to retained earnings																
5. Transfer from other comprehensive income to retained earnings																
6. Others																
(5) Special reserve																
1. Current appropriation																
2. Current utilization																
(6) Others																
IV. Balance at 31 June 2018	1,657,790,949.00	-	-	-	9,875,177,958.43	-	(3,447,762.60)	-	-	1,154,762,193.41	-	8,217,788,779.26	-	20,889,852,117.50	1,228,920,038.84	22,089,774,156.34

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Balance Sheet

30 June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

Item	Notes	30 June 2019	1 January 2019	31 December 2018
Current assets:				
Cash at bank and on hand		6,953,260,233.21	6,806,911,762.32	6,806,911,762.32
Financial assets held for trading		-	-	-
Financial assets measured at fair value through profit or loss for the current period		-	-	-
Derivative financial assets		-	-	-
Notes receivable		620,382,011.78	447,724,462.94	615,391,740.80
Accounts receivable	XIV.1	187,213,229.19	261,455,709.16	261,455,709.16
Accounts receivable financing		206,069,648.10	167,667,277.86	
Advances to suppliers		39,948,404.67	12,525,525.66	12,525,525.66
Other receivables	XIV.2	1,839,206,451.02	1,877,892,798.80	1,877,892,798.80
Including: Interest receivable		-	-	-
Dividends receivable		235,110,108.80	382,928,791.41	382,928,791.41
Inventories		847,474,686.01	946,856,781.67	946,856,781.67
Contract assets		-	-	-
Assets held for sales		-	-	-
Current portion of non-current assets		-	-	-
Other current assets		84,220,837.55	1,507,451,931.22	1,507,451,931.22
Total current assets		10,777,775,501.53	12,028,486,249.63	12,028,486,249.63
Non-current assets:				
Debt investments		-	-	-
Available-for-sale financial assets		-	-	-
Other debt investments		-	-	-
Hold-to-maturity investments		-	-	-
Long-term receivables		-	-	-
Long-term equity investments	XIV.3	8,952,763,167.52	8,440,656,099.18	8,440,656,099.18
Other equity instrument investments		83,481,132.33	84,897,870.89	84,897,870.89
Other non-current financial assets		234,021,161.98	223,325,494.09	223,325,494.09
Investment properties		210,157,351.00	214,466,738.50	214,466,738.50
Fixed assets		475,407,782.60	491,135,835.97	491,135,835.97
Construction in progress		126,213,293.20	38,386,309.01	38,386,309.01
Bearer biological assets		-	-	-
Oil and gas assets		-	-	-
Right-of-use assets		12,213,114.20	7,786,057.78	
Intangible assets		1,749,905,838.02	366,396,141.82	366,396,141.82
Development expenditure		-	-	-
Goodwill		-	-	-
Long-term prepaid expenses		1,573,693.17	1,725,586.63	1,725,586.63
Deferred tax assets		119,773,310.33	126,072,489.93	126,072,489.93
Other non-current assets		-	-	-
Total non-current assets		11,965,509,844.35	9,994,848,623.80	9,987,062,566.02
Total Assets		22,743,285,345.88	22,023,334,873.43	22,015,548,815.65

Balance Sheet

30 June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

Item	Notes	30 June 2019	1 January 2019	31 December 2018
Current liabilities:				
Short-term borrowings		654,431,644.92	954,431,644.92	954,431,644.92
Financial liabilities held for trading		–	–	–
Financial liabilities measured at fair value through profit or loss for the current period		–	–	–
Derivative financial liabilities		–	–	–
Notes payable		25,889,891.90	26,931,727.54	26,931,727.54
Accounts payable		310,497,191.88	295,387,077.43	295,387,077.43
Advances from customers				
Contract liabilities		107,427,672.93	299,102,767.07	299,102,767.07
Employee benefits payable		108,153,477.38	86,313,055.87	86,313,055.87
Taxes payable		120,555,930.41	185,050,078.44	185,050,078.44
Other payables		3,118,583,025.81	2,116,999,352.64	2,116,999,352.64
Including: Interest payable		–	–	–
Dividends payable		689,902,487.30	567,433.79	567,433.79
Liabilities held for sales		–	–	–
Current portion of non-current liabilities		4,540,249.00	2,820,472.89	–
Other current liabilities		12,763,630.02	–	–
Total current liabilities		4,462,842,714.25	3,967,036,176.80	3,964,215,703.91
Non-current liabilities:				
Long-term borrowings		–	–	–
Bonds payable		–	–	–
Including: Preferred stock		–	–	–
Perpetual bond		–	–	–
Lease liabilities		8,084,311.58	4,965,584.89	–
Long-term payables		7,876,324.33	7,802,224.39	7,802,224.39
Long-term employee benefits payable		–	–	–
Provisions		317,044,249.19	252,971,219.19	252,971,219.19
Deferred income		77,157,956.91	76,572,361.85	76,572,361.85
Deferred tax liabilities		13,071,150.02	12,940,147.39	12,940,147.39
Other non-current liabilities		92,353.49	–	–
Total non-current liabilities		423,326,345.52	355,251,537.71	350,285,952.82
Total Liabilities		4,886,169,059.77	4,322,287,714.51	4,314,501,656.73

Balance Sheet

30 June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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Item	Notes	30 June 2019	1 January 2019	31 December 2018
Shareholders' equity:				
Share capital		1,625,790,949.00	1,625,790,949.00	1,625,790,949.00
Other equity instruments		–	–	–
Including: Preferred stock		–	–	–
Perpetual bond		–	–	–
Capital surplus		9,820,175,495.89	9,820,175,495.89	9,820,175,495.89
Less: Treasury shares		–	–	–
Other comprehensive income		(3,596,368.56)	(2,423,845.18)	(2,423,845.18)
Special reserve		–	–	–
Surplus reserve		996,126,723.03	996,126,723.03	996,126,723.03
General risk provision		–	–	–
Undistributed profits		5,418,619,486.75	5,261,377,836.18	5,261,377,836.18
Total Shareholders' Equity		17,857,116,286.11	17,701,047,158.92	17,701,047,158.92
Total Liabilities and Shareholders' Equity		22,743,285,345.88	22,023,334,873.43	22,015,548,815.65

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Income Statement

January to June of 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

Item	Notes	Current period	Prior period
I. Operating income	XIV.4	3,273,265,222.22	2,336,084,718.56
Less: Operating costs	XIV.4	1,647,125,077.70	1,123,201,974.09
Taxes and surcharges		30,752,345.28	27,790,846.77
Selling and distribution expenses		396,592,913.60	307,425,512.17
General and administrative expenses		258,347,985.76	186,484,136.41
R&D expenses		108,554,679.87	99,528,228.67
Financial expenses		(29,461,694.92)	(26,265,469.30)
Including: Interest expense		16,820,634.09	3,045,634.08
Interest income		46,742,477.09	29,458,271.46
Add: Other income		4,348,787.68	2,527,973.43
Investment income ("-" for loss)	XIV.5	93,853,594.02	196,326,091.09
Including: Share of profit or loss of associates and joint ventures		57,203,980.24	165,222,710.92
Gains on termination of financial assets measured at amortized cost ("-" for loss)		-	-
Gains on hedging of net exposure ("-" for loss)		-	-
Gains from changes in fair value ("-" for loss)		10,695,667.89	251,497,016.76
Impairment losses in respect of credit		194,165.81	219,984.96
Impairment losses in respect of assets		(145,880.45)	(7,785,401.49)
Gains on disposal of assets ("-" for loss)		(3,990.30)	-
II. Operating profit ("-" for loss)		970,296,259.58	1,060,705,154.50
Add: Non-operating income		3,725,343.19	5,549,221.67
Less: Non-operating expenses		608,151.06	1,004,870.02
III. Total profit ("-" for loss)		973,413,451.71	1,065,249,506.15
Less: Income tax expenses		126,836,438.76	128,885,729.37
IV. Net profit ("-" for net loss)		846,577,012.95	936,363,776.78
1. Net profit from continuing operations ("-" for loss)		846,577,012.95	936,363,776.78
2. Net profit from discontinued operation ("-" for loss)		-	-

Income Statement

January to June of 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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Item	Notes	Current period	Prior period
V. Other comprehensive income, net of tax		(1,172,523.38)	(1,154,688.90)
(1) Other comprehensive income that will not be reclassified to profit or loss		(1,204,227.78)	(927,633.56)
1. Changes arising from the remeasurement of defined benefit obligation		-	-
2. Other comprehensive income that will not be reclassified to profit or loss under equity method		-	-
3. Change in fair value of other equity instrument investments		(1,204,227.78)	(927,633.56)
4. Change in fair value of the company's own credit risk		-	-
5. Others		-	-
(2) Other comprehensive income that may be reclassified into profit or loss		31,704.40	(227,055.34)
1. Other comprehensive income that may be reclassified to profit or loss under equity method		31,704.40	(227,055.34)
2. Change in fair value of other debt investments		-	-
3. Gains and losses arising from changes in fair value of available-for-sale financial assets		-	-
4. The amount of financial assets reclassified into other comprehensive income		-	-
5. Gains and losses arising from reclassification of held-to-maturity investments to available-for-sale financial assets		-	-
6. Provision for credit loss of other debt investments		-	-
7. Cash flow hedge reserve		-	-
8. Difference arising from the translation of foreign currency financial statements		-	-
9. Others		-	-
VI. Total comprehensive income		845,404,489.57	935,209,087.88

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Statement of Cash Flow

January to June of 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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Item	Notes	Current period	Prior period
I. Cash flow arising from operating activities:			
Cash receipts from the sale of goods and the rendering of services		2,389,236,643.35	1,708,545,604.66
Receipts of taxes refunds		—	—
Other cash receipts relating to operating activities		145,229,746.42	156,579,275.78
Subtotal of cash inflow from operating activities		2,534,466,389.77	1,865,124,880.44
Cash payments for goods purchased and services received		1,079,674,153.45	839,800,412.80
Cash payments to and on behalf of employees		242,747,890.41	231,852,064.54
Payments of all types of taxes		363,225,365.72	301,282,567.76
Other cash payments relating to operating activities		394,856,859.10	99,069,141.62
Subtotal of cash outflow from operating activities		2,080,504,268.68	1,472,004,186.72
Net cash flow from operating activities		453,962,121.09	393,120,693.72
II. Cash flow from investing activities:			
Cash receipts from returns of investments		1,544,474,800.00	1,500,000,000.00
Cash receipts from returns on investments		580,349,057.98	549,579,440.16
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		205,500.00	630.00
Other cash receipts relating to investing activities		438,393,567.45	594,723,171.20
Subtotal of cash inflow from investment activities		2,563,422,925.43	2,644,303,241.36
Cash payments to acquire and construct fixed assets, intangible assets and other long-term assets		1,575,480,976.62	21,661,224.30
Cash payments to acquire investments		561,924,800.00	2,738,716,750.00
Other cash payments relating to investing activities		412,200,000.00	501,200,000.00
Subtotal of cash outflow from investment activities		2,549,605,776.62	3,261,577,974.30
Net cash flow from investing activities		13,817,148.81	(617,274,732.94)

Statement of Cash Flow

January to June of 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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Item	Notes	Current period	Prior period
III. Cash flow from financing activities:			
Cash receipts from investors making investment in the enterprise		-	-
Cash receipts from borrowing		-	450,000,000.00
Cash receipts from issue of bonds		-	-
Other cash receipts relating to financing activities		26,994,238.54	-
Subtotal of cash inflow from financing activities		26,994,238.54	450,000,000.00
Cash repayments of amounts borrowed		300,000,000.00	-
Cash payments for distribution of dividends, profits or interest expenses		19,146,294.86	7,604,245.80
Other cash payments relating to financing activities		28,174,397.05	-
Subtotal of cash outflow from financing activities		347,320,691.91	7,604,245.80
Net cash flow from financing activities		(320,326,453.37)	442,395,754.20
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-	-
V. Net increase in cash and cash equivalents		147,452,816.53	218,241,714.98
Add: opening balance of cash and cash equivalents		6,759,917,523.78	6,147,937,501.16
VI. Closing balance of cash and cash equivalents		6,907,370,340.31	6,366,179,216.14

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Statement of Changes in Shareholders' Equity

January to June of 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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Item	Current period										Total Shareholders' Equity
	Share Capital	Preferred stock	Perpetual bond	Others	Capital Reserve	Treasury shares	Less: Other Comprehensive Income	Special Reserve	Surplus Reserve	General risk provision	
I. Balance at 31 December 2018	1,625,790,949.00	-	-	-	9,820,175,495.89	-	(2,423,845.18)	996,126,723.03	5,261,377,836.18	-	17,701,047,158.92
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Correction of prior year's errors	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
II. Balance at 1 January 2019	1,625,790,949.00	-	-	-	9,820,175,495.89	-	(2,423,845.18)	996,126,723.03	5,261,377,836.18	-	17,701,047,158.92
III. Increase/(decrease) in the current year ("+" for losses)	-	-	-	-	-	-	(1,172,523.38)	-	157,241,650.57	-	156,069,127.19
(1) Total comprehensive income	-	-	-	-	-	-	(1,172,523.38)	-	157,241,650.57	-	156,069,127.19
(2) Shareholders' contributions and reduction in capital	-	-	-	-	-	-	(1,172,523.38)	-	846,577,012.95	-	845,404,489.57
1. Capital contribution from owners	-	-	-	-	-	-	-	-	-	-	-
2. Capital contribution from other equity instruments holders	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment recognized in shareholders' equity	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	(689,335,362.38)	-	(689,335,362.38)
1. Appropriation to surplus reserve	-	-	-	-	-	-	-	-	(689,335,362.38)	-	(689,335,362.38)
2. Appropriation to general risk reserve	-	-	-	-	-	-	-	-	-	-	-
3. Profit distribution to shareholders	-	-	-	-	-	-	-	-	(689,335,362.38)	-	(689,335,362.38)
4. Others	-	-	-	-	-	-	-	-	-	-	-
(4) Internal carry-forward of shareholders' equity	-	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital reserve to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserve to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserve used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-
4. Transfer from changes in defined benefit obligation to retained earnings	-	-	-	-	-	-	-	-	-	-	-
5. Transfer from other comprehensive income to retained earnings	-	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserve	-	-	-	-	-	-	-	-	-	-	-
1. Current appropriation	-	-	-	-	-	-	-	-	-	-	-
2. Current utilization	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at 30 June 2019	1,625,790,949.00	-	-	-	9,820,175,495.89	-	(3,596,368.56)	996,126,723.03	5,418,619,486.75	-	17,857,116,286.11

Statement of Changes in Shareholders' Equity

January to June of 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

Item	Prior period										Total Shareholders' Equity	
	Share Capital	Preferred stock	Perpetual bond	Others	Capital Reserve	Treasury shares	Less: Other Comprehensive Income	Special reserve	Surplus Reserve	General risk provision		Undistributed Profit
I. Balance at 31 December 2017	1,625,790,949.00	-	-	-	9,820,175,495.89	-	(64,737,939.47)	-	782,153,758.81	-	4,024,415,273.84	16,187,797,538.07
Add: Changes in accounting policies	-	-	-	-	-	-	64,954,866.01	-	-	-	(69,367,764.04)	(4,412,889.03)
Correction of prior year's errors	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance at 1 January 2018	1,625,790,949.00	-	-	-	9,820,175,495.89	-	216,216.54	-	782,153,758.81	-	3,955,047,509.80	16,183,384,640.04
III. Increase(decrease) in the current year ("+" for losses)	-	-	-	-	-	-	(1,154,688.90)	-	-	-	316,937,423.21	315,782,736.31
(1) Total comprehensive income	-	-	-	-	-	-	(1,154,688.90)	-	-	-	936,363,776.78	935,209,087.88
(2) Shareholders' contributions and reduction in capital	-	-	-	-	-	-	-	-	-	-	-	-
1. Capital contribution from owners	-	-	-	-	-	-	-	-	-	-	-	-
2. Capital contribution from other equity instruments holders	-	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment recognized in shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-
(3) Profit distribution	-	-	-	-	-	-	-	-	-	-	(619,426,351.57)	(619,426,351.57)
1. Appropriation to surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-
2. Appropriation to general risk reserve	-	-	-	-	-	-	-	-	-	-	-	-
3. Profit distribution to shareholders	-	-	-	-	-	-	-	-	-	-	(619,426,351.57)	(619,426,351.57)
4. Others	-	-	-	-	-	-	-	-	-	-	-	-
(4) Internal carry-forward of shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital reserve to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserve to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserve used to offset accumulated losses	-	-	-	-	-	-	-	-	-	-	-	-
4. Transfer from changes in defined benefit obligation to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
5. Transfer from other comprehensive income to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserve	-	-	-	-	-	-	-	-	-	-	-	-
1. Current appropriation	-	-	-	-	-	-	-	-	-	-	-	-
2. Current utilization	-	-	-	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at 30 June 2018	1,625,790,949.00	-	-	-	9,820,175,495.89	-	(937,162.36)	-	782,153,758.81	-	4,271,984,935.01	16,499,167,276.35

Legal representative:
Li Chuyuan

Principal in charge of accounting:
Li Hong

Head of accounting department:
Yao Zhizhi

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

I. GENERAL INFORMATION

1. Company overview

According to the Circular Tigaisheng [1997] No.139 issued by the State Commission for Restructuring the Economic Systems, Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (hereinafter referred to as “the Group”) was incorporated solely by Guangzhou Pharmaceutical Holdings Limited (hereinafter referred to as “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 into the Company. The Company obtained its business license on 1 September 1997 and the registered number is 440101000005674.

According to the Circular Tigaisheng [1997] No.145 issued by the State Commission for Restructuring the Economic Systems and Circular Zhengweifa [1997] No.56 issued by the Securities Regulatory Commission of the State Council, the Group issued 219,900,000 shares on Hong Kong Stock Exchange (H shares) in October 1997. As approved by China Securities Regulatory Commission on 10 January 2001, 78,000,000 ordinary shares (A share) of the Group were issued and the Group was listed on Shanghai Stock Exchange on 6 February 2001. The stock abbreviation is “GZ Phar.”, and the stock code was 600332.

The Group executed and completed a material asset restructuring transaction in 2013, which includes: (1) The Group issued an addition of 445,601,005 A shares by way of share swap to absorb and merger Baiyunshan Co., Ltd. (hereinafter referred to as “Baiyunshan”), a subsidiary of GPHL, in May 2013. (2) The Group issued an addition of 34,839,645 A shares to GPHL, as consideration payment, to acquire the buildings and trademarks which were owned by GPHL or GPHL had the right to dispose of, and 100% equity interest of Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited (hereinafter referred to as “Guangyao Baiyunshan Hong Kong Company”) (Previously named “Polian Development Co., Ltd.”), a subsidiary of GPHL, and 12.5% equity interest of Baxter Healthcare Co., Ltd. (hereinafter referred to as “Baxter Healthcare”) held by GPHL. The Company completed the registration of the shares on 5 July 2013. After the completion of the above-mentioned assets restructuring processes, the Group’s total amount of outstanding shares was 1,291,340,650 shares. The stock abbreviation was changed into “BYS”.

According to the Indemnification Agreement in Respect of the Difference Between Actual Number of Net Income of Assets to be Purchased and Forecast of Net Income entered into between the Group and GPHL, the Company repurchased 261,400 shares of A shares held by GPHL for a total of RMB 1, which was cancelled on 27 April 2015. The registration procedures of repurchase and cancellation were completed on 7 May 2015. After the completion of the above-mentioned restructuring, the Group’s general capital is 1,291,079,250 shares.

The Group offered 334,711,699 RMB common shares (A share) non-publicly in 2016. Capital stock was increased by 334,711,699 shares, and the Group’s general capital increased to 1,625,790,949 shares.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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I. GENERAL INFORMATION (Continued)

1. Company overview (Continued)

The parent company and the ultimate controlling party are GPLH and Guangzhou State-owned Assets Supervision and Administration Commission respectively.

The approved business scope of the Company and its subsidiaries as included in the consolidated financial statements includes: (1) Research, development, manufacturing and sales of Chinese and Western medicine, chemical raw medicine, natural medicine, biological medicine, intermediate product of chemical raw medicine; (2) The wholesale, retail, import and export business of Western medicine, Chinese medicines and medical instruments; (3) Research, development, manufacturing and sale of Great Health products; (4) Investment in medical, health management and youth preservation, etc.

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”), Mi Lian Chuan Bei Pi Pa Jelly (“蜜煉川貝枇杷膏”), Qing Kai Ling Tonic (“清開靈口服液”), Xiao Chai Hu Chong Ji (“小柴胡沖劑”), etc. The major Western medicine products of the Group include cefathiamidine, amoxicillin and ceftriaxone. The major pre-packaged food product of the Group is Wang Lao Ji Herbal Tea (“王老吉涼茶”), etc.

The financial statements were authorized for issue by the Board on 22 August 2019.

2. Scope of consolidation

The Group has 95 subsidiaries included in the scope of consolidation from January to June in 2019. For more details, please refer to Note VIII “Equity in Other Entities”. The companies in the scope of consolidation of the Group for the current year increased by 2 comparing with the prior year. For more details, please refer to Note VII “Changes in the Scope of Consolidation”.

Name of subsidiary	Control
Guangzhou Baiyunshan Xing Qun Pharmaceutical Holdings Co., Ltd. (hereinafter referred to as “Xing Qun”)	Direct holding
Guangzhou Baiyunshan Xing Qun Health Technology Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. (hereinafter referred to as “Zhong Yi”)	Direct holding
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd. (hereinafter referred to as “Chen Li Ji”)	Direct holding
Guangzhou Chen Li Ji Great Health Industry Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Han Fang Contemporary Pharmaceutical Co., Ltd. (hereinafter referred to as “Guangzhou Han Fang”)	Direct holding
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	Direct holding
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. (hereinafter referred to as “Qi Xing”)	Indirect holding

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

I. GENERAL INFORMATION (Continued)

2. Scope of consolidation (Continued)

Name of subsidiary	Control
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. (hereinafter referred to as “Jing Xiu Tang”)	Direct holding
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (hereinafter referred to as “Pan Gao Shou”)	Direct holding
Guangzhou Pan Gao Shou Natural Healthcare Products Co., Ltd.	Indirect holding
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. (hereinafter referred to as “Wang Lao Ji”)	Direct holding
Guangzhou Wang Lao Ji Food Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical Co., Ltd. (hereinafter referred to as “GP Corp.”)	Direct holding
Guangzhou Jian Min Pharmaceutical Chain Co., Ltd.	Indirect holding
Guangzhou Jian Min Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Qi Hua Medical Instruments Co., Ltd.	Indirect holding
Guangzhou Wan Kang Orthopedics Medical Instruments Co., Ltd.	Indirect holding
Fujian Guangyao Jie Da Pharmaceutical Co., Ltd.	Indirect holding
Hubei Guangyao An Kang Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Xin Te Pharmaceutical Co., Ltd.	Indirect holding
Foshan Guangyao Jian Ze Pharmaceutical Co., Ltd.	Indirect holding
Shenzhen Guangyao Lian Kang Pharmaceutical Co., Ltd.	Indirect holding
Hunan Guangyao Heng Sheng Pharmaceutical Co., Ltd.	Indirect holding
Hainan Guangyao Chen Fei Pharmaceutical Co., Ltd.	Indirect holding
Shanxi Guangyao Kang Jian Pharmaceutical Co., Ltd.	Indirect holding
Guangdong Meixian Pharmaceutical Co., Ltd.	Indirect holding
Jiangmen Guangyao Qiao Kang Pharmaceutical Co., Ltd.	Indirect holding
Guangyao Sichuan Pharmaceutical Co., Ltd.	Indirect holding
Hubei Guangyao Ji Da Pharmaceutical Co., Ltd.	Indirect holding
Guangxi Guangyao Xin Shi Dai Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical (Hong Kong) Co., Ltd.	Indirect holding
Jian Min International Co., Ltd.	Indirect holding
Zhuhai Guangyao Kang Ming Pharmaceutical Co., Ltd.	Indirect holding
Foshan Guangyao Feng Kang Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical Pharmacy Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical Information Technology Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical Nanpi Pharmacy Co., Ltd.	Indirect holding
Zhongshan Guangyao Gui Kang Pharmaceutical Co., Ltd.	Indirect holding
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (hereinafter referred to as “Cai Zhi Lin”)	Direct holding
Jingyu Guangyao Dong’e Chinese Raw Medicine Development Co., Ltd.	Indirect holding

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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I. GENERAL INFORMATION (Continued)

2. Scope of consolidation (Continued)

Name of subsidiary	Control
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Indirect holding
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect holding
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Indirect holding
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	Indirect holding
Guangzhou Ao Ma Medical Instruments Co., Ltd.	Indirect holding
Heilongjiang Sengong Guangyao Raw Medicine Development Co., Ltd.	Indirect holding
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect holding
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect holding
Meizhou Guangyao Cai Zhi Lin Pharmaceutical Co., Ltd.	Indirect holding
Gansu Guangyao baiyunshan Chinese Medicine Technology Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical Import & Export Co., Ltd. (hereinafter referred to as “Pharmaceutical Import & Export”)	Direct holding
Guangzhou Baiyunshan Bai Di Bio-Technology Co., Ltd. (hereinafter referred to as “Guangzhou Bai Di”)	Direct holding
Guangzhou Baiyunshan Wei Yi Industries Co., Ltd.	Indirect holding
Tibet Linzhi Guangyao Development Co., Ltd.	Indirect holding
Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. (hereinafter referred to as “WJ Great Health”)	Direct holding
Wang Lao Ji Great Health Industry (Ya’an) Co., Ltd.	Indirect holding
Guangzhou Wang Lao Ji Great Health Enterprise Development Co., Ltd.	Indirect holding
Guangzhou Wang Lao Ji Industry Company	Indirect holding
Wang Lao Ji Great Health Industry (Beijing) Sales Co., Ltd.	Indirect holding
Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd.	Indirect holding
Guangzhou Wang Lao Ji Great Health E-Commerce Co., Ltd.	Indirect holding
Wang Lao Ji Great Health Industry (Lanzhou) Co., Ltd.	Indirect holding
Guangxi Baiyunshan Ying Kang Pharmaceutical Co., Ltd. (hereinafter referred to as “Guangxi Ying Kang”)	Direct holding
Guangzhou Guangyao Yi Gan Biological Product Co., Ltd. (hereinafter referred to as “Yi Gan”)	Direct holding
Guangzhou Baiyunshan Medical and Healthcare Industry Investment Co., Ltd. (hereinafter referred to as “Baiyunshan Medical and Healthcare Industry Company”)	Direct holding
Tibet Linzhi Baiyunshan Tibetan Health Castle Management Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Hospital Co., Ltd. (hereinafter referred to as “Guangzhou Baiyunshan Hospital”)	Indirect holding
Guangzhou Baiyunshan Run Kang Confinement Service Center Co., Ltd.	Indirect holding

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

I. GENERAL INFORMATION (Continued)

2. Scope of consolidation (Continued)

Name of subsidiary	Control
Guangzhou Baiyunshan Xing Zhu Pharmaceutical Co., Ltd. (hereinafter referred to as "Xing Zhu")	Direct holding
Guangzhou Wang Lao Ji Investment Co., Ltd. (hereinafter referred to as "Wang Lao Ji Investment")	Direct holding
Guangzhou WLJ Catering Management Development Co., Ltd. (hereinafter referred to as "WLJ Catering")	Indirect holding
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. (hereinafter referred to as "Tian Xin")	Direct holding
Guangzhou Baiyunshan Tian Xin Pharmaceutical Technology Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd. (hereinafter referred to as "Guang Hua")	Direct holding
Guangzhou Baiyunshan Guang Hua Health Products Co., Ltd. (hereinafter referred to as "Guang Hua Health")	Indirect holding
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (hereinafter referred to as "Ming Xing")	Direct holding
Guangzhou Xing Ji Industries Co., Ltd.	Indirect holding
Baiyunshan Weiling Pharmaceutical Co., Ltd. (hereinafter referred to as "Weiling")	Direct holding
Guangzhou Baiyunshan Pharmaceutical Technological Development Co., Ltd. (hereinafter referred to as "Pharmaceutical Technological")	Direct holding
Wang Lao Ji Da Zhai Beverages Co., Ltd.	Indirect holding
Guangzhou Wang Lao Ji Da Zhai Beverages Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited (hereinafter referred to as "Guangyao Baiyunshan Hong Kong Company")	Direct holding
Guangzhou Baiyunshan Macao Co., Ltd.	Direct holding
Guangzhou Baiyunshan Chemical Pharmaceutical Co., Ltd.	Direct holding
Zhejiang Guang Kang Pharmaceutical Co., Ltd.	Indirect holding
Guangyao Baiyunshan Chemical Pharmaceutical (Zhuhai) Co., Ltd.	Indirect holding
Guangzhou Haima Pharmaceutical Advertising Co., Ltd. (hereinafter referred to as "Guangyao Haima")	Direct holding
Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd. (hereinafter referred to as "Baiyunshan Pharmaceutical Marketing")	Direct holding
Guangzhou Baiyunshan Jin Ge Male Health Consulting Co., Ltd.	Indirect holding
Guangzhou Pharmaceutical Research Institute ("Guangyao General Institute")	Direct holding
Guangzhou Baiyunshan Medical Instruments investment Co., Ltd.	Indirect holding
Guangzhou Baiyunshan Chemical Pharmaceutical Technology Co., Ltd.	Direct holding

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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II. BASIS OF PREPARATION

1. Basis of Preparation

The financial statements are prepared, on a going concern basis, to recognize and measure the transactions and events, which have occurred, in accordance with the *Accounting Standards for Business Enterprises – Basic Standard* (Release of No.33 Order of the Ministry of Finance and Amendment to No.76 Order of the Ministry of Finance), 42 specific accounting standards, 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 on and subsequent to 15 February 2006 (hereinafter collectively referred to as “ASBE”), and the disclosure requirements in the *Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 – General provisions on Financial Reporting* (Revised in 2014) issued by the China Securities Regulatory Commission.

According to relevant provisions of the ASBE, the Group’s accounting is prepared using the accrual basis. The measurement basis of the financial statements is historical cost except for certain financial instruments. According to the ASBE, related provision for impairment shall be provided if asset is impaired.

2. Going Concern

The Group has the ability to continue as a going concern in the next 12 months since the end of the reporting period. There is no material event that may cast significant doubt upon the Group’s ability to continue as a going concern.

III. STATEMENT OF COMPLIANCE WITH ASBE

The financial statements have been prepared in accordance with the *Accounting Standards for Business Enterprises*, present truly and completely, the Company’s financial position as of 30 June 2019, and performance results and cash flows for the period then ended. In addition, the Company’s financial statements are in compliance with all material aspects of the requirements in the *Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 – General provisions on Financial Reporting* (Revised in 2014) issued by the China Securities Regulatory Commission.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Company and its subsidiaries are engaged in pharmaceutical operations. Based on the characteristics of the Company's actual productions and operations, the Company and its subsidiaries have determined several specific accounting policies and accounting estimates for revenue recognition and other transactions and events according to ASBE. For more details, please refer to Note IV. 25 "Revenue". For description of significant accounting judgments and estimates made by the management, please refer to Note IV. 31 "Significant Accounting Judgment and Estimates".

1. Accounting Period

Accounting periods are classified into annual periods and interim periods. An interim period is a reporting period shorter than a complete accounting year. The Company has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December.

2. Operating Cycle

A normal operating cycle refers to the time period between the acquisition of assets for processing and their realization in cash or cash equivalents. The group's operating cycle is of 12 months' duration, which is used as the classification standard for liquidity of assets and liabilities.

3. Functional Currency

RMB is the currency of the primary economic environment in which the Company and its domestic subsidiaries operate. The Company and its domestic subsidiaries choose RMB as the functional currency. The Company's foreign subsidiaries choose HKD as the functional currency according to the primary economic environment in which the Company's foreign subsidiaries operate. The financial statements are prepared in RMB.

4. Business Combination

A business combination is a transaction or event that brings together two or more separate enterprises into one reporting entity. Business combinations are classified into business combinations under common control and business combinations not under common control.

(1) Business combination under common control

A business combination under common control is a business combination in which all the combining enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory. For a business combination under common control, the absorbing party is the party that acquires the control right of other involved enterprises on combination date. The combined party is other enterprises involved in the combination. The combination date refers to the date on which the absorbing party effectively obtains control of the party being absorbed.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

4. Business Combination *(Continued)*

(1) Business combination under common control *(Continued)*

Assets and liabilities that are obtained in a business combination by the absorbing party shall be measured at their book values as recorded by the party being absorbed on the combination date. The difference between the book value of the net assets obtained and the book value of the consideration paid for the combination (or the aggregate face value of shares issued as consideration) shall be adjusted to the capital reserve (share premium). If the capital reserve (share premium) is not sufficient to absorb the difference, excess shall be adjusted against retained earnings.

Cost incurred by the absorbing party that are directly attributable to the combination shall be charged against profit or loss in the period in which the cost is incurred.

(2) Business combination not under common control

A business combination not under common control is a business combination in which all the combining enterprises are not ultimately controlled by the same party or parties before and after the combination. For a business combination not under common control, the party that, on the acquisition date, obtains control of other enterprises participating in the combination is the acquirer. Other enterprises participating in the combination are the acquiree. Acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

4. Business Combination *(Continued)*

(2) Business combination not under common control *(Continued)*

For a business combination not under common control, combination cost is the aggregate of the fair value of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree on the acquisition date. Service expense including audit fees, legal fees, valuation and consulting fees, and other administrative expenses attributable to the business combination shall be charged against profit or loss in the period in which the service expense is incurred. The transaction expense of the equity securities or debt securities issued by the acquirer as combination consideration shall be included in the initial cost of equity securities or debt securities issued. The contingent consideration in the business combination shall be included into the combination cost at its fair value on the acquisition date. In case that within 12 months after the acquisition date, any new or further evidence is found regarding the existing situation as on the acquisition date, which causes adjustment on contingent consideration, goodwill shall be adjusted accordingly. The combination cost incurred by the acquirer and the identifiable net assets acquired in the combination are initially measured at fair value on the acquisition date. The positive difference between the combination cost and the fair value of the identifiable net assets it obtains from the acquiree on the acquisition date is recognized as goodwill. As for the negative difference between the combination cost and the fair value of the identifiable net assets it obtains from the acquiree, it is necessary to review the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities it obtains from the acquiree as well as the combination cost. If the combination cost is still less than the fair value of the identifiable net assets it obtains from the acquiree, the difference shall be recorded through profit or loss for the current year.

Where the deductible temporary difference of the acquiree obtained by the acquirer is not recognized on the ground that the recognition condition of deferred tax asset has not been met on the acquisition date, within 12 months after the acquisition date, if further information is obtained to indicate that the relevant situation on the acquisition date existed and the economic interest brought by the deductible temporary difference of the acquirer on the acquisition date is expected to be realized, the amount of the difference shall be recognized as relevant deferred tax asset and goodwill shall be deducted by the same amount. If the goodwill is insufficient to be deducted, the difference is recognized through profit or loss for the current year; otherwise, the difference recognized as the deferred tax asset which is related to business combination shall be recognized through profit or loss for the current year.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

4. Business Combination (Continued)

(2) Business combination not under common control (Continued)

For the business combinations not under common control and completed through multiple transactions, according to Notice of the *Ministry of Finance of the People's Republic of China on Issuing Interpretations No.5 on Accounting Standards for Business Enterprises* (Caikui [2012] No.19) and the criteria about "package deal" in Article 51 of *Accounting Standards for Business Enterprises No.33 – Consolidated Financial statements* (refer to Note IV, 5 (2), whether these multiple transactions are included in "package deal" shall be judged. If they are included in "package deal", the accounting treatment shall be conducted in accordance with the descriptions of previous paragraphs of this Part and Note IV. 13 "Long-term Equity Investment"; if they are not included in "package deal", relevant accounting treatment shall be conducted differently in separate financial statements and consolidated financial statements.

In separate financial statements, the sum of the book value of the equity investment of the acquiree held before the acquisition date and the investment cost incurred on the acquisition date shall be the initial investment cost of such an investment. If the equity of the acquiree held before the acquisition date involves other comprehensive income, when handling this project, relevant accounting treatment for other comprehensive income shall be conducted on the same base as the acquiree disposes of relevant assets and liabilities directly (all shares shall be transferred into investment income for the current year, except the corresponding shares changed by net liabilities or net assets in benefit plan redesigned by the acquiree under equity method).

In consolidated financial statements, the equity of the acquiree held before the acquisition date shall be remeasured at fair value of the equity on the acquisition date, and the difference between fair value and book value shall be recorded in the current income from investment. If the equity of the acquiree held before the acquisition date involves other comprehensive income, relevant accounting treatment for other comprehensive income shall be conducted on the same base as the acquiree disposes of relevant assets and liabilities directly (all shares shall be transferred into investment income for the current year which consists of the acquisition date, except the corresponding shares changed by net liabilities or net assets in benefit plan redesigned by the acquiree under equity method).

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

5. Preparation Method for Consolidated Financial Statements

(1) The principle for determining the scope of consolidated financial statements

The scope of consolidated financial statements shall be determined on the basis of control. Control means the Company has power over the investee, by participating in the relevant activities of the investee and have variable returns, and the ability to use the power to influence the return amount of the investee. The combination scope includes the Company and all subsidiaries. A subsidiary is a corporate body controlled by the Company.

The Company will reassess combination scope if relevant elements on the control definition has changed due to the change of the relevant facts and circumstances.

(2) The method for preparation of consolidated financial statements

From the date the Company obtains the actual control over a subsidiary's net assets and production operation decision-making power the Company includes the subsidiary into the consolidated scope; from the date the Company loses control over a subsidiary, the subsidiary shall cease to be consolidated. For a subsidiary disposed of, the operating results and cash flows before the disposal date are appropriately included in the consolidated income statement and the consolidated cash flow statement; for a subsidiary disposed during the current year, no adjustments are made to the opening balance of the consolidated balance sheet. Where a subsidiary is acquired through a business combination not under common control, the subsidiary's operating results and cash flows after the combination date are appropriately included in the consolidated income statement and the consolidated cash flow statement, and no adjustments is made to the opening balance and comparative figures of the consolidated financial statements. Where a subsidiary is acquired through a business combination under common control, the subsidiary's operating results and cash flows from the beginning of the reporting period to the combination date are appropriately included in the consolidated income statement and the consolidated cash flow statement, and adjustments is made to the comparative figures of the consolidated financial statements accordingly.

When preparing the consolidated financial statements, if a subsidiary and the Company adopt the inconsistent accounting policies or accounting periods, the Company shall adjust the financial statements of the subsidiary based on its own accounting period and accounting policies. For a business combination not under common control, the subsidiary shall be adjusted based on the fair value of the identifiable net asset and adjustments to financial statements shall be made.

Notes to the Financial Statements

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(Unless otherwise stated, amount shall be expressed in RMB.)

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

5. Preparation Method for Consolidated Financial Statements *(Continued)*

(2) The method for preparation of consolidated financial statements *(Continued)*

All material balances, transactions, and unrealized profits within the scope of consolidated financial statements shall be eliminated in the preparation of consolidated financial statements.

Portion of shareholders' equity and current net profit or loss not attributable to the Company shall be solely presented in shareholders' equity of consolidated balance sheet and net profit of consolidated income statements, respectively. When the amount of loss for the current year attributable to minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of shareholders' equity of the subsidiary, the excess shall be allocated against the minority interests.

If the Company loses control over a subsidiary due to the disposal of a portion of an equity investment or other reasons, the remaining equity shall be remeasured at its fair value at the date when control is lost. The difference obtained through the total amount of consideration received from the disposal of equity and the fair value of the remaining equity, less 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 year when control is lost. Other comprehensive income related to the original subsidiary will be transferred into the current profit and loss in investment at the date the Company lost control over the subsidiary. (That is, in addition to the remeasurement of changes in the net liabilities or net assets of the defined benefit plan in the original subsidiary, the rest will be transferred into investment income for the current year.) After that, for the remaining part of this part of equity, according to *Accounting Standards For Enterprise No.2 – Long Term Equity Investment* or *Accounting Standards For Enterprises No.22 – Recognition And Measurement Of Financial Instrument* and related regulation for subsequent measurement, and there are details in Notes IV.13 "Long-term capital investment" or Notes IV.9 "Financial instruments"

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

5. Preparation Method for Consolidated Financial Statements *(Continued)*

(2) The method for preparation of consolidated financial statements *(Continued)*

If the Company loses control over a subsidiary in multiple transactions in which it disposes equity investments in the subsidiary in stages, the Company is required to determine whether each transaction shall be included in a package deal. If one or more than one of the following conditions are met by all of the terms and conditions of the transactions and their economic effects in regard to the disposal of equity investment in subsidiaries, the accounting treatment for these transactions shall be conducted as a package deal: ①These transactions are carried out simultaneously or in the condition that each part will be impacted; ②These transactions as a whole will achieve a complete business results; ③The occurrence of one transaction are dependent on at least one transaction; ④One transaction may seem to be uneconomic when considered solely, but it can be recognized as economic when considered with other transactions. If one transaction is not included in the package transaction, each of transaction will be according to the “Partly disposal of subsidiaries of a long-term equity investment without losing control” and each of the transaction will respectively follow the part disposal subsidiaries of a long-term equity investment under the control not lost (refer to Notes IV. 13. (2) ④) and “losing control due to disposal of part of equity investments or other reasons” of the original subsidiaries suited for the principle as accounting treatment. If disposal of equity investments in a subsidiary at other each transaction belonged to a package transaction until the Company losing control, thus each transaction shall be dealt with accounting treatment in which each transaction is recognized as one that dispose of subsidiaries until lose control. However, the difference between the disposals prices of prior before control lost with Company net asset shall be recognized as other comprehensive income, the profit and loss of current year shall be transferred when control is lost.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

6. Classification and Accounting Treatment of Joint Arrangements and Joint Operation

A Joint arrangement is an arrangement of which two or more parties have joint control. The Company divides joint venture arrangement into joint operation and joint venture based on the rights enjoyed and obligations assumed in joint venture arrangements. A joint operation is a joint arrangement whereby the Company has rights to the assets and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the Company has rights to the net assets of the arrangement.

The Company's investments in joint ventures are measured under equity method. Please refer to Note IV. 13. (2) ② "Long-term equity investments measured under equity method" for accounting policies for joint venture investment.

As a joint venture party, for joint operation, the Company recognizes the assets held solely and liabilities assumed solely and recognizes the Company's share of any assets held jointly and liabilities assumed jointly; recognizes the Company's revenue from the sale of its share of the output arising from the joint operation; recognizes the Company's share of the revenue from the sale of the output by the joint operation; recognizes the expenses incurred solely by the Company and the Company's share of any expenses incurred jointly.

When the Company invests or sells assets towards joint operation as a party of the joint-venture (this asset does not constitute business, the same below), or upon purchasing assets by joint operation but before selling such assets to the third party, the Company only recognizes the part belonging to other participants of joint operation in profit or loss caused by this transaction. Where such assets belong to the impairment losses for assets according to Accounting Standard for Business Enterprises No. 8 – Impairment of Assets and other regulations, the Company will recognize losses in full amount for investment or sales of assets from the Company to joint operation. For assets purchased by the Company from joint operation, the Company will recognize these losses according to its shareholding proportion.

7. Recognition Criteria for Cash and Cash Equivalents

The Company's cash and cash equivalents comprise cash on hand, deposits that can be readily withdrawn on demand, short-term (generally due within three months after the purchase date) and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

8. Foreign Currency Transaction and Translation of Foreign Currency Financial Statements

(1) Methods for Translation of Foreign Currency Transactions

For the foreign currency transaction incurred in the Company, the amount in foreign currency shall be translated into the amount in functional currency at initial recognition as per the spot rate on the transaction date (usually refers to the central parity rate published by the People's Bank of China on that day. The same below); but for foreign exchange businesses and transactions involving foreign exchange, the amount in foreign currency shall be translated into the amount in functional currency as per the actual exchange rate for recording.

(2) Methods for Translation of Monetary Items and Non-Monetary Items in Foreign Currency

As for monetary items in foreign currency on the balance sheet date, the amount in foreign currency shall be translated into the functional currency at the spot rate on the balance sheet date; where, the differences arising from the translation shall be recognized through profit or loss for the current year, except that ① differences between foreign exchange incurred from specific borrowings in foreign currency related to assets purchased and construction where capitalization criterion are met shall be treated as per the borrowings capitalization principle; ② differences in foreign exchange arising from other book balance change other than amortized cost for foreign currency monetary items available-for-sale shall be included into other comprehensive incomes.

When preparing the consolidated financial statements involving the overseas operation, if there are foreign-currency monetary items essentially constituting a net investment in an overseas operation, the exchange difference incurred due to the exchange rate change shall be listed in other comprehensive income. When overseas operations are disposed, the difference shall be transferred to the profit or loss for the current year.

The foreign currency non-monetary items measured at historical cost shall continue to be translated at the spot exchange rates at the dates of the transactions. The foreign currency non-monetary items measured at the fair value shall be translated at the spot exchange rate on the date when the fair value has been determined, and the difference between the translated reporting currency amount and the original one shall be treated as the changes in fair value and included in the current profit or loss or recognized as other comprehensive income.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

8. Foreign Currency Transaction and Translation of Foreign Currency Financial Statements *(Continued)*

(3) Translation Method of Financial Statements Denominated in Foreign Currency

When preparing the consolidated financial statements involving the overseas operation, if there are foreign-currency monetary items essentially constituting a net investment in an overseas operation, the exchange difference incurred due to the exchange rate change shall be presented in other comprehensive income as “difference arising from the translation of foreign currency financial statements”. When overseas operations are disposed, the difference shall be transferred to the profit or loss for the current year.

The foreign currency adopted in the foreign currency financial statements for overseas operation shall be translated into RMB as per the following methods: Assets and liabilities on the balance sheet shall be translated at the spot rate at the balance sheet date; shareholders’ equity items shall be translated at the spot rate occurred except for the item of “undistributed profit”. The income and expense items in the profit statement shall be translated at the average rate in the current year. The opening balance of undistributed profits are the closing balance of undistributed profits translated at the prior year; for closing balance of undistributed profits, each item shall be calculated and presented as per the translated profits; and the difference between the asset items and the sum of liability items and shareholders’ equity items after translation shall be recognized into other comprehensive incomes as translation difference from translation of foreign financial statements. When disposing overseas operation and losing the control, difference arising from the translation of foreign currency financial statements, which are presented under shareholders’ equity in the balance sheet and related to the overseas operation, shall be transferred to the profit or loss for the current year in whole or in proportion of the disposed overseas operation.

Cash flows in foreign currencies shall be translated using the average exchange rate for the current reporting period on the transaction date. The amount influenced by the changes in exchange rate on cash flows shall be presented individually in cash flow statement as a reconciling item.

Opening balance and prior year’s actual amount are presented in line with the amount after the translation of prior year financial statements.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

8. Foreign Currency Transaction and Translation of Foreign Currency Financial Statements *(Continued)*

(3) Translation Method of Financial Statements Denominated in Foreign Currency *(Continued)*

For the preparation of consolidated financial statements, when the disposal of all shareholders' equities with respect to the overseas operations by the Company, as well as parts of equity investments, results in a lost in control over the overseas operations, the Company shall convert the difference, which is presented under the items of the owner's equities of the parent company in the balance sheet and which arises from the translation of foreign currency financial statements relating to this overseas business, into the profit or loss of the period for disposal.

When overseas operational control is retained but the proportion of overseas operational equity held by the Company decreases due to disposal of partial equity investments or other reasons, the difference arising from translation of foreign currency relevant to the disposed portion of such overseas operation will be recognized as minority shareholder equity. The difference shall not be transferred into current profit or loss. In the event that the disposed overseas operation involves partial equities of affiliated enterprises and joint ventures, the difference arising from translation of foreign currency relevant to the disposed portion of such overseas operation will be transferred into the current profit or loss for disposal as per the disposed proportion of overseas operation.

9. Financial Instruments

The Company shall recognize a financial asset or financial liability at the date the Company enters into a contract concerning about financial instruments.

(1) Classification, recognition and measurement of financial assets

Based on the business model of the Company's management on the financial asset and the features of the cash flows of the financial asset, the Company classifies financial assets into the following categories: financial assets measured at amortized cost; financial assets at fair value through other comprehensive income; financial assets at fair value through profit or loss for the current period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

9. Financial Instruments (Continued)

(1) Classification, recognition and measurement of financial assets (Continued)

Financial assets are initially recognized at fair value. Relevant transaction cost of financial assets at fair value through profit and loss for the current period, shall be recognized into profit and loss for the current period. Relevant transaction cost of financial assets listed in other categories shall be included in the amount recognized initially. For accounts receivable or notes receivable arising from the sale of products or rendering of services, exclusive of or without consideration of material financing elements, the initial recognition shall be the amount of consideration to which the company is expected to be entitled.

① *Financial assets measured at amortized cost*

The business model that the company adopts to manage the financial assets measured at amortized cost is to collect the contractual cash flows, and the contractual cash flow characteristics of such financial assets are consistent with the basic debit, credit arrangements. The cash flow generated on a specific date is only the payment of principal and interest based on the amount of principal outstanding. For such financial assets, the company adopts the effective interest rate method and carries out subsequent measurement according to the amortized cost. The profit or loss generated by the amortization or impairment shall be recognized in the current profit and loss.

② *Financial assets at fair value through other comprehensive income*

The company's business model for managing such financial assets is to take the receipt of contract cash flow and sell, and the contract cash flow characteristics of such financial assets are consistent with the basic debit, credit arrangements. The company measures such financial assets according to the fair value and the changes are recognized in other comprehensive income, but the impairment loss or gain, exchange profit and loss and the interest income calculated according to the real interest rate method are recognized in the current profit and loss.

In addition, the company designated some non-tradable equity instruments as financial assets measured at fair value through other comprehensive income. The company shall recognize the relevant dividend income of such financial assets into the current profit and loss, and recognize the change of fair value in other comprehensive income. When the recognition of the financial asset is terminated, the accumulated gains or losses previously recognized in other comprehensive income shall be transferred from other comprehensive income to retained earnings and shall not be recognized in current profit and loss.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

9. Financial Instruments *(Continued)*

(1) Classification, recognition and measurement of financial assets *(Continued)*

③ *Financial assets at fair value through profit or loss for the current period*

The company classifies the financial assets, except for financial assets measured at amortized cost or at fair value through other comprehensive income as mentioned above, into the financial assets measured at fair value through profit or loss for the current period. In addition, the company shall designate some financial assets as financial assets measured at fair value through profit or loss for the current period upon the initial recognition to eliminate or significantly reduce accounting mismatch. For such financial assets, the company adopts the fair value for subsequent measurement, and changes in fair value are recognized in the profit or loss for the current period.

(2) Classification, recognition and measurement of financial liabilities

Financial liabilities shall be classified into other financial liabilities and financial liabilities measured at fair value through profit or loss for the current period upon initial recognition. For financial liabilities measured at fair value through profit or loss for the current period, relevant transaction costs are directly recognized in the current profit and loss, and the relevant transaction costs of other financial liabilities are recognized in the initial recognition amount.

① *Financial liabilities measured at fair value through profit or loss for the current period*

Financial liabilities measured at fair value through profit or loss for the current period comprise financial liabilities held for trading (including derivatives belonging to financial liabilities) and financial liabilities measured at fair value through profit or loss for the current period upon initial recognition.

Financial liabilities held for trading (including derivatives belonging to financial liabilities) shall be subsequently measured at the fair value. Except for those related to hedge accounting, changes in the fair value shall be recognized in the profit or loss of the current period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

9. Financial Instruments *(Continued)*

(2) Classification, recognition and measurement of financial liabilities *(Continued)*

- ① *Financial liabilities measured at fair value through profit or loss for the current period (Continued)*

For financial liabilities designated to be measured at fair value through profit or loss for the current period, liabilities caused by changes in the company's own credit risk of the changes in fair value recognized in other comprehensive income, when the liability is terminated for recognition, the accumulated change in its fair value caused by the change in its own credit risk recognized in other comprehensive income is transferred to retained earnings. If the above treatment of the impact of the change in the credit risk of such financial liabilities will cause or expand the accounting mismatch in the profit and loss, the company will record all the gains or losses of such financial liabilities (including the amount affected by the change in the credit risk of the enterprise) into the current profit and loss.

- ② *Other financial liabilities*

In addition to financial liabilities whose transfer of financial assets does not meet the conditions for termination of recognition or arising from the continuing involvement in the transfer of financial assets and other financial liabilities other than the financial security contract are classified as financial liabilities measured by amortized cost, carry out subsequent measurement according to the amortized cost, and record the profits or losses generated by the termination of recognition or amortization into the current profit and loss.

(3) The confirmation basis and measurement method of financial assets transfer

Financial assets that meet one of the following conditions shall be terminated for recognition: ① the contract right of receiving the cash flow of the financial asset is terminated; ② the financial assets have been transferred, and the ownership of financial assets almost all the risks and rewards transferred to the transferee; ③ the financial asset has been transferred, although the enterprise has neither transferred nor retained almost all risks and rewards in the ownership of the financial asset, it has given up its control over the financial asset.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

9. Financial Instruments *(Continued)*

(3) The confirmation basis and measurement method of financial assets transfer *(Continued)*

If the enterprise neither transfers nor retains nearly all the risks and rewards in the ownership of the financial assets and does not give up its control over the financial assets, the relevant financial assets shall be recognized according to the degree of continuing involvement in the transferred financial assets, and the relevant liabilities shall be recognized accordingly. The degree of continuing involvement in the transferred financial assets refers to the level of risk faced by the enterprise due to the change in the value of the financial assets.

If the overall transfer of financial assets meets the conditions for the termination of recognition, the balance between the book value of the transferred financial assets and the consideration received due to the transfer and the accumulative amount of changes in the fair value originally recognized in other comprehensive income shall be recognized into the current profit and loss.

If the partial transfer of financial assets meets the conditions for the termination of recognition, the book value of the transferred financial assets shall be apportioned according to its relative fair value between the terminated recognition and the non-terminated recognition, and the difference between the consideration received as a result of the transfer and the accumulative amount of changes in the fair value originally recognized in other comprehensive income and the apportioned book amount shall be recognized in the current profit and loss.

The company shall determine whether almost all risks and rewards in the ownership of the financial assets sold by means of recourse or transferred by endorsement of the financial assets held by the company have been transferred. Where almost all risks and rewards in the ownership of the financial asset have been transferred to the transferee, the recognition of the financial asset shall be terminated; If almost all risks and rewards in the ownership of the financial asset are retained, the recognition of the financial asset shall not be terminated; If there is no transfer or retention of nearly all risks and rewards in the ownership of the financial asset, the enterprise shall continue to judge whether it has retained control of the asset and conduct accounting treatment according to the principles described in the preceding paragraphs.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

9. Financial Instruments *(Continued)*

(4) Derecognition of financial liabilities

If the current obligation of the financial liability (or part thereof) has been discharged, the company shall terminate the recognition of such financial liability (or part thereof). The company (borrower) signs an agreement with the lender to replace the original financial liability by assuming the new financial liability. If the contract terms of the new financial liability and the original financial liability are substantially different, the company shall terminate the confirmation of the original financial liability and simultaneously confirm a new financial liability. If the company materially modifies the contract terms of the original financial liabilities (or part thereof), the original financial liabilities shall be terminated, and a new financial liability shall be recognized according to the revised terms.

Where the recognition of financial liabilities (or part thereof) is terminated, the company shall recognize the difference between its book value and the consideration paid (including the transferred non-cash assets or liabilities) into the current profit and loss.

(5) Offsetting of financial assets and liabilities

When the company has offset the confirmed amount of legal rights of financial assets and financial liabilities, and this kind of legal rights is the executable, at the same time, the company plans to net or cash at the same time when the financial assets and liquidation of the financial liability, financial assets and financial liabilities to offset each other after amount listed in the balance sheet. In addition, financial assets and financial liabilities shall be shown separately in the balance sheet and shall not be offset against each other.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

9. Financial Instruments *(Continued)*

(6) Method for determining the fair value of financial assets and financial liabilities

Fair value refers to the price that market participants can receive or transfer a liability to pay for the sale of an asset in an orderly transaction on the measurement date. Where there is an active market for a financial instrument, the company shall determine its fair value by quoting in the active market. A quote in an active market is a price that is readily available on a regular basis from an exchange, broker, trade association, pricing service, etc., and represents the market price traded in a fair trade. Where there is no active market for the financial instrument, the company shall determine its fair value by means of valuation technology. Valuation techniques include reference to the prices used in recent market transactions by parties familiar with and willing to trade, reference to the current fair value of other financial instruments that are substantially the same, cash flow discounting and option pricing models, etc. In valuation, the company uses valuation techniques applicable in the current situation and supported by sufficient available data and other information to select input values consistent with the characteristics of assets or liabilities considered by market participants in transactions of related assets or liabilities, and gives priority to relevant observable input values as far as possible. Use non-input values where relevant observable input values are not available or are not feasible to obtain.

(7) Equity instruments

Equity instruments are contracts that prove ownership of the residual interest in the company's assets after deducting all liabilities. The issuance (including refinancing), repurchase, sale or cancellation of the equity instruments of the company shall be treated as changes in the equity and the transaction fees related to the equity transactions shall be deducted from the equity. The company does not recognize changes in the fair value of equity instruments.

The Company's equity instruments distribute dividends (including "interests" generated by instruments classified as equity instruments) during the existence period as profit distribution treatment.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

10. Impairment of Financial Assets

The financial asset that the Company needs to confirm the impairment loss are financial assets measured at amortized cost, debt instrument investment measured at fair value and recognized in other comprehensive income and the leasing receivables, mainly includes notes receivables, accounts receivables, other receivables, creditor's rights investment, other creditor's rights investment, long-term receivables, etc. In addition, for the contract assets and part of the financial security contracts, the provisions for impairment and the recognition of credit impairment losses shall be made in accordance with the accounting policies described in this part.

(1) The recognition method of provision for impairment

Based on the expected credit loss, the Company shall calculate the provision for impairment and confirm the credit impairment loss in accordance with its applicable expected credit loss measurement method for the above-mentioned items.

Credit loss refers to the difference between all contract cash flows receivable under the contract discounted at the effective interest rate and all cash flows expected to be collected, which is the present value of the entire cash shortage. The financial assets purchased or produced by the Company with credit impairment shall be discounted according to the effective interest rate of the financial assets after credit adjustment.

The general method of measuring the expected credit loss refers to whether the credit risk of financial assets (including contract assets and other applicable items, the same below) evaluated by the Company on each balance sheet date has increased significantly since the initial recognition. If the credit risk has increased significantly since the initial recognition, the Company shall measure the loss provision according to the amount equivalent to the expected credit loss in the whole duration; If the credit risk has not increased significantly since the initial recognition, the Company shall measure the loss provision according to the amount equivalent to the expected credit loss in the next 12 months. The company shall take into account all reasonable and substantiated information, including forward-looking information, in the evaluation of expected credit losses.

For financial instruments with low credit risk on the balance sheet date, the Company assumes that the credit risk has not increased significantly since the initial recognition and chooses to measure the loss provision according to the expected credit loss in the next 12 months.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

10. Impairment of Financial Assets *(Continued)*

(2) Criteria for determining whether credit risk has increased significantly subsequent to the initial recognition

If the probability of default of a financial asset within the expected duration as determined on the balance sheet date is significantly higher than the probability of default within the expected duration as determined at the initial recognition, the credit risk of the financial asset increases significantly. Except in special cases, the Company shall use the change of default risk in the next 12 months as a reasonable estimate of the change of default risk in the whole duration to determine whether the credit risk has increased significantly subsequent to the initial recognition.

(3) Portfolio approach to assessing expected credit risk on a portfolio basis

The company evaluates credit risk separately for the credit risk of significantly different notes receivables, accounts receivables and other receivables with the following characteristics. Such as: related party accounts receivable; accounts receivables in dispute with the other party or involving litigation or arbitration; notes receivables, accounts receivables that have shown clear signs that the debtor is likely to be unable to meet repayment obligations.

In addition to individual financial assets that assess credit risk, the Company classifies financial assets into different groups based on common risk characteristics and evaluates credit risk on a portfolio basis.

(4) Accounting treatment of the impairment of financial assets

At the end of the year, the Company calculates the expected credit loss of various financial assets. If the expected credit loss is greater than the book value of the current provision for impairment, the difference shall be recognized as impairment loss. If the expected credit loss is less than the book value of the current provision for impairment, the difference shall be recognized as an impairment gain.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

10. Impairment of Financial Assets *(Continued)*

(5) Method for determining the credit loss of financial assets

The Company conducts credit risk evaluation individually for notes receivable, accounts receivable and other receivables with significantly different credit risks and the following characteristics: amounts due from related parties; receivables that are in dispute with the other party or involve litigation or arbitration; notes receivable and accounts receivable with indications that the debtor is likely to be unable to perform the repayment obligations, etc.

Based on the credit risk characteristics of the financial assets without credit impairment in the single evaluation, the Company divides them into different portfolios:

① *The determination basis of credit risk characteristic combination*

Project	Basis for determining the combination
Portfolio 1 (aging portfolio)	Except for accounts receivable and other receivables which have been separately measured for losses, the Company shall consider the forward-looking information and determine the loss reserve based on the expected credit losses of accounts receivable portfolios with similar credit risk characteristics according to the same or similar age segments in previous years.
Portfolio 2 (portfolio of financial assets with extremely low credit risk)	Calculating notes receivable and other receivables with minimal credit risk based on expected credit losses
Portfolio 3 (related party portfolio)	Other receivables of related parties
Portfolio 4 (deposit portfolio)	Deposits, advances, quality guarantee deposit, employee loans and other receivables that should be collected in daily regular activities

Age analysis was based on the posting date.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Impairment of Financial Assets (Continued)

(5) Method for determining the credit loss of financial assets (Continued)

- ② The company shall calculate its expected credit loss based on the expected duration and recognize the loss reserve of financial assets according to the combination in credit risk evaluation, the financial assets structure and similar credit risk characteristics (the ability of the debtor according to the terms of the contract to repay the arrears), combined with historical default loss experience, the current economic situation and forward-looking information.

Methods of different combinations for measuring loss provision:

Project	Methods of measurement
Portfolio 1 (aging portfolio)	Expected duration
Portfolio 2 (portfolio of financial assets with extremely low credit risk)	Expected duration
Portfolio 3 (related party portfolio)	Expected duration
Portfolio 4 (deposit portfolio)	Expected duration

- ③ The expected credit loss rate of each portfolio is shown below:

Portfolio 1 (aging portfolio): expected credit loss rate

Aging	Accounts receivable expected credit loss rate (%)	Other receivables expected credit loss rate (%)
Within 1 year (including 1 year, the same below)	1.00	1.00
1 to 2 years	10.00	10.00
2 to 3 years	30.00	30.00
3 to 4 years	50.00	50.00
4 to 5 years	80.00	80.00
More than 5 years	100.00	100.00

Portfolio 2 (portfolio of financial assets with extremely low credit risk): Considering the historical default loss experience, current economic conditions and forward-looking information, the expected credit loss rate is 0.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

10. Impairment of Financial Assets *(Continued)*

(5) Method for determining the credit loss of financial assets *(Continued)*

③ The expected credit loss rate of each portfolio is shown below: *(Continued)*

Portfolio 3 (related party portfolio): Considering the historical default loss experience, current economic conditions and forward-looking information, the expected credit loss rate is 0.

Portfolio 4 (deposit portfolio): Considering the historical default loss experience, current economic conditions and forward-looking information, the expected credit loss rate is 0.

11. Inventories

(1) Category of inventories

Inventories mainly includes materials in transit, raw materials, work in progress, Semi-finished goods, finished goods, low-value consumables, packaging materials, Consigned processing material, goods on consignment, commodity stocks, goods in transit, etc.

(2) Method/formula used to assign cost for inventories

The inventory shall be initially measured at actual costs when acquired. The cost of inventory comprises all costs of purchase, costs of conversion and other costs. Cost is determined using the weighted average method. The cost of finished goods, commodity stocks and work in progress comprises raw material, direct labor and overhead allocated based on normal capacity.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

11. Inventories *(Continued)*

(3) Recognition of net realizable value of inventory and accruing method of provision for the loss on decline in value of inventories.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. An enterprise shall determine the net realizable value of inventories based on solid evidence obtained and after taking into consideration the purpose for which the inventory is held, and the effect of events occurring after the balance sheet date.

Inventories are required to be measured at the lower of cost and net realizable value on the balance sheet date. If the cost of inventories is higher than the net realizable value, the provision for the loss on decline in value of inventories shall be made. The provision for the loss on decline in value of inventory is assessed based on the difference between the cost of single inventory item and its net realizable value.

After the provision for the loss on decline in value of inventories is made, if the circumstances that previously caused inventories to be written down below cost no longer exist so that the net realizable value of inventories is higher than their cost, the original provision for the loss on decline in value is reversed and the reversal is included in current profit or loss.

(4) The perpetual inventory system is adopted.

(5) Amortization method for low value consumables

Immediate write-off method is used for low value consumables upon usage.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

12. Assets Held for Sale and Disposal Company

If the Company recovers its book value primarily through the sale instead of the continuous use of a non-current asset or disposal group (including the exchange of non-monetary assets with commercial substance, the same below), then the assets shall be classified as assets held for sale. The specific criteria are all of the following conditions are achieved: a non-current asset or disposal group can be sold immediately under the current conditions based on the practice of selling such assets or disposal groups in similar transactions; the Company has already decided on the sale plan and obtained the purchase commitment; the sale will be completed within one year. Among them, a disposal group refers to a group of assets that are disposed of as a whole through sale or other methods in a transaction, and liabilities that are directly related to these assets are transferred in the transaction. If the asset group or asset group to which the disposal group belongs is allocated the goodwill acquired in the business combination in accordance with *Accounting Standards for Business Enterprises No. 8 – Impairment of Assets*, the disposal group shall include the goodwill allocated to the disposal group.

Upon initial measurement or re-measurement of non-current assets held for sale or disposal group on the balance sheet date, if the book value is higher than the net amount of fair value minus sales expense, the book value shall be written down to the net amount of fair value minus sales expense; the amount written down is recognized as impairment losses for assets and included in current profit or loss. Meanwhile, impairment reserves for assets held for sale is accrued. For the disposal group, firstly, the recognized impairment losses for assets deduct the book value of the goodwill in the disposal group. Then the loss proportionally deducts the book value of the various non-current assets in the disposal group under the measurement regulations based on *Accounting Standards for Business Enterprises No. 42 – Non-current Assets Held for Sale, Disposal Companies and Termination of Operations* (hereinafter referred to as the “holding for sale”). If the fair value of the disposal group held for sale on the subsequent balance sheet date minus the sales proceeds increases, the amount previously written down shall be recovered. This part of amount should be reversed within the impairment losses of non-current assets which are applicable for held for sale measurement criteria after these assets are classified as assets held for sale. The reversal amount is recognized in current profit or loss. Meanwhile, the book value of these non-current assets (except goodwill) in disposal group should be increased proportionally according to the book value of each non-current asset which is applicable to held for sale measurement criteria. The book value of goodwill that has been deducted and the impairment losses recognized before the non-current assets classified as held for sale category cannot be reversed.

Depreciation or amortization shall not be accrued for non-current assets held for sale or non-current assets in the disposal group held for sale. The interest of liabilities and other expenses in the disposal group held for sale shall be recognized.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

12. Assets Held for Sale and Disposal Company *(Continued)*

When a non-current asset or disposal group no longer meets the conditions for the held for sale category, the Company no longer divides it into the held for sale category or removes the non-current assets from disposal groups held for sale., and the asset or asset group is measured by the following two items: (1) the amount of book value classified as held for trading after depreciation, amortization, impairment or other adjustments to be recognized based on the hypothesis that they are not classified as held for trading; (2) the recoverable amount, whichever is lower.

13. Long-term Equity Investments

Long-term equity investments in this part refers to the long-term equity investments that the Company can exercise control, joint control or significant influence over the investee. When the Company can no longer exercise control, joint control or significant influence over the investee, the long-term equity investment shall be treated as financial asset measured at fair value through profit or loss for the current year, and for non-transactional long-term equity investment among which, the Company can designate it to be financial asset measured at fair value through other comprehensive income upon initial recognition. Please refer to Note IV. 9. Financial instrument for accounting policies.

Joint control refers to joint control owned by the Company over an arrangement as per relevant agreements and relevant activities of this arrangement must be determined upon consent of participants sharing the right of control. The term “significant influence” refers to the power to participate in making determinations on the financial and operating policies of an investment entity, but not to control or do joint control together with other parties over the formulation of these policies.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

13. Long-term Equity Investments *(Continued)*

(1) Recognition of Investment Cost

If the long-term equity investment is obtained from the business combination involving enterprises under the common control, the share of book value of shareholder's equity of the acquiree in consolidated financial statements of the ultimate controlling party under the combination date shall be deemed as the initial investment cost of the long-term equity investment. The difference between the initial investment cost and the book value of cash paid, non-cash assets transferred, and liabilities assumed shall be adjusted to capital reserve. If the balance of capital reserve is not sufficient, any excess shall be adjusted to retained earnings. If the Company issues equity securities as the consideration for combination, the book value of the shareholder's equity of the combined party on the combination date in consolidated financial statements of the ultimate controlling party shall be the initial investment cost of long-term equity investments. With the total face value of the shares issued as equity, the difference between the initial investment cost of long-term equity investment and the total face value of the shares issued shall be adjusted as capital reserve. If the capital reserve is insufficient to set it off, the retained earnings shall be adjusted. If shares of the acquiree are obtained step by step through several transactions, which results in the combination of enterprises under the different control, it shall be treated respectively as per whether it belongs to "a package deal": where it belongs to "a package deal", the accounting treatment for each transaction shall be conducted as a transaction obtaining the right of control. Where it does not belong to "a package deal", the book value of the shareholder's equity of the acquiree on the combination date in consolidated financial statements of the ultimate controlling party shall be the initial investment cost of long-term equity investments. The difference among the initial investment cost of long-term equity investments, the book value of long-term equity investment which has reached the amount before the combination and total book value of new payment consideration obtained under the acquisition date shall be adjusted as capital reserve. If the capital reserve is insufficient to set it off, the retained earnings shall be adjusted. As the other comprehensive income is measured under equity method or recognized as financial assets measured at fair value through profit or loss for the current year, the accounting treatment on the equity investments held before the combination date shall not be conducted.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

13. Long-term Equity Investments *(Continued)*

(1) Recognition of Investment Cost *(Continued)*

For long-term equity investment obtained through business combination not involving enterprises under the common control, the cost of combination shall be deemed as the initial investment cost of long-term equity investments on the acquisition date, and the cost of combination is the aggregate of the fair values, include the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer. If shares of the acquiree are obtained step by step through several transactions, which results in the combination of enterprises under the different control, it shall be treated respectively as per whether it belongs to “a package deal”: where it belongs to “a package deal”, the accounting treatment for each transaction shall be conducted as a transaction obtaining the right of control. Where it does not belong to “a package deal”, the sum of the book value of equity investment of the acquiree held originally and additional investment costs shall be initial investment costs of long-term equity investment if the accounting method is changed as cost approach. If equity held originally is accounted for using equity method, the accounting treatment shall not be conducted on the other comprehensive income related to it.

The intermediary costs for the business combination including the expenses for audit, legal services and consultancy services and other relevant management costs by the merging party and the acquirer shall be recorded into current profit or loss.

Equity investments other than long-term equity investment from business combination are initially measured at cost. Such cost is respectively recognized at the purchase price in cash actually paid by the Company, fair value of equity securities issued by the Company, specified value in investment contracts or agreements, fair value or original book value of transferred assets in non-monetary asset exchange and transactions and fair value of the long-term equity investment itself based on different means of acquiring that long-term equity investment. Expenses, taxes and other necessary expenditures directly related to the acquisition of long-term equity investment are also included into investment cost. In case of being able to implement significant influence or common control to the invested entity due to additional investment but which does not constitute control, cost of long-term equity investment shall be the sum of fair value of original held equity investment recognized as per the *Accounting Standards for Business Enterprises No.22 – Recognition and Measurement of Financial Instruments* and newly increased investment cost.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

13. Long-term Equity Investments *(Continued)*

(2) Subsequent Measurement and Method of Recognition of Profit or Loss

Where an investing enterprise can exercise joint control (except those that constitutes the joint operators) or significant influence over the investee, a long-term equity investment shall be accounted for using the equity method. In addition, the Company uses the cost model in the financial statements to calculate long-term equity investment that can control the investee.

① *Long-term Equity Investment Income Accounted by Cost Method*

The long-term equity investment accounted by the cost model shall be measured at the initial investment cost. And the additional or recovered investments shall be used to adjust the cost of long-term equity investment. Except for the cash dividends or distributions declared and not yet distributed in the considerations paid to acquire the investment, the cash dividend or distributions declared by the investee that belong to the investee shall be recognized as the investment gains.

② *Long-term Equity Investment Accounted by Equity Method*

If the initial cost of a long-term equity investment, accounted by equity method, is more than attributable share of the fair value of the investee's identifiable net assets for the investment in the investee, the initial cost of the long-term equity investment may not be adjusted; if the initial cost of a long-term equity investment is less than the attributable share of the fair value of the investee's identifiable net assets for the investment in the investee, the difference shall be recorded into current profit or loss and the cost of the long-term equity investment shall be adjusted simultaneously.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

13. Long-term Equity Investments *(Continued)*

(2) Subsequent Measurement and Method of Recognition of Profit or Loss *(Continued)*

② Long-term Equity Investment Accounted by Equity Method *(Continued)*

When it is accounted by equity method, the investment gains and other comprehensive incomes shall be recognized respectively, and the book value of long-term equity investment shall be adjusted according to the net profit or loss and other comprehensive incomes realized by the investee, which shall be enjoyed or shared. The enjoyed part shall be accounted according to profits or cash dividends announced to be assigned by the investee with the corresponding decrease of the book value of long-term equity investment. For other changes of shareholder's equity excluding net profit or loss of investee, other comprehensive income and profits distributed, the book value of long-term equity investments shall be adjusted and included into capital reserve. The Company shall, on the ground of the fair value of all identifiable assets of the investee when it obtains the investment, recognize the attributable share of the net profit or loss of the investee after it adjusts the net profits of the investee. If the accounting policies and accounting period adopted by the investee do not consistent with the investor, the financial statements of the investee shall be adjusted according to the accounting policies and accounting periods of the Company, and according to which the investment profits and other comprehensive incomes shall be recognized. If investment and sales of assets cannot be constructed as business in transactions between the Company, associates and joint ventures, the unrealized profit or loss of internal transaction shall be offset through calculating the part attributable to the Company based on sharing ratio so as to recognize the profit or loss of investment. Where the unrealized losses from the internal transactions between the Company and the invested entity belong to the impairment losses from the transferred assets, they shall not be written off. Where the assets contributed by the Company towards joint ventures or associates constitute business, and the investor acquires long-term equity investment but not the control right thereof, the fair value of the contribution shall be the initial investment cost of the newly added long-term equity investment. The balance of book value between initial investment cost and the contribution shall be recorded into current profit or loss in full amount. If the assets sales, from the Company to joint ventures or associates, constitute business, the total difference between consideration achieved and book value of business shall be recorded into current profit or loss. Where the assets purchased by the Company from associates and joint ventures constitute business, accounting treatment shall be carried out based on *Accounting Standards for Business Enterprises No.20 – Business Combination* and recognize the profit or loss in relation to the transaction in full amount.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

13. Long-term Equity Investments *(Continued)*

(2) Subsequent Measurement and Method of Recognition of Profit or Loss *(Continued)*

② Long-term Equity Investment Accounted by Equity Method *(Continued)*

The Company shall recognize the net losses of the investee until the book value of the long-term equity investment and other long-term equity which substantially forms the net investment made to the investee are reduced to zero. In addition, if the Company has the extra obligation towards its investee to undertake extra losses, the extra obligation shall be recognized as Provisions according to expected obligation and recorded into current profit or loss. If the investee realizes any net profits later, the Company shall, after the amount of its attributable share of profits offsets against its attributable share of the unrecognized losses, resume recognizing its attributable share of profits.

③ Minority Equity Purchase

When preparing consolidated financial statements, as for the difference between the long-term equity investment increased newly due to purchase minority equity and the net asset proportion continuously calculated from the purchase date (or combination date) by subsidiary based and enjoyed by the Company based on newly increasing shareholding ratio, capital reserve is adjusted. If the capital reserve is insufficient to write down, the retained income shall be adjusted.

④ Disposal of Long-term Equity Investment

In the consolidated financial statements, the parent company disposes the long-term equity investment of the subsidiary without losing control right. The difference between the disposing amount and the net asset of the subsidiary enjoyed correspondingly in disposing long-term equity investment is recorded into shareholder's equity; If the parent company loses its control right on the subsidiary due to the disposal of the long-term equity investment of the subsidiary, the relevant accounting policy as indicated in Note IV, 5 (2) "Method for Preparation of Consolidated Financial Statements" shall be followed for handling.

When disposing of a long-term equity investment under other circumstances, for equity being disposed, the difference between its book value and actual purchase price shall be recorded into current profit or loss.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

13. Long-term Equity Investments *(Continued)*

(2) Subsequent Measurement and Method of Recognition of Profit or Loss *(Continued)*

④ Disposal of Long-term Equity Investment *(Continued)*

If long-term equity investment is accounted by equity method while the residual equity after disposal is still accounted for by equity method, the accounting treatment of other comprehensive income included in shareholder's equity originally shall be conducted as per proportion on the same base as investee disposes of relevant assets and liabilities directly. Other shareholder's equity, which is recognized for changes of other shareholder's equity of the investee excluding net profit or loss, other comprehensive incomes and profits distribution, shall be translated into current profit or loss as per proportion.

If long-term equity investment is accounted by the cost model while the residual equity after disposal is still accounted by the cost model, the accounting treatment of other comprehensive incomes which are recognized for being accounted by equity method or recognition and measurement standards of financial instruments shall be conducted on the same base as investee disposes of relevant assets and liabilities directly, and other comprehensive incomes shall be carried over into current profit or loss as per proportion. Owners' equity, which is recognized for changes of other shareholder's equity of the investee excluding net profit or loss, other comprehensive incomes and profits distribution when the equity method is adopted, shall be carried over into current profit or loss as per proportion.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

13. Long-term Equity Investments *(Continued)*

(2) Subsequent Measurement and Method of Recognition of Profit or Loss *(Continued)*

④ Disposal of Long-term Equity Investment *(Continued)*

When the Company loses the control over investee for disposal of some shares, the accounting method shall be changed as equity method in compiling individual financial statements and the remaining shares shall be deemed to be adjusted by equity method upon being obtained if the remaining shares after disposal still have joint control or significant impacts on investee. While the remaining shares after disposal do not have joint control or significant impacts on investee anymore, the accounting treatment shall be conducted as per regulations related to recognition and measurement standards of financial instruments and its difference between fair value and book value on the date of losing the control shall be included into current profit or loss. For other comprehensive income recognized as being accounted by equity method or recognition and measurement standards of financial instruments before the Company obtains the control over investee, its accounting treatment shall be conducted on the same base as investee disposes of relevant assets and liabilities directly upon losing the control over investee, and other shareholder's entity in net assets of investee accounted for by equity method, excluding net profit or loss, other comprehensive income and profits distribution, shall be carried over into current profit or loss in the event of losing the control over investee. Of which, if the residual equity investment after disposal is calculated by equity method, other comprehensive income and shareholder's equity shall be transferred by proportion; where the residual equity investment after disposal changes to be conducted with accounting treatment according to standard of recognition and measurement of financial instruments, other comprehensive income and shareholder's equity shall be transferred.

Where the Company's common control or significant influence over the investee is lost due to the disposal of partial equity investment, the residual equity after disposal will change to be calculated by standard of recognition and measurement of financial instruments, the balance between the fair value and book value thereof on the date the common control or significant influence is lost shall be included into current profit or loss. Other comprehensive income recognized by calculating original equity investment by equity method shall go through accounting treatment on the same basis on which the investee directly disposes the relevant assets or liabilities when ceasing to use equity method; for the shareholder's equity recognized by other changes on shareholder's equity rather than net profit or loss, other comprehensive income and profit distribution of the investee shall be transferred into current investment income when ceasing to use equity method.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

13. Long-term Equity Investments *(Continued)*

(2) Subsequent Measurement and Method of Recognition of Profit or Loss *(Continued)*

④ Disposal of Long-term Equity Investment *(Continued)*

If the Company's disposal of equity investments in a subsidiaries leading to losing control, the foregoing transaction is package deal, accounting treatment shall be conducted for each transaction as the transaction that the disposal of the subsidiary with loss of control right; before loss of control right, the difference between each price disposal and the book value of long-term equity investment correspondingly in equity disposed shall be firstly recognized in the other comprehensive income and then wholly transferred into current profit or loss when losing control right.

14. Investment Property

Investment property is property held to earn rentals or for capital appreciation or both, including the land use rights which have been rented, land use right held for transfer after capital gain, and buildings which have been rented.

Investment property is measured initially at cost. Subsequent costs related to investment property are recognized in the cost of the investment property, if the economic benefits of the asset will probably flow in and the cost can be measured reliably. Other subsequent costs are recognized through profit or loss in the periods in which they are incurred.

After initial recognition, the Company uses the cost model to measure the investment property, and depreciates and amortizes the investment property according to provisions that buildings should be consistent with land use rights.

Please refer to Note VI. 22 "Long-term Asset Impairment" for the methods of impairment test and preparing provisions for the impairment of investment property.

When an owner-occupied property or an inventory are transferred into an investment property, or when an investment property is transferred into an owner-occupied property, the book value prior to the transfer is recognized as the book value after the transfer.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

14. Investment Property *(Continued)*

When an investment property is transferred into an owner-occupied property, the investment property is reclassified as fixed asset or intangible asset since the date of transfer. When the purpose of an owner-occupied property is transferred to generate rent or receive capital gain, the fixed asset or the intangible asset is transferred to investment property since the date of transfer. After the transfer, investment property measured at cost, recognizes the book value prior to the transfer as the book value after the transfer; for investment property transferred to be measured under fair value model, the fair value at the transfer date shall be recognized as the book value after transfer.

An investment property shall be derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the book value of the asset and shall be recognized in profit or loss in the period of the retirement or disposal.

15. Fixed Assets

(1) Recognition Criteria of Fixed Assets

Fixed assets are tangible assets that are held for use in the production or supply of services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognized only when it is probable that economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. Fixed assets are initially measured at cost and the effect of any expected costs of abandoning the asset at the end of its use is considered.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

15. Fixed Assets (Continued)

(2) Depreciation Method of Fixed Assets

From the next month of bringing the fixed asset to the expected conditions for use, the fixed assets are depreciated using the straight-line method over their estimated useful lives. Estimated useful life net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

Category	Depreciation Method	Depreciation period (years)	Residual rate (%)	Annual depreciation rate (%)
Buildings	Straight-line method	10-70	0~10	1.29~10
Machinery equipment	Straight-line method	4-18	0~10	5~25
Transportation equipment	Straight-line method	5-10	0~10	9~20
Electronic equipment	Straight-line method	5-10	0~10	9~20
Office equipment	Straight-line method	4-8	0~10	11.25~25
Decoration	Straight-line method	5	0	20

Estimated net residual value of a fixed asset is the estimated amount that the Company would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

(3) Impairment Testing and Accounting Treatment

As for impairment testing method and accounting treatment, please refer to Note IV. 22 "Long-term Asset Impairment".

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

15. Fixed Assets *(Continued)*

(4) Others

The subsequent expenses related to a fixed asset, if the economic benefits pertinent to the fixed asset are probably to flow into the enterprise and the cost of the fixed asset can be measured reliably, shall be included in the cost of the fixed asset and the book value of the replaced parts shall be derecognized. Any other subsequent expenses shall be recorded into current profit or loss.

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognized. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying value and related taxes is recognized in current profit or loss.

The Company reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least once at the end of each financial year and treats the changes as changes of in accounting estimate.

16. Construction in Progress

The cost of construction in progress is recognized based on actual project expenditure, including each project expenditure during the construction, capitalized borrowing costs before the construction get ready for its intended use and other relevant expenses.

When a construction in progress is available for use, it is recognized in fixed assets and depreciated from the next months. The construction budget, construction cost, construction actual cost, etc. of a construction in progress, which is available for use but not yet completed the final accounts, is recognized at the estimated cost in fixed assets since the date when it is available for use. Provision for depreciation is accrued according to the Company's depreciation policies of fixed assets. The estimated value is adjusted to actual costs subsequent to the completion of settlement.

Please refer to Note IV. 22 "Long-term Asset Impairment" for the impairment test method and impairment provision method of construction in progress.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

17. Borrowing Costs

Borrowing costs include interest, amortization of discounts or premiums related to borrowings, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings. Where the borrowing costs incurred to an enterprise can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, they shall be capitalized: (i) Where the expenditures for the asset are being incurred; (ii) Where the borrowing costs are being incurred; and (iii) where the construction activities which are necessary to prepare the asset for its intended use or sale have commenced capitalization of borrowing costs shall cease when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale. Other borrowing costs shall be recognized as expenses in the period in which it is incurred.

The amount of interest of specific-purpose borrowings to be capitalized shall be the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds. An enterprise shall determine the amount of interest to be capitalized on general-purpose borrowings by applying a capitalization rate to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of specific-purpose borrowings. The capitalization rate shall be the weighted average of the interest rates applicable to the general-purpose borrowings.

During the period of capitalization, the exchange differences on foreign currency specific-purpose borrowings shall be all capitalized; the exchange differences on foreign currency general-purposes borrowings shall be recorded into current profit or loss.

Qualifying assets are assets (fixed assets, investment property, inventories, etc.) that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

Capitalization of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, when the interruption is for a continuous period of more than 3 months until the acquisition, construction or production is resumed.

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(Unless otherwise stated, amount shall be expressed in RMB.)

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

18. Biological assets

Bearer biological assets

Bearer biological assets refer to biological assets held for the purpose of producing agricultural products, providing labor services or renting, including economic forests, firewood forests, livestock production and working animals. Bearer biological assets are initially measured at cost. The cost of a Bearer biological asset created or propagated by itself is the necessary expenses directly attributable to the asset before the asset reaches its intended production and operation, including borrowing costs that meet the capitalization conditions.

The Bearer biological assets are depreciated over their useful lives using the straight-line method after reaching the intended production and operation objectives. The service life, estimated net residual value rate and annual depreciation rate of various types of Bearer biological assets are listed as follows:

Category	Service life	Estimated Net Residual Rate (%)	Annual Depreciation Rate (%)
Cha Zhigan tree	10 years	5.00	9.50

The Company reviews the useful life, estimated net residual value and depreciation method of the Bearer biological assets at least at the end of the year, and changes the accounting estimates as changes occur.

The difference between the disposal income of the sale, loss, death or damage of the Bearer biological assets, net of its carrying amount and related taxes, is recognized in profit or loss for the current period.

On each balance sheet date, the Company checks the Bearer biological assets for signs of possible impairment. If the asset shows signs of impairment, its recoverable amount is estimated. The estimated recoverable amount of an asset is based on a single asset. If it is difficult to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group is determined based on the asset group to which the asset belongs. If the recoverable amount of the asset is lower than its carrying amount, the asset impairment provision is made based on the difference and recognized in profit or loss for the current period.

Once the above asset impairment loss is confirmed, it will not be reversed in the future accounting period.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

18. Biological assets *(Continued)*

Bearer biological assets *(Continued)*

If the Bearer biological assets are changed, as the expendable biological assets, the cost after changing the use is determined according to the book value when the use is changed; if the Bearer biological assets are changed as the public welfare biological assets, then according to the *Accounting Standards for Business Enterprises No. 8 – Asset Impairment* stipulates whether impairment is considered. When impairment occurs, provision for impairment is made, and then the book value after provision for impairment is determined.

19. Intangible Assets

(1) Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Company.

The intangible assets shall be initially measured at cost. The expenses pertinent to an intangible asset shall form part of the cost of the intangible assets, if it is probable that the economic profit related to the asset will flow to the Company and the cost can be measured reliably. In addition, the expenditure of other items shall be recorded into current profit or loss in the period in which it is incurred.

The acquisition of land use right is usually recognized as intangible assets for accounting purposes. Building such as self-constructed plant, relevant expenditure incurred for obtaining land use right and construction cost of the building shall be recognized as intangible asset and fixed asset for accounting purposes. Cost incurred on purchased building shall be allocated between land use right and building. The cost shall be recognized as fixed asset if it cannot be reasonably allocated.

An intangible asset with a finite useful life shall be amortized using straight line method based on the original value, less estimated residual value and the accumulative amount of impairment provision within the estimated useful life. An intangible asset with an indefinite useful life shall not be amortized.

At the end of the period, it is necessary to review the useful life and amortization method of the intangible asset with limited useful life. In case of any change, it shall be treated as changes in accounting estimation. In addition, according to the available conditions, Intangible assets with conclusive evidence that cannot be reasonably estimated for their useful lives shall be recognized as intangible asset with uncertain useful life.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

19. Intangible Assets *(Continued)*

(1) Intangible Assets *(Continued)*

The Company owns the trademarks of Baiyunshan, Dashen products and series of Xing Qun, Zhong Yi, Pan Gao Shou, Chen Li Ji, Jing Xiu Tang, Qi Xing, Jianzhiqiao, Guo Ying, Jian Min, etc. The Company believes that these product trademarks shall be used and bring expected economic benefits inflows in the foreseeable future. Therefore, these trademarks are recognized as intangible assets with uncertain useful life.

(2) Research and development expenditure

The expenditures of the research and development project inside the Company can be divided into research expenditure and development expenditure.

The specific qualifying 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 original medicines). Commencement of Phase III clinical trial is determined based on the approval by authorities.

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

Research expenditures shall be recorded into profit or loss for the periods in which the expenditures are incurred.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

19. Intangible Assets *(Continued)*

(2) Research and development expenditure *(Continued)*

Development expenditures are capitalized when the all following conditions are met, otherwise it will be recorded into the profits and losses in the current year:

- ① the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- ② its intention to complete the intangible asset and use or sell it;
- ③ how the intangible asset will generate economic benefits. Among other things, the enterprise can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- ④ the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- ⑤ its ability to measure reliably the expenditure attributable to the intangible asset during its development phase.

If the expenditures cannot be distinguished between research phase and development phase, the Company recognizes all expenditures into current profit or loss.

(3) Impairment test method and impairment provision assessing method of intangible asset

Please refer to Note IV. 22 “Long-term Asset Impairment” for the impairment test method and impairment provision method of intangible asset.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

20. Long-Term Prepaid Expenses

Long-term prepaid expenses include expenses such as improvements on leasehold fixed assets and expenses that have been occurred but borne in the current year and in the subsequent periods with amortization term of over one year. Amortization is carried out over the expected beneficial period, and disclosed as the net value of the actual expenditures minus accumulated amortization.

21. Contract Liability

Contract liabilities refer to the Company's obligation to transfer goods to customers for consideration received or receivable from customer. If the customer has paid contract consideration or the Company has obtained unconditional right to receive payment prior to the Company transferring goods to the customer, the Company shall recognize payment received or receivable into contract liabilities at the earlier date between the date when the customer makes payment or the due date of payment. Contract assets and contract liabilities under the same contract shall be disclosed in net value. Contract assets and contract liabilities under different contracts cannot be offset.

22. Long-term Asset Impairment

The Company assesses impairment indicators for fixed asset, construction in progress, the intangible asset with limited service life, the investment properties measured at cost pattern, the long-term equity investment in subsidiaries, associates and joint ventures and the non-current and non-financial asset, such as goodwill on the balance sheet date. If the Company finds evidence on asset impairment, the recoverable amount of the asset shall be measured, and impairment test shall be conducted. Impairment test shall be conducted annually for goodwill, the intangible asset with uncertain service life and the intangible asset not reaching available condition, no matter there is impairment indication.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

22. Long-term Asset Impairment *(Continued)*

Where the measurement result of the impairment test indicates that an asset's recoverable amount is lower than its book value, impairment reserve shall be withdrawn based on its differences and recorded into the impairment loss. The recoverable amount shall be determined on the basis of the higher one of the net amounts of the fair value of the asset minus the disposal expenses and the present value of the expected future cash flow of the asset. The fair value of asset is recognized based on the price as stipulated in the sales agreement in the fair transaction; where there is no sales agreement but there is an active market of assets, the fair value is recognized based on the price bidden by the buyer of the asset; where there is no sales agreement and no active market of assets, the fair value of an asset shall be estimated in light of the best information available of asset. The disposal expenses shall include the relevant legal expenses, relevant taxes, truckage as well as the direct expenses for bringing the assets into a marketable state. The present value of the expected future cash flow of an asset shall be determined by the discounted cash with an appropriate discount rate, on the basis of the expected future cash flow generated during the continuous use or final disposal of an asset. Asset impairment provision is calculated and recognized based on single asset. In case of the difficulty to estimate the recoverable amount of single asset, the recoverable amount of asset group is recognized in accordance with the asset group that such asset belongs to. The asset group refers to the minimum asset portfolio that can independently generate cash inflow.

When conducting impairment test for goodwill separately listed in financial statements, the book value of the goodwill shall be apportioned to asset groups or asset group portfolios which are expected to benefit from the synergistic effect of business combination. When the test result indicates that the recoverable amount of asset groups or asset group portfolios containing goodwill apportioned is less than its book value, relevant impairment loss of goodwill shall be recognized. The impairment loss of goodwill shall offset the book value of the portion of goodwill apportioned to the asset groups or asset group portfolios, and then offset the book value of other assets according to the proportion of the book value of other asset in asset groups or asset group portfolios after deducting the goodwill.

Once the above asset impairment loss is confirmed, the part that the value is restored in the future period is not allowed to be transferred back.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

23. Employee Benefits

The employee benefits of the Company mainly include short-term employee benefits, post-employment benefits, termination benefits, and other long-term employee benefits, including:

Short-term benefits mainly include employee salaries, bonus, allowances and subsidies, staff welfare, social insurance contributions such as premiums or contributions on medical insurance, maternity insurance premiums, work injury insurance, housing funds, labor union running cost, employee education costs, non-monetary benefits, etc. The Company shall recognize, in the accounting period in which an employee provides service, actually occurred short-term employee benefits as a liability, with a corresponding charge to profit or loss for the current year or in the cost of relevant asset. Where, the non-monetary benefits shall be measured at its fair value.

The domestic enterprises of the Company pay basic pension insurance and unemployment insurance for employees according to the relevant regulations of the local government. In the accounting period in which the employees of the Company's domestic enterprises provide services to the Company, the payment shall be calculated according to the local payment base and proportion, and confirmed as liabilities, which are included in current profit or loss or related asset costs. In addition to the basic pension insurance, most of the domestic enterprises of the Company have established an enterprise annuity plan based on the relevant policies of the national enterprise annuity system. The company pays the enterprise annuity according to a certain proportion of the total wages of the employees, and the corresponding expenses are included in the current profit and loss or related asset costs. The Company's Hong Kong company, Guangzhou Pharmaceuticals Baiyunshan Hong Kong Company, provides mandatory provident fund contributions to eligible Hong Kong employees in accordance with the Mandatory Provident Fund Schemes Ordinance of Hong Kong. The cost settlement of all plans is deducted from the income statement for the relevant period. The planned assets are held independently by independently managed funds and managed separately from the assets of the Company. At the same time, according to the Employment Ordinance of Hong Kong, for an employee who is eligible to receive a long service payment at the time of termination of employment, such payment shall be made when the employment is terminated. The Guangzhou Pharmaceutical Baiyunshan Hong Kong Company has made provision for long-term service payments that are expected to be paid in the future. The provision is calculated based on the estimation of the best service wages might be earned by the employee for rendering of services to the Company as of the settlement date.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

23. Employee Benefits *(Continued)*

Where the labor relationship with employees is terminated prior to the expiration of the labor contract with employees, or compensation suggestions are made to encourage employees to accept the cutback voluntarily, the employee payroll liabilities incurred by the dismissal welfare shall be recognized and recorded into the current profit or loss when the Company cannot withdraw unilaterally the dismissal welfare provided for the termination plan of labor relations or cutback suggestions, or when the Company recognizes the cost related to reorganization involving the payment of dismissal welfare, whichever is earlier. However, if it is anticipated that the dismissal welfare cannot be fully paid within 12 months after the end of the annual report period, such welfare shall be handled as other long-term Employee Payroll.

The internal retirement plan for employee shall be treated by the same principle as the above dismissal welfare. The Company will pay the salary and contribute social insurance for the internal retirement from the service stopped to be provided by such employee to normal retirement. Such fee is recorded in the current profit or loss (dismissal welfare) when conforming to the reorganization condition of estimated liability.

Accounting treatment shall be conducted on other long-term employee payrolls provided to employees by the Company according to defined contribution plans if such plans are conformed, and besides, accounting treatment shall be conducted according to defined benefit plans.

24. Provisions

An obligation related to a contingency shall be recognized as an estimated liability when all of the following conditions are satisfied: (1) the obligation is a present obligation of the enterprise; (2) it is probable that an outflow of economic benefits will be required to settle the obligation; and (3) the amount of the obligation can be measured reliably.

As at the balance sheet date, the contingent liabilities shall be initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation. To determine the best estimate, the Company shall take into full consideration the risks, uncertainty, time value of money, and other factors pertinent to the contingencies. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognized as interest expense.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement shall be recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the book value of the provision.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

25. Revenue

If the following conditions are met by the contract between the Company and the customer, revenue is recognized when the customer obtains control over relevant products: (a) the parties to the contract have approved the contract and are committed to perform their respective obligations; (b) each party's rights regarding the goods or services to be transferred have been specified in the contract; (c) the entity can identify the payment terms for the goods or services to be transferred; (d) the contract has commercial substance, such as the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract; and (e) it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

At the starting date of contract, the Company recognizes individual performance obligations in the contract, and allocates transaction price into each individual performance obligation based on the relevant proportion of the price of good promised in each individual performance obligation when selling separately. The influence of factors such as variable consideration, the existence of a significant financing component in the contract, non-cash consideration, and customer consideration payables are taken into consideration when determining the transaction price.

For each individual performance obligations in the contract, the transaction price shall be recognized into revenue based on performance progress of each individual performance obligation within relevant performance period when one of the following conditions is met: (a) Customer can obtain and consume the economic benefit from the performance of the company at the same time the company performs the contractual obligations; (b) Customer has control over the work in progress when the company performs the contractual obligations; (c) The goods produced from the company's performance of contractual obligations have irreplaceable application. And the company are entitled to receive payments for the accumulated completed portion of the whole contract. Methods of measuring progress include output methods and input methods. When progress cannot be reliably measured, if the cost incurred is expected to be compensated, the amount of cost incurred shall be recognized as revenue until the progress can be reliably measured.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

25. Revenue *(Continued)*

If none of the above-mentioned conditions are met, the portion of transaction price allocated to the individual performance obligation shall be recognized as revenue when the customer obtains the control over relevant goods. When judging whether the customer has obtained the right to control the goods, the enterprise shall consider the following indications: (a) The enterprise is entitled to charge for the goods at present, that is, the customer is obliged to pay for the goods at present; (b) The enterprise has transferred the legal ownership of the goods to the customer, that is, the customer has obtained the legal ownership of the goods; (c) The enterprise has transferred physical possession of the goods to the customer, that is, the customer has physical possession of the goods; (d) The enterprise has transferred the major risks and rewards of the ownership of the goods to the customer, that is, the customer has obtained the major risks and rewards of the ownership of the goods; (e) The customer has accepted the goods; (f) Other indications showing that the customer has obtained the right to control the goods.

(1) Sale of goods

Revenue from the sale of goods shall be recognized when the Company has transferred the control of goods to the customer.

(2) Rendering of services

The revenue from rendering of services is recognized according to the period in which services are provided.

(3) Transfer of asset use rights

Income from transfer of asset use rights include:

- ① License fee income is recognized when the right to receive payment is established over the grand period;
- ② Income from an operating lease is recognized on a straight-line basis over the period of the lease.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

26. Government Grants

Government grants are transfer of monetary assets or non-monetary assets from the government to an enterprise at no consideration. However, capital contributions from the government as an owner of the enterprise are excluded. The government grant is classified into government grant related to assets and government grant related to incomes. Government grants of monetary assets are measured at the amount received or receivable. Government grants of non-monetary assets are measured at fair value. If reliably fair value cannot be obtained, nominal amount shall be used for measurement. Government grants measured at nominal amount shall be recognized through profit or loss for the current year.

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

For government grants not clearly specifying subsidy object, basis of determination for asset related government grants or income related government grants are: government grants not clearly specifying subsidy object, but with sufficient evidence indicating that the government supporting fund is related to the formation of long-term asset, shall be recognized as asset related government grant. The others shall be recognized as income related government grant.

The assets-related government grants shall reduce assets-related book value or shall be recognized as deferred income. For those recognized as deferred income, charged into current profit or loss on stages using reasonable and systemic methods during its assets-related useful lives (government grants related to ordinary business of the Company shall be charged into other income; those not related to ordinary business of the Company shall be charged into non-operating income).

The income-related government grants for compensation to the related expenses or loss of the Company in the subsequent periods shall be recognized as deferred income and current profit or loss during the recognition of related expenses or loss (government grants related to ordinary business of the Company shall be charged into other income; those not related to ordinary business of the Company shall be charged into non-operating income) or shall offset related expenses or loss; those for compensation to the related expenses or loss incurred of the Company shall be recognized as current profit or loss (government grants related to ordinary business of the Company shall be charged into other income; those not related to ordinary business of the Company shall be charged into non-operating income) or shall offset related expenses or loss.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

26. Government Grants *(Continued)*

For government grants not clearly specifying subsidy object, basis of determination for asset related government grants or income related government grants are: government grants not clearly specifying subsidy object, but with sufficient evidence indicating that the government supporting fund is related to the formation of long-term asset, shall be recognized as asset related government grant. The others shall be recognized as income related government grant.

The government subsidies that contain both the portion pertinent to assets and the portion pertinent to income shall be subject to accounting treatment respectively according to different portions; and those that are difficult to be distinguished shall be classified as the government subsidies pertinent to income related as a whole.

The government subsidies pertinent to the daily activities of the Company shall be included in other income or used to offset relevant costs and expenses according to the substance of the economic business. The government subsidies irrelevant with the daily activities of the Company shall be included in non-operating revenues and expenses.

If it is necessary to refund any government subsidy which has been recognized, and there is deferred income, the book balance of the deferred income shall be offset, and the excessive part shall be included in the current profits and losses, or if the book value of relevant assets is offset against when the government subsidy is initially recognized, the book value of the assets shall be adjusted. Under any other circumstance, it shall be directly included in the current profits and losses.

27. Deferred Tax Assets/Deferred Tax Liabilities

(1) Current Income Tax

On the balance sheet date, the current tax liabilities (or assets) incurred in the current year or prior years shall be measured in light of the expected payable (refundable) amount of income taxes according to the tax law. The taxable income of enterprises, the basis of the measurement of the current tax, shall be measured according to the adjusted accounting profit before tax for current year by tax law.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

27. Deferred Tax Assets/Deferred Tax Liabilities *(Continued)*

(2) Deferred tax assets and deferred tax liabilities

As for the temporary difference arising from the difference between the book value of some asset or liability and its tax base and the difference between the book value of an item that has not been recognized as an asset or liability with its tax base determined in light of the tax law and its tax base, it is allowed to recognize it as the deferred income tax assets or the deferred income tax liabilities by balance sheet liability method.

For temporary differences associated with the initial recognition of goodwill and the initial recognition of an asset or liability arising from a transaction (not a business combination) that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction, no deferred tax asset or liability is recognized. Besides, deferred tax liabilities will not be recognized for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except where the Company can control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future. Except the above-mentioned cases, the deferred tax liabilities generated from other all taxable temporary difference are recognized by the Company.

Related to the initial recognition of the assets or liabilities arising from the following transactions that is not business combination and the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected at the time of transaction, the deductible temporary differences are not allowed to recognize relevant deferred tax assets. As for the deductible temporary differences related to the investments in a subsidiary, associated enterprises and joint enterprises, corresponding deferred tax asset shall not be recognized if the temporary differences are unlikely to be reversed in the excepted future and it is likely to acquire any amount of taxable income tax that may be used for making up the deductible temporary differences. Except the above-mentioned cases, the Company shall recognize the deferred tax liabilities arising from a deductible temporary difference to the extent of the amount of the taxable income which it is most likely to obtain, and which can be deducted from the deductible temporary difference.

As for any deductible loss or tax deduction that can be carried forward to the next year, the corresponding deferred tax assets shall be recognized to the extent that the amount of future taxable income to be offset by the deductible loss or tax deduction to be likely obtained.

On the balance sheet date, the deferred tax assets and deferred tax liabilities shall be measured at the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

27. Deferred Tax Assets/Deferred Tax Liabilities *(Continued)*

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

The book value of deferred tax assets shall be reexamined at the balance sheet date. If it is unlikely to obtain sufficient taxable income taxes to offset the benefit of the deferred tax assets, the book value of the deferred tax assets shall be written down. When it is probable to obtain sufficient taxable income taxes, such write-down amount shall be subsequently reversed.

(3) Tax expenses

Tax expenses include current tax and deferred tax.

Except that other comprehensive income is recognized, the current tax and deferred income tax related to the transactions or events directly recorded in the other comprehensive income or shareholders' equity and the book value of goodwill is adjusted due to the deferred income tax arising from business combination, other current taxes and deferred income tax expenses or incomes are recorded in the profit or loss for the period.

(4) Offset of Income Tax

When the Company has a legal right to settle on a net basis and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously, current tax assets and current tax liabilities are offset and presented on a net basis.

When the Company has a legal right to settle current tax assets and liabilities on a net basis, and deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be reversed, deferred tax assets and deferred tax liabilities are offset and presented on a net basis.

28. Lease

A lease is a contract in which the company transfers or acquires the right to control the use of one or more identified assets within a certain period in exchange for or payment of consideration.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

28. Lease *(Continued)*

(1) Accounting Treatments of Operating Leases for Lessees

On the beginning date of the lease term, the company recognizes the right to use the assets and lease liabilities of the lease, excluding the simplified short-term lease low-value asset lease.

The use right asset is initially measured at a cost, which includes: ① the initial measurement amount of the lease liability; ② if the lease incentive exists in the lease payment amount paid on or before the beginning date of the lease term, the amount related to the lease incentive already enjoyed will be deducted; ③ initial direct cost; ④ the expected cost of disassembling and removing the leased asset, recovering the site where the leased asset is located or restoring the leased asset to the state agreed in the lease terms. The company withdraws the depreciation of the right to use assets by referring to the relevant depreciation provisions of accounting standards for business enterprises no. 4 – fixed assets (see Note IV, 15 “fixed assets” for details); According to the provisions of “accounting standards for enterprises no. 8 – asset impairment” to determine whether the right to use assets impairment, and identified impairment losses for accounting treatment (see Note IV, 22 “long-term asset impairment”).

The initial measurement of the lease liability is based on the present value of the outstanding lease payment at the beginning of the lease term. The amount of lease payment refers to the amount paid by the company to the lessor in connection with the right to use the leased assets during the lease term, including: ① If the lease incentive exists in the fixed payment amount and the actual fixed payment amount, the amount related to the lease incentive shall be deducted; ② variable lease payments depending on the index or ratio, which is determined at the initial measurement according to the index or ratio at the beginning of the lease period; ③ the exercise price of the option, provided that the company reasonably determines that it will exercise the option; ④ the payment required to exercise the option to terminate the lease, provided that the term of the lease reflects that the company will exercise the option to terminate the lease; ⑤ according to the company’s guarantee residual value is expected to pay. The company calculates the interest expense of the leasing liability during the lease term according to the fixed periodic interest rate and includes it into the current profit and loss.

The company shall record the variable lease payment not included in the measurement of lease liabilities into the current profit and loss when it actually occurs.

For short-term lease and low-value asset lease, the company chooses to simplify the process and record the profits and losses of the current period in accordance with the straight-line method during the lease period.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

28. Lease *(Continued)*

(1) Accounting Treatments of Operating Leases for Lessees *(Continued)*

When there is a change in the scope, consideration and term of lease other than the terms of the original contract, the company shall treat the change of lease as a separate lease or not as a separate lease according to the circumstances. If it is not a separate lease, the company shall, on the effective date of the lease change, re-measure the lease liability according to the present value calculated by the lease payment amount after the change and the revised discount rate, and adjust the book value of the right to use assets accordingly. If the carrying value of the right to use assets has been reduced to zero, but the leasing liabilities still need to be further reduced, the company shall record the remaining amount into the current profits and losses.

(2) The company records the leasing business as the lessor

① *leasing classification*

On the lease commencement date, the company divides the lease into finance lease and operating lease based on the essence of the transaction. Finance lease refers to the lease that transfers virtually all the risks and rewards related to the ownership of the leased assets. The term “operating lease” refers to any lease other than finance lease.

② *operating lease*

The company adopts the straight-line method to recognize the rental income for each period of the lease term. The initial direct expenses related to the operating lease are capitalized at the time of occurrence and are recorded into the profits and losses of the current period in accordance with the same basic stages as recognized rental income during the whole lease period. The variable lease payment amount acquired related to the operating lease and not included in the lease receipt shall be recorded into the current profit and loss when actually incurred.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

28. Lease *(Continued)*

(2) The company records the leasing business as the lessor *(Continued)*

③ *financial lease*

On the commencement date of the lease term, the company shall confirm the receivables of the finance lease and terminate the confirmation of the finance lease assets. The finance lease receivables are initially measured by the sum of the present value discounted by the embedded interest rate of the lease, which is the unsecured residual value and the unreceived lease receipt at the beginning of the lease term. The amount of lease payment includes: a. fixed amount of payment and substantial fixed amount of payment to be paid by the lessee. If there is A lease incentive, the amount related to the lease incentive will be deducted; B. Variable lease payments, subject to an index or ratio, determined at the time of initial measurement based on the index or ratio at the date of commencement of the lease period; C. The exercise price of the option, provided that it is reasonably determined that lessee will exercise the option; D. The amount payable by the lessee to exercise the option to terminate the lease, provided that the lease term reflects that the lessee will exercise the option to terminate the lease; E. Residual value of security provided to lessor by lessee, parties related to lessee and an independent third party capable of performing its security obligations.

The variable lease payment acquired by the company, which is not included in the measurement of net lease investment, shall be recorded into the current profit and loss when actually incurred.

29. Other Important Accounting Policies and Accounting Estimates

(1) Discontinued operations

Discontinued operations is a component that meets one of the following conditions and can be separately distinguished and disposed of by the Company or classified as held for sale: ① this component represents an independent principal business or a separate principal operation area; ② this component is part of an associated program to be disposed of for an independent main business or a separate main business area; ③ this component is a subsidiary acquired for resale.

For the accounting treatment of discontinued operations, please refer to the descriptions in Note IV. 12. "Assets Held for Sale and Disposal Company".

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

30. Significant Changes in Accounting Policies and Accounting Estimates

(1) Changes in accounting policies

- ① *Changes in accounting policies due to the implementation of the new lease standards.*

On 7 December 2018, the Ministry of Finance issued the *Accounting Standards for Business Enterprises No. 21 – Lease* (Revised in 2018) (Caikuai [2018] No. 35, hereinafter referred to as the “New lease standards”); Enterprises listed both home and abroad and those listed abroad and adopting the international financial reporting standards or accounting standards for business enterprises to prepare financial statements shall implement the new lease standards from 1 January 2019.

As approved by the resolution of the 21st meeting of the 7th Board of Directors of the Company on 26 April 2019, the Company began implementing the above-mentioned new lease standards on January 1, 2019 (hereinafter referred to as the “First Implementation Date”), complying with the requirements of the Ministry of Finance, as well as change the relevant accounting policies according to the new lease standards.

According to the new leasing standards, for existed contracts before the first implementation day, the Company would not to re-evaluate whether it is a lease or it includes a lease on the first implementation day. For the lease contract that the Company is lessee, the Company chose to adjust only the cumulative effects of the lease contract that was not completed on 1 January 2019.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

30. Significant Changes in Accounting Policies and Accounting Estimates *(Continued)*

(1) Changes in accounting policies *(Continued)*

- ① *Changes in accounting policies due to the implementation of the new lease standards. (Continued)*

Adjustment of cumulative effects amount for the first time the retained earnings and amounts of other relevant items in the financial statements at the beginning of the current period (1 January 2019) shall not be adjusted for comparable period information. Details are as follows:

- A. For the finance lease on the first implementation day, the company shall measure the right-of-use assets and lease liabilities respectively according to the original book value of the financing lease assets and finance lease payable.
- B. For the operating lease on the first implementation day, the Company calculated the lease liability according to the present value of the remaining lease payment discounted by the incremental borrowing rate on the first implementation day; The unpaid rent accrued under the original lease standards on an accrual basis shall be included in the remaining lease payment.

According to each lease, the Company chose to measure the right-of-use assets according to either of the following:

- (a) Assuming that the book value of the new leasing standards is adopted from the beginning of the lease period (using the incremental borrowing rate on the first implementation day as the discount rate);
- (b) The amounts equal to lease liabilities are subjected to necessary adjustments based on prepaid rent.

On the first implementation day, the Company conducted impairment tests on the right-of-use assets and carried out corresponding accounting treatment, in accordance with the provisions of *Accounting Standards for Business Enterprises No. 8 – Asset impairment*.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

30. Significant Changes in Accounting Policies and Accounting Estimates (Continued)

(1) Changes in accounting policies (Continued)

- ① Changes in accounting policies due to the implementation of the new lease standards. (Continued)

The impact of the implementation of the new lease standards by the Group are summarized as follows:

Consolidated balance sheet

Item	Book balance prior to changes in accounting policies as at 31 December 2018	Effect of the new lease standards	Book balance after changes in accounting policies as at 1 January 2019
Assets:			
Fixed assets	3,165,746,536.73	(215,165,155.44)	2,950,581,381.29
Right-of-use assets	–	846,762,689.48	846,762,689.48
Liabilities			
Current portion of non-current liabilities	204,024,196.93	139,291,507.59	343,315,704.52
Lease liabilities	–	600,490,563.19	600,490,563.19
Long-term payables	135,795,848.74	(108,184,536.74)	27,611,312.00

The weighted average of the incremental borrowing rates used by the Group in the lease liability that is included in the balance sheet on the first implementation date is 4.35%.

The present value of the unpaid minimum lease payments for important operating leases at the end of 2018 disclosed in the Group's 2018 annual financial statements is RMB 0.00, discounted at incremental borrowing rate of 4.35% on the first implementation date. The difference from lease liabilities of the first implementation date is RMB 846,762,689.48.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

30. Significant Changes in Accounting Policies and Accounting Estimates (Continued)

(1) Changes in accounting policies (Continued)

- ① Changes in accounting policies due to the implementation of the new lease standards. (Continued)

The Company's balance sheet

Item	Book balance prior to changes in accounting policies as at 31 December 2018	Effect of the new lease standards	Book balance after changes in accounting policies as at 1 January 2019
Assets:			
Right-of-use assets	–	7,786,057.78	7,786,057.78
Liabilities			
Current portion of non-current liabilities	–	2,820,472.89	2,820,472.89
Lease liabilities	–	4,965,584.89	4,965,584.89

The weighted average of the incremental borrowing rates used by the Company for lease liabilities that is included in the balance sheet on the first implementation date is 4.35%.

The present value of the unpaid minimum lease payments for important operating leases at the end of 2018 disclosed in the Group's 2018 annual financial statements is RMB 0.00, discounted at incremental borrowing rate of 4.35% on the first implementation date. The difference from lease liabilities of the first implementation date is RMB 7,786,057.78.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

30. Significant Changes in Accounting Policies and Accounting Estimates (Continued)

(1) Changes in accounting policies (Continued)

② Adjustments on the presentation of financial statements

The financial statements from January to June 2019 are prepared by the Group in accordance with the format prescribed in Caikuai [2019] No. 6. Presentation of relevant accounts are adjusted retrospectively.

The impact of adjustments in relevant financial statements is as follows:

Consolidated balance sheet

Item	Before adjustment	Amount adjusted	After adjustment
Assets			
Notes receivable	2,780,597,684.01	(1,452,402,183.47)	1,328,195,500.54
Accounts receivables financing	–	1,452,402,183.47	1,452,402,183.47

The Company's balance sheet

Item	Before adjustment	Amount adjusted	After adjustment
Assets			
Notes receivable	615,391,740.80	(167,667,277.86)	447,724,462.94
Accounts receivables financing	–	167,667,277.86	167,667,277.86

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

31. Significant Accounting Judgments and Estimates

In the application of the accounting policies, due to the intrinsic uncertainty of business operations, the Company needs to judge, estimate, and make assumptions on the book value of report item which cannot be reliably measured. These judgments, estimations, and assumptions are made based on the Company management's historical experiences, and with references of other related factors. These judgments, estimations and assumptions can have impact on the reported amount of income, expenses, assets and liabilities, and the disclosure of contingent liabilities on the balance sheet date. It is probable that the actual results arising from the uncertainty of these estimates are different from the current estimates of the Company's management, and then lead to significant adjustments to the book value of assets or liabilities influenced in future.

The Company performs periodic revision on the above determinations, estimations, and assumptions on the basis of constant operation. When a change in accounting estimation is just influencing the current term, its influenced amount is recognized in the current term. When a change is influencing not only the current term but also the future terms, its influenced amount is recognized in the current term and also the future terms.

The following are the critical judgments that the Company has made in the process of judging, evaluating and assuming as at balance sheet date:

(1) Revenue recognition

As stated in Note IV. 25 – Revenue, the Company makes the following significant accounting judgments and estimates in terms of revenue recognition: identifying customer contracts; estimating the recoverability of the considerations that are entitled to be obtained by transferring goods to customers; identifying the performance obligation in the contract; estimating the variable consideration in the contract and cumulative revenue recognized where it is highly probable that a significant reversal therein will not occur when the relevant uncertainty is resolved; assessing whether there is a significant financing component in the contract; estimating the individual selling price of the individual performance obligation in the contract; determining whether the performance obligation is performed in a certain period of time or at a certain point in time; the determination of the progress of the contract, etc.

The Company make judgments primarily based on historical experiences and works to. Changes in these significant judgments and estimates can have significant impacts on the operating income, operating costs, and profit or loss of the current or subsequent periods.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

31. Significant Accounting Judgments and Estimates *(Continued)*

(2) Impairment of financial assets

Expected credit loss model is adopted by the Company to evaluate the impairment of financial assets. Adopting expected credit loss model requires making significant judgment and evaluation, considering all the reasonable and supportable information, including forward-looking information. To conclude the expected change in of credit risk of the debtor, the Company shall make such judgment and evaluation based on historical data with factors such as change in economy policies, macroeconomic indicators, industry risk, external market environment, technology environment, customer condition, etc.

(3) Provision for decline in value of inventories

The Company accrues inventory falling price reserves of inventories with higher cost than net realizable value and obsolete and unsalable inventories according to their cost and net realizable value, whichever is lower, based on inventory accounting policies. The impairment of inventory to net realizable value is based on the evaluation of its sale ability and net realizable value. The identification of impairment of inventory calls for the management to make judgment and estimation after receiving sound evidence and considering the purpose of holding the inventory and the influence factors of events after balance sheet date. Difference between the actual results and the original estimation will be calculated, provided or reversed by the influence on the book value of inventories and inventory falling price reserves in the estimated change period.

(4) Fair value of financial instruments

The Company recognizes the fair value of financial instruments without active trading market through various valuation methods. These valuation methods include discounted cash flow model analysis, etc. The Company needs to evaluate the future cash flow, credit risks, market volatility and relevance, etc. and choose the proper discount rate. These relevant hypotheses are uncertain, and the changes will inflict impact on the fair value of financial instruments.

Where an investment in equity instruments or contract has a public offer, the Company does not use the cost as the best estimate of its fair value.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

31. Significant Accounting Judgments and Estimates *(Continued)*

(5) Provision for the impairment of long-term assets

The Company will judge whether there exists indication showing that the impairment might incur on non-current assets rather than financial assets on the balance sheet date. Except impairment test conducted each year, when there exists indication of impairment, then impairment test should be conducted too for intangible asset that service life is uncertain. Impairment test should be conducted on non-current assets rather than financial assets if the Company finds evidence that book value is unrecoverable.

When the book value of assets or asset group is higher than recoverable amount, which is the net amount of the fair value of the asset minus the disposal expenses and the present value of the expected future cash flow of the asset, it indicates that the impairment incurs.

Net amount of the fair value minus disposal expense should be determined by reference to sales agreement price or observable market price of similar assets in fair transaction minus incremental cost directly attributable to such assets disposed.

Upon estimation of current value of future cash flow, significant judgment on production, sale price, related operation cost and discount rate for current value calculation is required. The Company may use all attainable relevant information upon estimation of the recoverable amounts, including estimation on the capacity, sale price and relevant operation cost made based on reasonable and supportable hypothesis.

The Company will test if the goodwill suffers from impairment at least once a year. It requires estimation of the current value of future cash flow for asset groups or their combinations with good will distributed. Upon estimation of future cash flow, the Company needs to estimate cash flow generated by future asset groups or their combinations and meanwhile choose proper discount rate to recognize the current value of future cash flow.

(6) Depreciation and Amortization

The Company calculates and accrues depreciation and amortization by the method of line within service life after considering the remaining value of investment properties, fixed assets and intangible assets. The Company periodically reviews service life to decide the amount to be included into each report period of depreciation and amortization expenses. Service life is recognized by the Company based on past experience for the same type of assets together with anticipated technological updates. If past estimation has been significantly changed, expenses for depreciation and amortization should be adjusted in the future.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

31. Significant Accounting Judgments and Estimates *(Continued)*

(7) Deferred tax assets

If it is highly possible that there is enough taxable profit to offset losses, the Company recognizes deferred income assets for all unused taxation losses. It requires huge judgment of the management of the Company to estimate the time and amount of future taxable profit together with tax payment planning strategy to decide the amount of deferred income tax assets to recognized.

(8) Income Taxes

During regular business activities of the Company, there are uncertainties in final taxation disposal and calculation for some transactions. Whether some projects can list approval needed from taxation authorities before tax. If the final recognition result of these taxation matters is different from the initially estimated amount, such difference will influence the income tax and deferred income tax of current year during final recognition.

(9) Provisions

Based on the contract terms, existing knowledge and historical experience, the Company estimates and makes provision for product quality assurance, estimated contract losses, and penalty for delay in delivery. In the event that such contingent events have formed a current obligation and the performance of such current obligations is likely to result in the outflow of economic benefits from the Company, the Company recognizes the contingent liabilities as the provisions according to the best estimate of the expenditure required to perform the relevant current obligations. The recognition and measurement of Provisions is mainly dependent on management's judgment. In the process of making judgments, the Company needs to assess factors such as risks, uncertainties and time value of money related to such contingent events.

Among them, the Company will provide provisions for after-sales warranty to customers for the sale, repair and modification of the products sold. The Company's recent maintenance experience data has been taken into account when estimating liabilities, but recent maintenance experience may not reflect future maintenance. Any increase or decrease in this preparation may affect the profit and loss of the future year.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

V. TAXES

1. Main Tax Types and Tax Rate

	Specified tax rate
Value added tax (“VAT”)	The taxable income is calculated at the tax rate of 16%, 13%, 11%, 10%, 9%, 6%, 5%, 3%, and the value-added tax is calculated based on the difference after subtracting the input tax amount that is allowed to be deducted in the current year.
Consumption tax	Calculated and paid at 10% on taxable income of the sale of alcohol products
Urban maintenance and construction tax	Calculated and paid at 7% on the payment of turnover tax.
Education surcharge	Calculated and paid at 3% on the payment of turnover tax.
Local education surcharge	Calculated and paid at 2% on the payment of turnover tax.
Real-estate tax	Calculated and paid at 1.2% of the residual value of the real-estate and 12% of rent income
Corporate income tax	Please refer the details below.

Note: The tax rates of 17% and 11% applicable to the Group’s VAT taxable sale or import of goods were adjusted to 16% and 10%, respectively, on 1 May 2018, in accordance with the requirements of the Notice of the Ministry of Finance of the People’s Republic of China and the State Administration of Taxation on Adjusting Value-Added Tax Rates (No. 32 [2018], Ministry of Finance of the People’s Republic of China); According to the Announcement of the Ministry of Finance of the People’s Republic of China, the State Administration of Taxation and General Administration of Customs on Policies about Deepening the Value-added Tax (VAT) Reform (No. 39 [2019], Ministry of Finance of the People’s Republic of China, the State Administration of Taxation and General Administration of Customs), the applicable tax rate will be adjusted to 13%/9% from April 1, 2019. Meanwhile, as a taxpayer of the production and living service industry, the Company can deduct 10% of the input tax in the current period from April 1, 2019 to December 31, 2021 to offset the tax payable.

Corporate income tax

Taxpayer	Income tax rate
The Group, Xing Qun, Zhong Yi, Chen Li Ji, Guangzhou Han Fang, Jing Xiu Tang, Pan Gao Shou, Wang Lao Ji, Tian Xin, Guang Hua, Ming Xing, Weiling, Guangxi Ying Kang, WLJ Great Health, WLJ Great Health (Ya’an), Guangyao General Institute	Calculated and paid at 15% of the taxable income
The Group’s domestic subsidiaries other than the above-mentioned enterprises	Calculated and paid at 25% of the taxable income
Guangyao Baiyunshan Hong Kong Company of the Group	Calculated and paid at 16.5% of the taxable income

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

V. TAXES (Continued)

2. Tax Preferential Treatments and Approval Documents

According to the state's relevant tax preferential policies for High/New enterprises, qualified High/New technology enterprises can enjoy preferential corporate income tax policies and pay corporate income tax at a reduced rate of 15%.

The subsidiaries of the Group, which have obtained the Certificates of High/New Technology Enterprises, can enjoy preferential tax rate of 15% for current period, which including: the Company (No. GR201744003162), Xing Qun (No. GR201744011135), Zhong Yi (No. GR201744005343), Chen Li Ji (No. GR201744001501), Guangzhou Han Fang (No. GR201744008646), Jing Xiu Tang (No. GR201744000331), Pan Gao Shou (No. GR201744002878), Wang Lao Ji (No. GR201744001303), Tian Xin (No. GR201744009163), Guang Hua (No. GR201544000485), Ming Xing (No. GR201744002496), Guangxi Ying Kang (No. GR201545000083), Weiling (No. GR201844007959), WLJ Great Health (No. GR201644006480), Guangyao General Institute (GR201844005664).

In accordance with "The Chinese Ministry of Finance Customs Head Office the Notice on Taxation Policy Issues concerning the In-depth Implementation of the Western Development Strategy", Wang Lao Ji Ya'an Great Health Industry (Ya'an) Co., Ltd., a subsidiary of the Group, can enjoy a preferential tax rate of 15% for the current period.

3. Others

Nil.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unless otherwise indicated in the following notes (including notes to main items of the financial statements of the Company), the opening balance refers to 1 January 2019, the closing balance refers to 30 June 2019, and the closing balance of the prior year refers to 31 December 2018; the current period refers to the period from January to June 2019 and the prior period refers to the period from January to June 2018.

1. Cash at Bank and on Hand

Item	Closing balance	Opening balance
Cash on hand	1,034,474.71	981,910.86
Cash at bank	14,974,269,509.29	15,049,107,347.81
Other currency balance	1,174,170,584.74	1,064,794,414.84
Total	16,149,474,568.74	16,114,883,673.51
Including: Total amount of cash kept in foreign countries	48,581,922.42	37,505,038.18

Notes:

- (1) Other currency balance RMB 1,174,170 thousand (31 December 2018: RMB 1,064,794 thousand) is comprised of the Group's third-party payment accounts, deposits, foreign exchange deposits, credit card deposits, letters of credit, guarantee deposits, term deposits, housing funds, bank acceptance bill deposit, accounts receivable deposit, bid bond, agreement deposit.
- (2) As on 30 June 2019, the amount of the Group's cash at bank and on hand with restrictions on ownership was RMB 1,007,268 thousand (31 December 2018: RMB 1,043,271 thousand). Breakdown of cash at bank and on hand with restrictions on use is as follows:

Item	Closing balance	Opening balance
Deposit for notes payable	787,138,916.72	838,954,099.58
Factoring deposit for accounts receivable	100,000,000.00	100,438,849.65
Frozen account funds	61,284,449.97	78,283,834.37
Letters of credit	21,484,508.57	3,794,247.96
Term deposit	22,000,000.00	20,000,000.00
Factoring repayment for accounts receivable	13,877,303.00	–
Housing funds	714,979.60	1,212,244.60
Guarantee deposits	588,198.97	588,198.97
Bid bond	180,000.00	–
Total	1,007,268,356.83	1,043,271,475.13

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Notes Receivable

(1) Category of notes receivable

Item	Closing balance	Opening balance
Bank acceptance notes	990,805,553.50	723,355,686.56
Commercial acceptance notes	431,630,705.89	604,839,813.98
Subtotal	1,422,436,259.39	1,328,195,500.54
Less: Bad debt reserves	4,316,307.06	–
Total	<u>1,418,119,952.33</u>	<u>1,328,195,500.54</u>

(2) Notes receivable pledged at the period end

Item	Amount pledged at the year end
Bank acceptance notes	23,911,406.00
Commercial acceptance notes	–
Total	<u>23,911,406.00</u>

(3) Notes which are not matured as at the balance sheet date but have been endorsed or discounted at the period end

Item	Amount derecognized at the period end	Amount not derecognized at the period end
Bank acceptance notes	2,045,794,815.46	4,641,130.66
Commercial acceptance notes	–	12,000,000.00
Total	<u>2,045,794,815.46</u>	<u>16,641,130.66</u>

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Notes Receivable (Continued)

(3) Notes which are not matured as at the balance sheet date but have been endorsed or discounted at the period end (Continued)

Notes:

- ① Pursuant to provisions of the Negotiable Instruments Law of the People's Republic of China, if the bank of acceptance refuses to pay the payables, the holding party is entitled to recover the payables (continuing involvement) from the Group. Consequently, the Group is in continuing involvement in the notes which are not matured at balance sheet date but have been endorsed or discounted.
- ② The Group believes that the fair value of the continuing involvement is not significant, as the Group has transferred substantially all the risks and awards of the above-mentioned notes receivable which have been endorsed or discounted. The Group does not recognize any assets or liabilities arising from the continuing involvement in book.
- ③ The maximum loss from the continuing involvement of the above-mentioned notes receivable which have been endorsed or discounted is equal to its book value of RMB 2,045,795 thousand.
- ④ Undiscounted cash flows payable arising from the possibility that the Group may buy back the above-mentioned notes receivable which have been endorsed or discounted is equal to its book value, including the balance of notes receivable as on 30 June 2019 which shall be matured by 30 June 2020.
- ⑤ For the period from January to June 2019, no profit or loss is recognized at the date of the transfer. The Group did not recognize any current or accumulated income or expenses arising from the continuing involvement of derecognized financial assets.
- ⑥ The above-mentioned notes receivable, which have been endorsed or discounted, occurred roughly balanced in the current year and the distribution is roughly balanced either.

- (4) As on 30 June 2019, the bank acceptance notes endorsed by the Group to other parties but not matured was RMB 1,877,901 thousand (31 December 2018: RMB 2,332,235 thousand). The top five drawers by balances are as follows:

Drawers	Billing date	Maturity date	Closing balance
Customer 1	18 Jan 2019	18 Jul 2019	19,000,000.00
Customer 2	21 Jan 2019	21 Jul 2019	15,000,000.00
Customer 3	4 Jan 2019	4 Jul 2019	11,000,000.00
Customer 4	29 Jan 2019	29 Jul 2019	10,000,000.00
Customer 5	11 Jan 2019	11 Jul 2019	10,000,000.00

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Notes Receivable (Continued)

- (5) As on 30 June 2019, commercial acceptance notes endorsed by the Group but not matured was RMB 6,820 thousand (31 December 2018: RMB 52,760 thousand). The top five drawers by balances are as follows:

Drawers	Billing date	Maturity date	Closing balance
Customer 1	15 May 2019	15 Nov 2019	2,000,000.00
Customer 2	25 Feb 2019	25 Aug 2019	1,660,000.00
Customer 3	17 Jun 2019	17 Dec 2019	1,660,000.00
Customer 4	16 Jan 2019	16 Jul 2019	1,500,000.00

- (6) As on 30 June 2019, bank acceptance notes discounted by the Group but not matured was RMB 172,535 thousand (31 December 2018: RMB 206,666 thousand). The top five drawers by balances are as follows:

Drawers	Billing date	Maturity date	Closing balance
Customer 1	4 Apr 2019	8 Oct 2019	16,516,005.40
Customer 2	2 Feb 2019	2 Aug 2019	10,279,152.25
Customer 3	6 Jun 2019	5 Dec 2019	9,385,810.71
Customer 4	22 Apr 2019	22 Jul 2019	6,548,828.92
Customer 5	27 May 2019	27 Aug 2019	5,533,857.80

- (7) As on 30 June 2019, commercial acceptance notes endorsed by the Group but not matured was RMB 5,180 thousand (on 31 December 2018, nil), The top five drawers by balances are as follows:

Drawers	Billing date	Maturity date	Closing balance
Customer 1	18 Mar 2019	18 Sep 2019	3,780,000.00
Customer 2	27 Aug 2018	26 Aug 2019	300,000.00
Customer 3	17 Sep 2018	16 Sep 2019	300,000.00
Customer 4	29 Oct 2018	28 Oct 2019	300,000.00
Customer 5	27 Nov 2018	26 Nov 2019	300,000.00

- (8) As on 30 June 2019 and 31 December 2018, the Group had no accounts receivable transferred from notes receivable due to the inability of performance by the drawer.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Notes Receivable (Continued)

(9) Notes receivable disclosed by methods of accruing provision for bad debts

Category	Closing balance				
	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss (%)	
Notes receivable subject to separate provision	-	-	-	-	-
Notes receivable subject to provision by portfolio	1,422,436,259.39	100.00	4,316,307.06	0.30	1,418,119,952.33
Including: portfolio 1	431,630,705.89	30.34	4,316,307.06	1.00	427,314,398.83
portfolio 2	990,805,553.50	69.66	-	-	990,805,553.50
Total	1,422,436,259.39	100.00	4,316,307.06	0.30	1,418,119,952.33

Cont.

Category	Opening balance				
	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss (%)	
Notes receivable subject to separate provision	-	-	-	-	-
Notes receivable subject to provision by portfolio	1,328,195,500.54	100.00	-	-	1,328,195,500.54
Including: portfolio 1	-	-	-	-	-
portfolio 2	1,328,195,500.54	100.00	-	-	1,328,195,500.54
Total	1,328,195,500.54	100.00	-	-	1,328,195,500.54

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Notes Receivable (Continued)

(9) Notes receivable disclosed by methods of accruing provision for bad debts (Continued)

- ① The Group had no notes receivable which are subject to separate provision at the period end.
- ② Notes receivable which are subject to provision by aging portfolio

Item	Closing balance		
	Book balance	Provision for bad debts	Expected credit loss (%)
Within one year	431,630,705.89	4,316,307.06	1.00
Total	<u>431,630,705.89</u>	<u>4,316,307.06</u>	<u>–</u>

- ③ Notes receivable which are subject to provision by financial asset portfolio with extremely low credit risk

Item	Closing balance		
	Notes receivable	Provision for bad debts	Expected credit loss (%)
Notes receivable with extremely low credit risk	990,805,553.50	–	–
Total	<u>990,805,553.50</u>	<u>–</u>	<u>–</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Notes Receivable (Continued)

(10) Provision for bad debts.

Category	Opening balance	Current changing amount		Closing balance	
		Provision	Amount recovered or reversed		Amount resold or written off
Provision by notes receivable	-	4,316,307.06	-	-	4,316,307.06
Total	-	4,316,307.06	-	-	4,316,307.06

(11) The Group had no notes receivable written off for the current period.

3. Accounts receivable

(1) The aging analysis of accounts receivable based on booking date is as follows:

Aging	Closing balance	Opening balance
Within 1 year	12,922,257,903.74	10,608,071,266.73
1 to 2 years	457,906,298.09	296,900,276.44
2 to 3 years	99,051,361.70	21,494,905.55
3 to 4 years	17,577,345.06	24,379,618.72
4 to 5 years	10,130,438.80	149,135,708.99
Over 5 years	177,568,796.67	60,509,283.89
Total book balance of accounts receivable	13,684,492,144.06	11,160,491,060.32
Less: Provision for bad debts	344,614,525.40	288,032,587.98
Total book value of accounts receivable	13,339,877,618.66	10,872,458,472.34

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable (Continued)

(2) Accounts receivable disclosed by method of accruing provision for bad debts

Category	Closing balance				
	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss (%)	
Accounts receivable subject to separate provision	192,841,825.27	1.41	94,219,050.66	48.86	98,622,774.61
Accounts receivable subject to provision by portfolio of features of credit risk	13,491,650,318.79	98.59	250,395,474.74	1.86	13,241,254,844.05
Including: portfolio 1	13,491,650,318.79	98.59	250,395,474.74	1.86	13,241,254,844.05
Total	<u>13,684,492,144.06</u>	<u>100.00</u>	<u>344,614,525.40</u>	<u>2.52</u>	<u>13,339,877,618.66</u>

Cont.

Category	Opening balance				
	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss (%)	
Accounts receivable subject to separate provision	190,638,700.65	1.71	94,158,214.38	49.39	96,480,486.27
Accounts receivable subject to provision by portfolio of features of credit risk	10,969,852,359.67	98.29	193,874,373.60	1.77	10,775,977,986.07
Including: portfolio 1	10,969,852,359.67	98.29	193,874,373.60	1.77	10,775,977,986.07
Total	<u>11,160,491,060.32</u>	<u>100.00</u>	<u>288,032,587.98</u>	<u>2.58</u>	<u>10,872,458,472.34</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable (Continued)

(2) Accounts receivable disclosed by method of accruing provision for bad debts (Continued)

① Accounts receivable subject to separate provision at the period end

Accounts receivable (by debtor)	Closing balance			Reason
	Book balance	Provision for bad debts	Expected credit loss (%)	
Customer 1	50,998,659.40	5,099,865.94	10.00	Litigation is involved. Please refer to Note XIV. 1. (1) ①.
Customer 2	37,710,221.64	3,771,022.16	10.00	Litigation is involved. Please refer to Note XIV. 1. (1) ①.
Customer 3	23,725,115.90	23,725,115.90	100.00	Litigation is involved. Please refer to Note XIV. 1. (3) ②.
Customer 4	10,541,832.00	10,541,832.00	100.00	Litigation is involved. Please refer to Note XIV. 1. (1) ②.
Customer 5	5,191,200.00	5,191,200.00	100.00	Litigation is involved. Please refer to Note XIV. 1. (2) ②.
Customer 6	4,971,878.60	4,971,878.60	100.00	The lawsuit is won and under implementation. Recoverability is expected to be low.
Customer 7	4,112,133.79	4,112,133.79	100.00	The court has declared the bankruptcy of the customer. Recoverability is expected to be low.
Customer 8	3,190,387.50	3,190,387.50	100.00	Amount is expected to be unrecoverable.
Customer 9	3,120,000.00	3,120,000.00	100.00	Litigation is involved. Please refer to Note XIV. 1. (1) ④.
Customer 10	3,085,425.87	3,085,425.87	100.00	Amount is expected to be unrecoverable.
Others	46,194,970.57	27,410,188.90	59.34	Amount is expected to be unrecoverable.
Total	<u>192,841,825.27</u>	<u>94,219,050.66</u>	-	-

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable (Continued)

(2) Accounts receivable disclosed by method of accruing provision for bad debts (Continued)

② Accounts receivable subject to provision by aging portfolio

Aging	Closing balance		
	Book balance	Provision for bad debts	Expected credit loss (%)
Within 1 year	12,905,961,789.67	129,059,618.05	1.00
1 to 2 years	450,700,147.05	45,070,014.73	10.00
2 to 3 years	79,024,901.06	23,707,470.33	30.00
3 to 4 years	4,425,958.79	2,212,979.41	50.00
4 to 5 years	5,960,650.09	4,768,520.08	80.00
Over 5 years	45,576,872.13	45,576,872.13	100.00
Total	<u>13,491,650,318.79</u>	<u>250,395,474.74</u>	<u>-</u>

Cont.

Aging	Opening balance		
	Book balance	Provision for bad debts	Expected credit loss (%)
Within 1 year	10,595,318,494.61	105,939,311.19	1.00
1 to 2 years	292,704,339.66	29,270,433.98	10.00
2 to 3 years	22,461,434.74	6,738,430.45	30.00
3 to 4 years	11,636,777.53	5,818,388.78	50.00
4 to 5 years	8,117,519.60	6,494,015.67	80.00
Over 5 years	39,613,793.53	39,613,793.53	100.00
Total	<u>10,969,852,359.67</u>	<u>193,874,373.60</u>	<u>-</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable (Continued)

(3) Provision for bad debts

Category	Opening balance	Current changing amount			Closing balance
		Provision	Amount recovered or reversed	Amount resold or written off	
Provision by accounts receivable	288,032,587.98	56,643,821.19	-	61,883.77	344,614,525.40
Total	288,032,587.98	56,643,821.19	-	61,883.77	344,614,525.40

(4) Accounts receivable written off in the current period:

Item	Amount written off
Accounts receivable written off	61,883.77

There are no significant accounts receivable written off in the current period.

(5) The top five customers by balances at the period end are as follows

Company	Nature	Closing balance	Aging	Proportion to total closing balance of accounts receivable (%)	Closing balance of provision for bad debts
Customer 1	Sale of goods	667,027,820.13	Within 1 year	4.87	6,670,278.20
Customer 2	Sale of goods	366,503,390.04	Within 1 year	2.68	3,665,033.90
Customer 3	Sale of goods	351,205,017.30	Within 1 year	2.57	3,512,050.17
Customer 4	Sale of goods	201,125,346.03	Within 1 year	1.47	2,011,253.46
Customer 5	Sale of goods	197,980,402.05	Within 1 year	1.45	1,979,804.02
Total	-	1,783,841,975.55	-	13.04	17,838,419.76

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts receivable (Continued)

- (6) Accounts receivables derecognized due to transfer of financial assets in the current period.

Transfer method of financial assets	Accounts receivables derecognized	Profit or loss from the derecognition
Factoring of accounts receivable	475,081,649.53	(5,404,053.76)
Total	<u>475,081,649.53</u>	<u>(5,404,053.76)</u>

- (7) The Group had no assets or liabilities arising from the transfer of the accounts receivable with the continuing involvement for the current period.

4. Receivables financing

Item	Closing balance		
	Cost	Changes in fair value	Fair value
Notes receivable	1,149,913,285.25	–	1,149,913,285.25
Accounts receivable	–	–	–
Total	<u>1,149,913,285.25</u>	<u>–</u>	<u>1,149,913,285.25</u>

Cont.

Item	Opening balance		
	Cost	Changes in fair value	Fair value
Notes receivable	1,452,402,183.47	–	1,452,402,183.47
Accounts receivable	–	–	–
Total	<u>1,452,402,183.47</u>	<u>–</u>	<u>1,452,402,183.47</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Prepayments

(1) The aging analysis of prepayments is as follows:

Aging	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	595,496,922.41	86.79	787,644,850.07	94.01
1 to 2 years	60,807,533.32	8.86	20,097,405.33	2.40
2 to 3 years	18,498,229.31	2.70	21,941,790.90	2.62
Over 3 years	11,296,182.27	1.65	8,124,070.38	0.97
Total	686,098,867.31	100.00	837,808,116.68	100.00

(2) The top five suppliers by balances are as follows:

Company	Nature of amount	Closing balance	Aging	Proportion to total closing balance of advance payments (%)
Supplier 1	Advance payment	104,210,751.72	Within 1 year	15.19
Supplier 2	Advance payment	45,929,165.85	2 to 3 years	6.69
Supplier 3	Advance payment	42,560,000.00	Within 1 year	6.20
Supplier 4	Advance payment	37,667,032.60	Within 1 year	5.49
Supplier 5	Advance payment	25,908,259.91	Within 1 year	3.78
Total	–	256,275,210.08	–	37.35

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other Receivables

Item	Closing balance	Opening balance
Interest receivable	666,666.68	1,367,876.63
Dividends receivable	90,025,032.99	40,036,044.47
Other receivables	1,019,976,999.04	1,015,147,265.58
Total	1,110,668,698.71	1,056,551,186.68

(1) Interest receivable

① Interest receivable by category

Item	Closing balance	Opening balance
Term deposit	666,666.68	1,367,876.63
Subtotal	666,666.68	1,367,876.63
Less: Provision for bad debts	–	–
Total	666,666.68	1,367,876.63

(2) Dividends receivable

① Dividends receivable are as follows

Item (or investee)	Closing balance	Opening balance
Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Co., Ltd. (hereinafter referred to as "HWBYS")	50,000,000.00	–
Guangzhou Promise Biological Products Co., Ltd. (hereinafter referred to as "Nuo Cheng")	37,938,523.45	37,938,523.45
Chuangmei Medicines Co., Ltd. (hereinafter referred to as "Chuangmei Medicines")	2,086,509.54	2,097,521.02
Subtotal	90,025,032.99	40,036,044.47
Less: Provision for bad debts	–	–
Total	90,025,032.99	40,036,044.47

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other Receivables (Continued)

(2) Dividends receivable (Continued)

- ② The Group had no significant dividends receivable with aging over 1 year for the current period.
- ③ The Group had no provision for bad debts for dividends receivable for the current period.

(3) Other receivables

- ① Other receivables disclosed per aging:

Aging	Closing balance	Opening balance
Within 1 year	901,468,227.10	952,725,652.85
1 to 2 years	73,688,571.19	41,084,695.46
2 to 3 years	25,683,943.16	22,885,932.40
3 to 4 years	22,211,042.59	6,697,006.37
4 to 5 years	6,453,974.58	4,582,548.11
Over 5 years	34,799,722.82	31,682,275.57
Total book balance of other receivables	<u>1,064,305,481.44</u>	<u>1,059,658,110.76</u>
Less: Provision for bad debts	<u>44,328,482.40</u>	<u>44,510,845.18</u>
Total book value of other receivables	<u><u>1,019,976,999.04</u></u>	<u><u>1,015,147,265.58</u></u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other Receivables (Continued)

(3) Other receivables

② Other receivables disclosed by categories are as follows:

Category	Closing balance				
	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss (%)	
Other receivables subject to separate provision	34,552,589.35	3.25	34,529,595.31	99.93	22,994.04
Other receivables subject to provision by portfolio of features of credit risk	1,029,752,892.09	96.75	9,798,887.09	0.95	1,019,954,005.00
Including: Portfolio 1	699,712,164.68	65.74	9,798,887.09	1.40	689,913,277.59
Portfolio 2	75,194,922.23	7.07	-	-	75,194,922.23
Portfolio 3	10,986,495.35	1.03	-	-	10,986,495.35
Portfolio 4	243,859,309.83	22.91	-	-	243,859,309.83
Total	<u>1,064,305,481.44</u>	<u>100.00</u>	<u>44,328,482.40</u>	<u>4.17</u>	<u>1,019,976,999.04</u>

Cont.

Category	Opening balance				
	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss (%)	
Other receivables subject to separate provision	34,132,453.39	3.22	33,951,273.39	99.47	181,180.00
Other receivables subject to provision by portfolio of features of credit risk	1,025,525,657.37	96.78	10,559,571.79	1.03	1,014,966,085.58
Including: Portfolio 1	734,557,615.59	69.32	10,559,571.79	1.44	723,998,043.80
Portfolio 2	57,419,635.84	5.42	-	-	57,419,635.84
Portfolio 3	8,625,988.82	0.81	-	-	8,625,988.82
Portfolio 4	224,922,417.12	21.23	-	-	224,922,417.12
Total	<u>1,059,658,110.76</u>	<u>100.00</u>	<u>44,510,845.18</u>	<u>4.20</u>	<u>1,015,147,265.58</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other Receivables (Continued)

(3) Other receivables (Continued)

A. Other receivables which are subject to separate provision at the period end

Other receivables	Closing balance			Reason
	Book balance	Provision for bad debts	Expected credit loss (%)	
Other receivables 1	10,315,700.00	10,315,700.00	100.00	Litigation is involved. Please refer to Note XIV. 1. (1) ①.
Other receivables 2	2,868,759.75	2,868,759.75	100.00	The debtor ceased operation. Amount is expected to be unrecoverable.
Other receivables 3	2,000,000.00	2,000,000.00	100.00	The aging of prepayments is too long. Research didn't achieve expected progress.
Other receivables 4	1,800,957.60	1,800,957.60	100.00	The debtor ceased operation. Amount is expected to be unrecoverable.
Other receivables 5	1,582,097.34	1,582,097.34	100.00	Amount is expected to be unrecoverable.
Other receivables 6	1,520,000.00	1,520,000.00	100.00	The debtor ceased operation. Amount is expected to be unrecoverable.
Other receivables 7	1,284,052.25	1,284,052.25	100.00	Amount is expected to be unrecoverable.
Other receivables 8	855,814.96	855,814.96	100.00	Amount is expected to be unrecoverable.
Other receivables 9	757,220.81	757,220.81	100.00	Amount is expected to be unrecoverable.
Other receivables 10	502,043.54	502,043.54	100.00	Amount is expected to be unrecoverable.
Others	11,065,943.10	11,042,949.06	99.79	Amount is expected to be unrecoverable.
Total	34,552,589.35	34,529,595.31	-	-

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other Receivables (Continued)

(3) Other receivables (Continued)

B. Other receivables which are subject to provision by aging portfolio

Aging	Closing balance			Expected credit loss (%)
	Book balance	Proportion in portfolio (%)	Provision for bad debts	
Within 1 year	691,983,900.67	98.89	6,919,839.01	1.00
1 to 2 years	4,450,225.51	0.64	445,022.56	10.00
2 to 3 years	656,885.42	0.09	197,065.62	30.00
3 to 4 years	545,265.16	0.08	272,632.59	50.00
4 to 5 years	557,803.04	0.08	446,242.43	80.00
Over 5 years	1,518,084.88	0.22	1,518,084.88	100.00
Total	<u>699,712,164.68</u>	<u>100.00</u>	<u>9,798,887.09</u>	<u>-</u>

Cont.

Aging	Opening balance			Expected credit loss (%)
	Book balance	Proportion in portfolio (%)	Provision for bad debts	
Within 1 year	724,064,797.25	98.58	7,240,646.02	1.00
1 to 2 years	4,980,351.57	0.68	498,035.17	10.00
2 to 3 years	3,266,217.50	0.44	979,865.25	30.00
3 to 4 years	651,336.78	0.09	325,668.39	50.00
4 to 5 years	397,777.67	0.05	318,222.14	80.00
Over 5 years	1,197,134.82	0.16	1,197,134.82	100.00
Total	<u>734,557,615.59</u>	<u>100.00</u>	<u>10,559,571.79</u>	<u>-</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other Receivables (Continued)

(3) Other receivables (Continued)

C. Other receivables which are subject to provision by other portfolio methods

Item	Closing balance			
	Book balance	Proportion (%)	Provision for bad debts	Expected credit loss (%)
Other receivables for which provision for bad debts is accrued by financial asset portfolio with extremely low credit risk	75,194,922.23	7.07	-	-
Other receivables for which provision for bad debts is accrued by related party portfolio	10,986,495.35	1.03	-	-
Other receivables for which provision for bad debts is accrued by margins, deposit portfolio	243,859,309.83	22.91	-	-
Total	330,040,727.41	31.01	-	-

③ Category of other receivables as per nature

Nature	Closing book balance	Opening book balance
Receivables due from external parties	763,674,434.43	754,837,110.46
Margin, deposit and down payment	171,539,520.66	175,353,366.04
Advances to employees	53,720,914.31	68,329,344.32
Petty cash	18,598,874.86	8,362,855.17
Receivables due from related parties	10,986,495.35	9,178,773.24
Tax refund for exports	1,924,037.03	715,195.60
Others	43,861,204.80	42,881,465.93
Total book balance of other receivables	1,064,305,481.44	1,059,658,110.76
Less: Provision for bad debts	44,328,482.40	44,510,845.18
Total book value of other receivables	1,019,976,999.04	1,015,147,265.58

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other Receivables (Continued)

(3) Other receivables (Continued)

④ Provision for bad debts

Category	Opening balance	Current changing amount		Closing balance	
		Provision	Amount recovered or reversed		Amount resold or written off
provision by other receivables	44,510,845.18	25,035.66	–	207,398.44	44,328,482.40
Total	<u>44,510,845.18</u>	<u>25,035.66</u>	<u>–</u>	<u>207,398.44</u>	<u>44,328,482.40</u>

⑤ Other receivables written off in the current period.

Item	Amount written off
Other receivables written off	<u>207,398.44</u>

The Group had no significant other receivables written off for the current period.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other Receivables (Continued)

(3) Other receivables (Continued)

⑥ The top five debtors by balances are as follows:

Company	Nature	Closing balance	Aging	Proportion to the total closing balance of other receivables (%)	Closing balance of bad debt provision
Other receivables 1	Receivables due from external parties	57,401,984.74	Within 1 year, 1 to 2 years	5.39	574,884.81
Other receivables 2	Receivables due from external parties	24,025,677.92	Within 1 year	2.26	240,256.78
Other receivables 3	Receivables due from external parties	20,631,835.25	Within 1 year	1.94	206,318.35
Other receivables 4	Receivables due from external parties	17,950,000.00	Within 1 year	1.69	179,500.00
Other receivables 5	Receivables due from external parties	15,625,264.38	Within 1 year	1.47	156,252.64
Total	-	<u>135,634,762.29</u>	-	<u>12.75</u>	<u>1,357,212.58</u>

⑦ The Group had no other receivables related to government grants.

⑧ The Group had no other receivables that had been derecognized due to transfer of financial assets.

⑨ The Group had no assets or liabilities arising from the transfer other receivable with the continuing involvement for the current period.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Inventories

(1) Disclosure of inventories by categories is as follows:

Item	Closing balance		
	Book balance	Provision for decline in value of inventories	Book value
Raw materials	1,279,724,108.26	9,116,849.31	1,270,607,258.95
Work in progress	289,314,532.14	3,763,902.17	285,550,629.97
Semi-finished goods	237,443,004.47	891,968.80	236,551,035.67
Low-value consumables	7,334,402.08	–	7,334,402.08
Packaging materials	150,922,664.57	–	150,922,664.57
Consignment processing material	1,861,446.62	–	1,861,446.62
Commodity stocks	6,558,883,380.49	97,269,782.85	6,461,613,597.64
Others	120,069.90	–	120,069.90
Total	<u>8,525,603,608.53</u>	<u>111,042,503.13</u>	<u>8,414,561,105.40</u>

Cont.

Item	Opening balance		
	Book balance	Provision for decline in value of inventories	Book value
Raw materials	1,307,647,020.59	9,294,225.68	1,298,352,794.91
Work in progress	465,859,362.21	3,763,902.17	462,095,460.04
Semi-finished goods	237,818,255.05	891,968.80	236,926,286.25
Low-value consumables	7,865,474.43	–	7,865,474.43
Packaging materials	148,227,367.49	–	148,227,367.49
Consignment processing material	3,012,285.84	–	3,012,285.84
Commodity stocks	7,173,857,957.53	98,598,528.65	7,075,259,428.88
Others	–	–	–
Total	<u>9,344,287,723.14</u>	<u>112,548,625.30</u>	<u>9,231,739,097.84</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Inventories (Continued)

(2) Provision for decline in value of inventories and contract performance cost

Item	Opening balance	Increase		Decrease		Closing balance
		Provision	Others	Transferred or written-off	Others	
Raw materials	9,294,225.68	34,475.55	–	211,851.92	–	9,116,849.31
Work in progress	3,763,902.17	–	–	–	–	3,763,902.17
Semi-finished goods	891,968.80	–	–	–	–	891,968.80
Commodity stocks	98,598,528.65	7,107,552.61	–	8,436,298.41	–	97,269,782.85
Total	112,548,625.30	7,142,028.16	–	8,648,150.33	–	111,042,503.13

(3) Basis of provision for decline in value of inventories and reason for reversing or writing off in the current period

Item	Basis of provision for the loss on decline in value of inventories	Reason for the reversing provision for the loss on decline in value of inventories	Reason for writing off provision for the loss on decline in value of inventories
Raw materials	Book value is higher than the net realizable value	Increase in net realizable value	–
Commodity stocks	Book value is higher than net realizable value	–	Sold

(4) As on 30 June 2019, there is no capitalization of borrowing costs in the inventory.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Other Current Assets

Item	Closing balance	Opening balance
Deductible Input VAT	307,553,360.07	519,056,234.63
Prepaid enterprise income tax	35,358,433.40	50,985,240.99
Undisposed assets for whole relocation (Note)	24,438,333.74	24,438,333.74
Bank financial products	11,865,169.52	12,035,289.38
Structured deposits	–	1,530,000,000.00
Others	3,251,354.41	732,955.59
Total	382,466,651.14	2,137,248,054.33

Note: According to the notice of Haifuzhengfang [2015] No. 2, Haizhengbankexiezi [2015] No. 1 and Haizhengbankexiezi [2016] No.1, Guangzhou Qi Xing Pharmaceutical Factory and Qi xing Pharmaceutical, subsidiaries of the Group, have ceased production and moved out of the building for whole relocation before September 2015. The values of the land and houses, machinery and equipment and inventories for compensation shall be appraised with a professional appraisal report. As on 30 June 2019, the report is not yet issued.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Long-term Equity Investment

Investee	Investment costs	Opening balance	Change in the current year					Closing balance	Closing balance of provision for impairment
			Investment gains and losses recognized under equity method	Adjustment to other comprehensive income	Declaration of cash dividends or profits	Provision for impairment	Others		
I. Joint ventures									
Nuo Cheng	42,000,000.00	228,876,210.25	-	-	-	-	-	-	251,185,803.37
HVBYS	100,000,000.00	389,717,804.13	-	-	50,000,000.00	-	-	-	372,590,718.46
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. (hereinafter referred to as "Baxter Qiao Guang")	37,000,000.00	42,701,110.59	-	620,946.30	-	-	-	-	43,322,056.89
Subtotal	179,000,000.00	661,295,124.97	-	55,803,453.75	50,000,000.00	-	-	-	667,098,578.72
II. Associates									
Jinying Fund Management Co., Ltd	50,000,000.00	60,823,876.62	-	1,894,518.48	31,704.40	-	-	-	62,750,099.50
Guangzhou Baiyunshan Weiji Medical Investment Management Co., Ltd.	2,020,000.00	2,032,056.21	-	(7,836.20)	-	-	-	-	2,024,220.01
Chuangmei Medicines Co., Ltd.	60,823,012.51	62,991,964.68	-	-	-	512,996.48	-	-	63,504,961.16
Guangzhou Baiyunshan Southern Anti-Tumor Biological Products Co., Ltd.	50,225,000.00	47,545,148.15	-	(910,111.40)	-	-	-	-	46,635,036.75
Guangzhou Zhongcheng Medical Instruments Industry Development Co., Ltd.	3,400,000.00	2,776,033.14	-	(268,884.35)	-	-	-	-	2,507,148.79
Guangzhou Baiyunshan Yi Xin Tang Pharmaceutical Investment Development Co., Ltd. (hereinafter referred to as "Baiyunshan Yi Xin Tang")	45,000,000.00	44,962,519.01	27,000,000.00	(41,687.42)	-	-	-	-	71,920,831.59
Guangdong Guangjiao Jishen Equity Investment Fund Management Co., Ltd.	4,000,000.00	3,070,247.16	-	(800,032.48)	-	-	-	-	2,270,214.68
Yunnan Hongyang Yi Xin Tang Pharmaceutical (Group) Co., Ltd. (hereinafter referred to as "Yi Xin Tang")	864,570,227.02	874,461,065.45	-	24,887,495.44	12,578,616.30	-	-	-	886,769,944.59
Subtotal	1,080,038,239.53	1,098,662,910.42	27,000,000.00	24,753,462.07	31,704.40	12,578,616.30	512,996.48	-	1,138,382,457.07
Total	1,259,038,239.53	1,759,958,035.39	27,000,000.00	80,556,915.82	31,704.40	62,578,616.30	512,996.48	-	1,805,481,035.79

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Investments in Other Equity Instruments

(1) Investments in other equity instruments

Item	Closing balance	Opening balance
Sino-Israel Bio-industry Investment Fund	65,505,163.26	66,916,260.65
South China Center for Innovative Pharmaceuticals Co., Ltd.	10,000,000.00	10,000,000.00
Guangzhou Nanxin Pharmaceutical Co., Ltd.	7,677,876.51	7,677,876.51
Yilin Bio-industry Co., Ltd	298,092.56	303,733.73
Total	83,481,132.33	84,897,870.89

(2) Investments in non-transactional equity instruments

Item	Dividend income recognized in the current period	Accumulated profit	Accumulated loss	Amount transferred from other comprehensive income to retained earnings	Reasons for designated to be measured at FVTOCI	Reasons for transferred from other comprehensive income to retained earnings
China-Israel biological industry investment fund	-	-	-	-	Long-held based on strategic purpose	-
South China Center for Innovative Pharmaceuticals Co., Ltd.	-	-	-	-	Long-held based on strategic purpose	-
Guangzhou Nanxin Pharmaceutical Co., Ltd.	-	-	-	-	Long-held based on strategic purpose	-
Yilin Bio-industry Co., Ltd	-	-	-	-	Long-held based on strategic purpose	-
Total	-	-	-	-	-	-

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Other Non-Current Financial Assets

Item	Closing balance	Opening balance
Financial assets classified at FVTPL	237,764,331.16	226,938,456.16
Including: Equity instrument investments	237,764,331.16	226,938,456.16
Total	237,764,331.16	226,938,456.16

12. Investment Properties

(1) Investment property measured using the cost model

Item	Buildings	Land use right	Total
I. Original cost			
1. Opening balance	401,011,186.32	18,344,900.69	419,356,087.01
2. Increase	27,896.62	–	27,896.62
(1) Changes in foreign exchange rate	27,896.62	–	27,896.62
3. Decrease	–	–	–
4. Closing balance	401,039,082.94	18,344,900.69	419,383,983.63
II. Accumulated depreciation and amortization			
1. Opening balance	181,747,547.25	9,524,039.93	191,271,587.18
2. Increase	5,268,943.47	172,948.48	5,441,891.95
(1) Provision or amortization	5,257,496.60	172,948.48	5,430,445.08
(2) Changes in foreign exchange rate	11,446.87	–	11,446.87
3. Decrease	–	–	–
4. Closing balance	187,016,490.72	9,696,988.41	196,713,479.13
III. Provision for impairment			
1. Opening balance	–	–	–
2. Increase	–	–	–
3. Decrease	–	–	–
4. Closing balance	–	–	–
IV. Book value			
1. Closing balance of book value	214,022,592.21	8,647,912.29	222,670,504.50
2. Opening balance of book value	<u>219,263,639.07</u>	<u>8,820,860.76</u>	<u>228,084,499.83</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Investment Properties (Continued)

- (2) Depreciation is RMB 5,257 thousand from January to June 2019 (January to June 2018: RMB 5,381 thousand). Amortization is RMB 173 thousand from January to June 2019 (January to June 2018: RMB 186 thousand).
- (3) Increase in original value and accumulated depreciation of investment property due to change in foreign exchange rate is RMB 28 thousand and RMB 11 thousand respectively from January to June in 2019 (January to June 2018: decreased RMB 58 thousand and RMB 20 thousand respectively).
- (4) All of the investment properties with land use right are located in Mainland China with useful life vary from 10 to 50 years.
- (5) The Group had no transfer of properties for the current period.

13. Fixed Assets

Item	Closing balance	Opening balance
Fixed assets	2,880,142,826.86	2,950,591,381.29
Disposal of fixed assets	–	–
Total	<u>2,880,142,826.86</u>	<u>2,950,591,381.29</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Fixed Assets (Continued)

(1) Fixed assets

Item	Buildings	Machinery and equipment	Motor vehicles	Electronic equipment	Office equipment	Decoration of fixed assets	Total
I. Original cost							
1. Opening balance	3,055,207,838.62	2,222,617,348.83	130,039,950.40	169,360,341.86	256,890,169.03	51,191,286.66	5,885,306,935.40
2. Increase	1,780,775.22	57,501,742.63	2,552,038.13	6,386,426.96	15,281,354.76	2,418,647.29	85,920,985.00
(1) Purchases	661,698.55	22,554,664.86	2,213,673.86	2,994,442.53	9,573,315.55	-	37,997,795.35
(2) Transferred from construction in progress	1,092,482.27	34,947,077.77	338,364.27	3,391,984.43	5,705,821.92	2,418,647.29	47,894,377.95
(3) Changes in foreign exchange rate	26,594.40	-	-	-	2,217.30	-	28,811.70
3. Decrease	871,277.76	15,109,316.58	8,777,634.41	2,427,604.28	3,607,965.46	46,000.00	30,839,798.49
(1) Disposal or scrap	871,277.76	15,109,316.58	8,777,634.41	2,427,604.28	3,607,965.46	46,000.00	30,839,798.49
4. Closing balance	3,056,117,336.08	2,265,009,774.88	123,814,354.12	173,319,164.54	268,563,558.34	53,563,933.95	5,940,388,121.91
II. Accumulated depreciation							
1. Opening balance	1,119,898,654.09	1,398,018,825.53	89,470,493.89	110,084,851.57	164,925,314.23	32,717,447.50	2,915,115,586.81
2. Increase	61,745,283.54	53,854,873.08	14,042,854.69	13,458,726.37	9,520,886.12	2,578,406.62	155,201,030.42
(1) Provision	61,739,281.97	53,854,873.08	14,042,854.69	13,458,726.37	9,518,665.17	2,578,406.62	155,192,807.90
(2) Changes in foreign exchange rate	6,001.57	-	-	-	2,220.95	-	8,222.53
3. Decrease	837,069.10	14,746,530.10	8,720,553.34	2,282,745.99	3,048,390.95	46,000.00	29,681,289.48
(1) Disposal or scrap	837,069.10	14,746,530.10	8,720,553.34	2,282,745.99	3,048,390.95	46,000.00	29,681,289.48
4. Closing balance	1,180,806,868.53	1,437,127,168.51	94,792,795.24	121,260,831.95	171,397,809.40	35,249,854.12	3,040,635,327.75
III. Provision for impairment							
1. Opening balance	11,767,229.72	6,238,300.93	158,224.47	1,443,365.80	2,846.38	-	19,609,967.30
2. Increase	-	-	-	-	-	-	-
3. Decrease	-	-	-	-	-	-	-
4. Closing balance	11,767,229.72	6,238,300.93	158,224.47	1,443,365.80	2,846.38	-	19,609,967.30
IV. Book value							
1. Closing balance of book value	1,863,543,237.83	821,644,305.44	28,863,334.41	50,614,966.79	97,162,902.56	18,314,079.83	2,880,142,826.86
2. Opening balance of book value	1,923,541,954.81	818,360,222.37	40,411,232.04	57,832,124.49	91,962,008.42	18,473,839.16	2,950,581,381.29

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Fixed Assets (Continued)

(1) Fixed assets (Continued)

Note:

- ① Original value of fixed assets transferred from construction in progress is RMB 47,894 thousand from January to June in 2019 (January to June 2018: RMB 34,108 thousand).
- ② Increase in original value and accumulated depreciation of fixed assets due to the fluctuation in foreign exchange rate are RMB 29 thousand and RMB 8 thousand respectively from January to June in 2019 (January to June 2018: decreased RMB 293 thousand and RMB 1,327 thousand respectively).
- ③ Fixed assets depreciation accrued from January to June in 2019 is RMB 155,192 thousand (January to June 2018: RMB 106,058 thousand), which is comprised of depreciation in operating cost RMB 51,333 thousand, depreciation in selling expenses RMB 28,046 thousand, depreciation in General and administrative expenses RMB 62,211 thousand and depreciation in R&D expenditure RMB 13,602 thousand (January to June 2018: depreciation in operating cost RMB 59,349 thousand, depreciation in selling expenses RMB 6,192 thousand, depreciation in General administrative expenses RMB 28,288 thousand and depreciation in R&D expenditure RMB 10,659 thousand).

(2) Temporary idle fixed assets

Item	Original cost	Accumulated depreciation	Provision for impairment	Book value	Note
Buildings	430,613.36	242,589.01	–	188,024.35	
Machinery and equipment	1,726,264.59	1,142,868.14	–	583,396.45	
Total	<u>2,156,877.95</u>	<u>1,385,457.15</u>	<u>–</u>	<u>771,420.80</u>	

(3) Fixed assets leased out under operating lease

Item	Closing balance of book value	Opening balance of book value
Buildings	–	11,793,975.54
Total	<u>–</u>	<u>11,793,975.54</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Fixed Assets (Continued)

(4) Fixed assets which do not have a certificate of property right

Item	Book value	Reason for do not have certificate of property right	Estimated time for acquiring certificate of property right
Buildings	48,752,326.69	Not handled yet as necessary procedures were not complete	Unknown
Total	<u>48,752,326.69</u>	–	–

Notes:

As on 30 June 2019, Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, has buildings with the original costs of HK\$ 8,893 thousand and the net book value of HK\$6,262 thousand, and investment property with the original costs of HK\$ 6,843 thousand and the net value of HK\$ 3,589 thousand pledged as collateral, and obtained a credit line with a limit of HK\$300 thousand, the letter of credit and the total amount of 90-day credits of HK\$100,000 thousand, and an issued but unexpired letter of credit of EUR 48 thousand and USD 326 thousand from the Bank of China (Hong Kong) Co., Ltd.

14. Construction in Progress

Item	Closing balance	Opening balance
Construction in progress	682,006,058.88	480,305,723.50
Construction material	–	–
Total	<u>682,006,058.88</u>	<u>480,305,723.50</u>

(1) Construction in progress

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Construction in progress	<u>682,257,793.26</u>	<u>251,734.38</u>	<u>682,006,058.88</u>	<u>480,557,457.88</u>	<u>251,734.38</u>	<u>480,305,723.50</u>
Total	<u>682,257,793.26</u>	<u>251,734.38</u>	<u>682,006,058.88</u>	<u>480,557,457.88</u>	<u>251,734.38</u>	<u>480,305,723.50</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Construction in Progress (Continued)

(2) Changes of significant construction in progress in the current period

Project	Budget	Opening balance	Increase in the current period	Amount transferred into fixed assets in the current period	Other decrease in the current period	Closing balance	Proportion of construction investment (%)	Project progress (%)	Source of funds
Base of Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd.	400,000,000.00	72,502,815.24	31,424,645.35	-	-	103,927,460.59	26.18	52.34	Self-raised funds
Ming Xing relocation improvement	475,620,000.00	86,110,360.07	521,871.70	-	-	86,632,231.77	18.21	30.00	Self-raised funds
Construction of Bio-island R&D Headquarters	798,288,452.25	-	82,750,316.53	-	-	82,750,316.53	10.37	10.37	Self-raised funds, issuing shares
Extension project K of Hospital service	204,000,000.00	50,382,337.86	96,116.50	-	-	50,478,454.36	50.46	50.46	Self-raised funds
CaiZhiLin Meizhou TCM Industrialized production and service base	130,000,000.00	28,462,982.18	20,535,706.58	-	-	48,998,688.76	50.93	50.00	Self-raised funds
State-owned construction land in Longqi County	27,540,000.00	-	28,492,631.00	-	-	28,492,631.00	103.46	99.00	Self-raised funds
Extension project D of Hospital service	190,000,000.00	7,680,181.09	20,433,071.16	-	-	28,113,252.25	25.91	25.91	Self-raised funds
Extension project F of Hospital service	210,000,000.00	26,462,266.51	525,650.52	-	-	26,987,917.03	29.71	29.71	Self-raised funds
Zhongluotian Wulogang A80807981 block	169,750,000.00	15,601,555.46	6,324,261.66	-	-	21,925,817.12	26.39	26.39	Self-raised funds
Construction of Guangyao Baiyunshan Chemical Pharmaceutical (Zhuhai) Co., Ltd.	731,879,100.00	-	54,057,625.16	-	34,917,893.00	19,139,732.16	7.39	5.00	Self-raised funds

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Construction in Progress (Continued)

(2) Changes of significant construction in progress in the current period (Continued)

Project	Budget	Opening balance	Increase in the current period	Amount transferred into fixed assets in the current period	Other decrease in the current period	Closing balance	Proportion of construction investment (%)	Project progress (%)	Source of funds
Project of special medical use formulae food production line	42,400,000.00	17,223,589.42	-	-	3,171,385.58	14,052,203.84	41.34	41.34	Self-raised funds
New warehouse	17,056,000.00	10,657,824.73	2,556,002.15	-	-	13,213,826.88	77.47	95.00	Self-raised funds
Baiyun project	527,000,000.00	8,381,430.76	3,506,989.49	-	-	11,888,420.25	11.91	11.91	Self-raised funds
Extension project G of Hospital service	73,000,000.00	12,753,343.93	193,518.87	3,708,605.42	-	9,238,257.38	54.45	54.45	Self-raised funds
VOCs waste gas pollution control project	15,781,360.00	5,958,616.29	2,004,141.57	-	-	7,962,817.86	50.46	95.00	Self-raised funds
Extension project N of Hospital service	24,500,000.00	236,392.00	8,125,955.76	-	472,784.00	7,889,563.76	34.13	34.13	Self-raised funds
Former wealth fishing port renovation project	30,000,000.00	3,855,609.28	3,690,907.95	-	-	7,546,517.23	101.57	90.00	Self-raised funds
Compliance preparation equipment modification project	15,400,000.00	5,841,475.00	4,771,000.00	3,052,596.57	722,415.43	6,837,463.00	68.91	68.91	Self-raised funds
Extension project O of Hospital service	72,900,000.00	-	6,398,230.09	-	-	6,398,230.09	8.78	8.78	Self-raised funds
Extension project P of Hospital service	164,000,000.00	2,383,147.24	4,178,334.23	558,620.69	9,557.52	5,993,303.26	6.48	6.48	Self-raised funds
Extension project B of Hospital service	67,120,000.00	5,782,917.34	100,071.88	-	-	5,882,989.22	56.26	56.26	Self-raised funds
Extension project L of Hospital service	90,000,000.00	4,967,586.16	1,202,159.24	1,444,917.80	-	4,724,827.60	7.56	7.56	Self-raised funds

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Construction in Progress (Continued)

(2) Changes of significant construction in progress in the current period (Continued)

Project	Budget	Opening balance	Increase in the current period	Amount transferred into fixed assets in the current period	Other decrease in the current period	Closing balance	Proportion of construction investment (%)	Project progress (%)	Source of funds
Upgrading project of modern pharmaceutical preparation production line	13,000,000.00	-	4,312,955.24	-	-	4,312,955.24	33.18	33.18	Self-raised funds
Reconstruction of Chinese medicine pellet composite film packaging production line	4,404,300.00	3,861,900.00	195,184.24	-	194,378.71	3,862,705.53	92.12	92.12	Self-raised funds
Extension project H of Hospital service	26,000,000.00	2,669,962.26	1,051,000.00	-	-	3,720,962.26	50.70	50.70	Self-raised funds
Chinese medicine treatment before extraction of the modernization of products of stage 1 of GMP improvement	97,564,100.00	7,358,663.43	1,091,065.05	2,253,977.20	2,689,092.28	3,506,659.00	103.8	98.00	Self-raised funds, borrowing
Other	1,721,896,656.13	101,422,441.63	10,399,037.30	36,875,660.27	7,166,229.37	67,779,589.29	-	-	-
Total	6,339,100,008.38	480,557,457.88	298,938,449.22	47,894,377.95	49,343,735.89	682,257,793.26	-	-	-

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Construction in Progress (Continued)

(3) Impairment of construction in progress

Item	Opening balance	Increase	Decrease	Closing balance	Reason
Expansion of the Guang Hua sewage station	251,734.38	–	–	251,734.38	Project stopped
Total	<u>251,734.38</u>	<u>–</u>	<u>–</u>	<u>251,734.38</u>	

Notes to the Financial Statements

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(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Capitalized Biological Assets

(1) Cost Measurement Method

Item	Crop production		Total
	Unripe capitalized biological assets	Ripe capitalized biological assets	
I. Original cost			
1. Opening balance	–	–	–
2. Increase	–	–	–
(1) Purchases	3,678,000.00	–	3,678,000.00
3. Decrease	–	–	–
(1) Disposal	–	–	–
4. Closing balance	3,678,000.00	–	3,678,000.00
II. Accumulated depreciation			
1. Opening balance	–	–	–
2. Increase	–	–	–
(1) Provision	–	–	–
3. Decrease	–	–	–
(1) Disposal	–	–	–
4. Closing balance	–	–	–
III. Provision for impairment			
1. Opening balance	–	–	–
2. Increase	–	–	–
(1) Provision	–	–	–
3. Decrease	–	–	–
(1) Disposal	–	–	–
4. Closing balance	–	–	–
IV. Book value			
1. Closing balance of book value	3,678,000.00	–	3,678,000.00
2. Opening balance of book value	–	–	–

- (2) Capitalized biological assets are measured at cost, the crop production increased by RMB 3,678,000.00 due to purchase, RMB 0.00 due to breeding (education), and RMB 0.00 due to sale, decreased RMB 0.00 by death, loss, damage and depreciation.

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(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Right-of-use Assets

(1) Right-of-use assets

Item	Buildings	Machinery and equipment	Total
I. Original cost			
1. Opening balance	631,597,534.04	262,233,465.42	893,830,999.46
2. Increase	97,910,310.54	9,701,071.91	107,611,382.45
3. Decrease	–	–	–
4. Closing balance	729,507,844.58	271,934,537.33	1,001,442,381.91
II. Accumulated depreciation			
1. Opening balance	–	47,068,309.98	47,068,309.98
2. Increase	88,979,319.49	12,741,903.90	101,721,223.39
3. Decrease	–	–	–
4. Closing balance	88,979,319.49	59,810,213.88	148,789,533.37
III. Provision for impairment			
1. Opening balance	–	–	–
2. Increase	–	–	–
3. Decrease	–	–	–
4. Closing balance	–	–	–
IV. Book value			
1. Closing balance of book value	640,528,525.09	212,124,323.45	852,652,848.54
2. Opening balance of book value	<u>631,597,534.04</u>	<u>215,165,155.44</u>	<u>846,762,689.48</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Intangible Assets

(1) Intangible assets

Item	Land use right	Industrial property right and know-how	Non-patent technology	Industry and commercial trademark	Non-Industry and commercial trademark	Software and others	Total
I. Original cost							
1. Opening balance	762,176,406.45	16,960,074.83	64,674,260.40	172,487,280.74	127,793,900.00	186,686,866.75	1,330,778,789.17
2. Increase	38,519,829.79	98,361.13	-	1,389,119,631.00	-	4,480,002.01	1,432,217,823.93
(1) Purchase	38,519,829.79	98,361.13	-	1,389,119,631.00	-	4,480,002.01	1,432,217,823.93
3. Decrease	-	-	-	-	-	42,948.70	42,948.70
(1) Disposal	-	-	-	-	-	42,948.70	42,948.70
4. Closing balance	800,696,236.24	17,058,435.96	64,674,260.40	1,561,606,911.74	127,793,900.00	191,123,920.06	2,762,953,664.40
II. Accumulated amortization							
1. Opening balance	157,293,394.51	9,957,389.28	25,759,859.98	32,791,688.44	-	90,586,116.30	316,388,448.51
2. Increase	8,888,634.99	361,002.72	2,655,761.43	-	-	15,738,794.28	27,644,193.42
(1) Provision	8,888,634.99	361,002.72	2,655,761.43	-	-	15,738,794.28	27,644,193.42
3. Decrease	-	-	-	-	-	42,948.70	42,948.70
(1) Disposal	-	-	-	-	-	42,948.70	42,948.70
4. Closing balance	166,182,029.50	10,318,392.00	28,415,621.41	32,791,688.44	-	106,281,961.88	343,989,693.23
III. Provision for impairment							
1. Opening balance	-	453,343.04	-	583,573.00	-	-	1,036,916.04
2. Increase	-	-	-	-	-	-	-
3. Decrease	-	-	-	-	-	-	-
4. Closing balance	-	453,343.04	-	583,573.00	-	-	1,036,916.04
IV. Book value							
1. Closing balance of book value	634,514,206.74	6,286,700.92	36,258,638.99	1,528,231,650.30	127,793,900.00	84,841,958.18	2,417,927,055.13
2. Opening balance of book value	604,883,011.94	6,549,342.51	38,914,400.42	139,112,019.30	127,793,900.00	96,100,750.45	1,013,353,424.62

Note: Amortization of RMB 27,644 thousand for the current period (January to June 2018: RMB 15,056 thousand) are recognized in the profit or loss. All of the lands and relevant land use right in the intangible assets are located in Mainland China with useful life vary from 10 to 50 years.

(2) The Group had no land use right which do not have certificate of title for the current period.

(3) The Group had no intangible assets which do not have right of use or have restricted right of use.

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For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Development expenditure

Item	Opening balance	Increase		Decrease			Closing balance	Provision for impairment
		Internal development expenditure	Others	Confirmed as Intangible assets	Transfer to current P&L	Others		
Capital expenditure	800,000.00	-	-	-	-	-	800,000.00	800,000.00
Expense expenditure	-	276,819,755.65	-	-	276,819,755.65	-	-	-
Total	800,000.00	276,819,755.65	-	-	276,819,755.65	-	800,000.00	800,000.00

Note: Development expenditure RMB 800 thousand yuan was a patent on technology purchased by the Group subsidiary in 2005, recorded as development cost accounting, not to carry out further research after the purchase, as current period ended, it is expected to no longer practical value, Therefore, the full provision for impairment is made.

19. Goodwill

(1) Book value of goodwill

The investee's name or the event resulting in goodwill	Opening balance	Increase		Decrease			Closing balance
		Arising from business combination	Purchase	Disposal	Others		
Guangzhou Baiyunshan Hospital	9,216,610.56	-	-	-	-	9,216,610.56	
Guangyao Haima	2,282,952.18	-	-	-	-	2,282,952.18	
Guangxi Ying Kang	475,756.92	-	-	-	-	475,756.92	
GP Corp.	932,349,003.84	-	-	-	-	932,349,003.84	
Total	944,324,323.50	-	-	-	-	944,324,323.50	

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Goodwill (Continued)

(2) Provision for impairment of goodwill

The investee's name or event resulting in goodwill	Opening balance	Increase		Decrease		Closing balance
		Provided	Others	Disposal	Others	
Guangxi Ying Kang GP Corp.	475,756.92 118,275,499.68	- -	- -	- -	- -	475,756.92 118,275,499.68
Total	118,751,256.60	-	-	-	-	118,751,256.60

20. Long-term prepaid expenses

Item	Opening balance	Increase	Amortization	Other decrease	Closing balance
Decoration expenses ABC Buildings	77,730,809.04	16,188,043.56	10,733,318.31	-	83,185,534.29
certification service	3,177,101.38	3,113,620.58	834,104.95	-	5,456,617.01
GMP reconstruction expenses	2,801,527.81	-	556,486.15	-	2,245,041.66
Computer system expenses	1,879,627.62	281,757.59	458,371.68	-	1,703,013.53
Others	8,726,074.97	4,038,509.60	2,016,181.41	-	10,748,403.16
Total	94,315,140.82	23,621,931.33	14,598,462.50	-	103,338,609.65

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For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Deferred Tax Assets and Deferred Tax Liabilities

(1) Breakdown of deferred tax assets before offset

Item	Closing balance		Opening balance	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Other payables	1,191,837,430.60	245,064,172.02	1,318,565,303.01	263,313,163.91
Provision for bad debts	403,815,622.43	97,790,598.59	333,782,001.29	80,641,616.34
Deferred income	386,978,247.93	79,075,859.49	340,717,498.52	72,167,584.19
Provisions	317,044,249.19	47,556,637.38	261,961,219.19	39,294,182.88
Impact on profit arising from elimination	159,466,499.81	25,044,019.76	198,755,669.97	33,956,188.85
Provision for decline in value of inventories	108,727,149.16	23,216,326.71	111,955,057.11	23,857,168.73
Deductible tax losses	107,219,615.82	27,283,853.86	58,687,497.80	14,671,874.44
Employee benefits payable	82,040,090.58	15,396,500.47	81,056,699.08	15,512,555.91
Fixed assets depreciation differences between accounting and tax law	59,291,290.46	13,874,518.86	67,105,717.89	15,830,597.29
Other non-current financial assets	31,001,706.10	4,650,255.92	40,820,289.39	6,123,043.41
Intangible assets amortization differences between accounting and tax law	14,771,907.87	3,574,079.76	1,188,972.13	178,345.81
Investments in other equity instruments	9,494,244.18	1,424,136.63	8,331,239.35	1,249,685.90
Provision for impairment of fixed assets	8,567,032.45	1,307,313.86	8,499,076.09	1,397,171.11
Long-term prepaid expenses	483,547.21	111,667.25	3,960,963.61	594,144.54
Provision for impairment of construction in progress	251,734.38	37,760.16	251,734.38	37,760.16
Others	12,867,026.46	2,541,958.10	1,278,983.09	319,745.78
Total	<u>2,893,857,394.64</u>	<u>587,949,658.82</u>	<u>2,836,917,921.90</u>	<u>569,144,829.25</u>

Notes to the Financial Statements

For January – June 2019

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Deferred Tax Assets and Deferred Tax Liabilities (Continued)

(2) Breakdown of deferred tax liabilities before offset

Item	Closing balance		Opening balance	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Book value of the appreciated intangible assets and fixed assets in business combination	670,217,507.24	163,439,931.29	683,899,834.68	170,974,958.67
Other receivables-profit distribution	316,544,058.00	79,136,014.50	252,471,028.00	63,117,757.00
Other non-current financial assets	79,199,070.96	11,901,317.36	78,927,745.68	11,872,519.56
Book value of amortization provided for intangible assets appreciation	7,901,296.00	1,185,194.40	7,901,296.00	1,185,194.40
Book value of depreciation provided for fixed assets appreciation	1,778,592.00	266,788.80	1,778,592.00	266,788.80
Fixed assets depreciation differences between accounting and tax law	15,629,549.80	2,344,432.47	15,629,549.80	2,344,432.47
Other investments in equity instruments	–	–	3,733.73	560.06
Others	11,636,025.04	2,853,319.39	–	–
Total	<u>1,102,906,099.04</u>	<u>261,126,998.21</u>	<u>1,040,611,779.89</u>	<u>249,762,210.96</u>

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Deferred Tax Assets and Deferred Tax Liabilities (Continued)

(3) Deductible temporary differences and deductible losses that are not recognized as deferred income tax assets

Item	Closing balance	Opening balance
Deductible temporary difference	491,973.19	5,965,271.14
Deductible losses	128,502,703.37	157,357,832.42
Total	128,994,676.56	163,323,103.56

(4) Deductible losses which are not recognized as deferred tax assets will expire in the following years

Year	Closing balance	Opening balance
2019	–	10,376,918.20
2020	2,174,417.38	31,102,837.77
2021	13,713,808.66	35,399,376.92
2022	53,565,207.91	53,565,207.91
2023	26,913,491.62	26,913,491.62
2024	32,135,777.80	–
Total	128,502,703.37	157,357,832.42

22. Other Non-current Assets

Item	Closing balance	Opening balance
Advance payment of land transferring fee	–	2,480,000.00
Advance payment of accounting software	–	100,000.00
Total	–	2,580,000.00

Notes to the Financial Statements

For January – June 2019

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. Short-term Borrowings

(1) Category of short-term borrowings

Item	Closing balance	Opening balance
Pledge borrowings	752,077,257.37	205,948,057.69
Guarantee borrowings	934,490,365.00	915,243,860.80
Credit borrowings	5,247,250,159.76	4,784,511,367.61
Total	<u>6,933,817,782.13</u>	<u>5,905,703,286.10</u>

Note:

- ① Please refer to Note. VI. 62. Assets with Restricted Ownership or Use Right for details on category and amount of pledge borrowings.
- ② As on 30 June 2019, short-term borrowings of RMB 89,200 thousand of the Group's guarantee borrowings are guaranteed by the Group's internal enterprises. Other guarantee loans are guaranteed by minority shareholders of the sub-subsidiaries.
- ③ As on 30 June 2019, the weighted average annual interest rate of short-term borrowings is 4.4958% (31 December 2018: 4.5263%).

(2) The Group had no overdue short-term borrowings as at 30 June 2019.

24. Notes Payable

Category	Closing balance	Opening balance
Commercial acceptance notes	175,357,139.56	196,980,253.91
Bank acceptance notes	2,343,832,972.63	2,459,196,251.18
Total	<u>2,519,190,112.19</u>	<u>2,656,176,505.09</u>

Note: As on 30 June 2019, amount expected to be matured within a year is RMB 2,519,190 thousand (31 December 2018: RMB 2,656,177 thousand).

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25. Accounts Payable

Item	Closing balance	Proportion (%)	Opening balance	Proportion (%)
Within 1 year	9,035,624,693.89	95.86	8,973,120,088.71	96.35
Over 1 year	390,713,087.39	4.14	340,157,569.01	3.65
Total	<u>9,426,337,781.28</u>	<u>100.00</u>	<u>9,313,277,657.72</u>	<u>100.00</u>

Note: Significant accounts payable with aging over 1 year:

Item	Closing balance	Reason for outstanding or carrying forward
Supplier 1	47,405,089.60	Litigation is involved. Please refer to Note XIV. 1. (1) ①.
Supplier 2	22,688,541.59	Payment terms not satisfied.
Supplier 3	22,576,000.00	Payment terms not satisfied.
Supplier 4	21,359,931.34	Payment terms not satisfied.
Supplier 5	18,440,000.00	Litigation is involved. Please refer to Note XIV. 1. (1) ①.
Total	<u>132,467,016.37</u>	–

26. Employee Benefits Payable

(1) Presentation of employee benefits payable

Item	Opening balance	Increase	Decrease	Closing balance
I. Short-term employee benefits	751,834,592.42	2,242,808,012.63	2,252,812,853.07	741,829,751.98
II. Post-employment benefits-defined contribution plan	1,200,038.44	206,772,240.77	198,358,577.41	9,613,701.80
III. Termination benefits	–	211,178.42	211,178.42	–
IV. Other benefits due within 1 year	–	–	–	–
Total	<u>753,034,630.86</u>	<u>2,449,791,431.82</u>	<u>2,451,382,608.90</u>	<u>751,443,453.78</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. Employee Benefits Payable (Continued)

(2) Presentation of short-term benefits

Item	Opening balance	Increase	Decrease	Closing balance
1. Wages, bonuses, allowances and subsidies	706,540,958.62	1,927,083,288.77	1,949,491,879.48	684,132,367.90
2. Employee welfare	4,988,203.13	78,005,144.99	68,653,375.44	14,339,972.68
3. Social Insurance premium	44,332.88	86,213,520.42	86,074,911.59	182,941.71
Including: Medical insurance premium	45,908.99	75,823,299.34	75,741,622.60	127,585.73
Industrial injury insurance premium	2,407.49	2,693,142.00	2,687,963.89	7,585.60
Maternity insurance premium	(3,983.60)	7,697,079.08	7,645,325.10	47,770.38
4. Housing funds	98,314.41	110,011,878.91	110,048,492.90	61,700.42
5. Labor-union expenditure and employee education funds	11,159,726.58	30,499,556.87	32,218,318.54	9,440,964.91
6. Housing allowance	28,323,746.09	9,865,600.14	4,848,442.28	33,340,903.95
7. Staff and workers' bonus and welfare fund	–	–	–	–
8. Short-term paid absences	–	–	–	–
9. Short-term profits sharing plan	–	–	–	–
10. Other short-term benefits	679,310.71	1,129,022.53	1,477,432.84	330,900.40
Total	751,834,592.42	2,242,808,012.63	2,252,812,853.07	741,829,751.98

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. Employee Benefits Payable (Continued)

(3) Disclosure of defined contribution plan by categories

Item	Opening balance	Increase	Decrease	Closing balance
1. Basic pension insurance	197,155.17	145,535,602.84	145,315,803.57	416,954.44
2. Unemployment insurance premiums	29,923.53	5,486,275.90	5,479,971.34	36,228.09
3. Enterprise annuity	131,962.91	43,963,403.59	35,318,251.08	8,777,115.42
4. Others	840,996.83	11,786,958.44	12,244,551.42	383,403.85
Total	<u>1,200,038.44</u>	<u>206,772,240.77</u>	<u>198,358,577.41</u>	<u>9,613,701.80</u>

(4) Severance Pay

Item	Opening balance	Increase	Decrease	Closing balance
Compensation for termination of labor relations	–	211,178.42	211,178.42	–
Total	<u>–</u>	<u>211,178.42</u>	<u>211,178.42</u>	<u>–</u>

Note: The ending balance of employee benefits payable is mainly the wages, bonuses and wages of labor assigned by labor service intermediary agent company provided by the Group at the end of June 2019. There are no overdue employee benefits payable. The balance is expected to be paid and utilized in this year.

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Tax Payable

Item	Closing balance	Opening balance
Value-added tax	63,930,789.35	592,600,257.89
Urban maintenance and construction tax	6,495,675.47	2,632,855.23
Educational surcharge	2,804,641.51	467,711.95
Local education surcharge	1,841,424.95	1,409,977.72
Enterprise income tax	280,735,109.00	338,480,579.95
Individual income tax	3,149,862.05	13,353,590.27
Property tax	6,727,647.37	9,433,165.90
Land use tax	2,310,376.65	2,086,653.07
Stamp duty	2,539,890.71	2,843,937.88
Others	505,137.36	234,523.78
Total	<u>371,040,554.42</u>	<u>963,543,253.64</u>

28. Other payables

Item	Closing balance	Opening balance
Interest payable	28,229,432.88	41,637,538.72
Dividends payable	752,951,857.75	65,917,238.98
Other payables	<u>3,276,170,061.41</u>	<u>3,358,802,575.69</u>
Total	<u>4,057,351,352.04</u>	<u>3,466,357,353.39</u>

(1) Interest payable

Item	Closing balance	Opening balance
Short-term borrowings interest payable	27,592,949.55	38,049,327.13
Long-term borrowings interest payable	636,483.33	3,588,211.59
Total	<u>28,229,432.88</u>	<u>41,637,538.72</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28. Other payables (Continued)

(2) Dividends payable

Item	Closing balance	Opening balance
GPHL	310,497,363.67	–
Domestic public shares	286,016,377.89	567,388.78
Foreign public shares	93,388,700.73	–
Minority shareholders	63,049,370.45	65,349,805.19
BYS Group	45.01	45.01
Total	752,951,857.75	65,917,238.98

(3) Other payables

① Disclosures of other payables by nature

Nature of amount	Closing balance	Opening balance
Sales discounts	1,339,093,099.06	1,100,682,395.27
Accrued expenses	934,031,320.45	797,186,017.78
Margin, deposit, and down payment received	515,380,553.00	479,319,837.30
Accounts payable to external entities	212,467,201.08	213,264,061.13
Current accounts to related parties	167,247,435.40	116,971,765.85
Accruals for fixed assets	25,912,552.16	25,201,992.65
Funds received temporarily from employees	16,671,443.39	16,424,381.22
Technological development expenditures	728,489.58	944,129.25
Rental expenses	664,683.31	4,859,777.43
Factoring expense for accounts payable	–	503,835,176.79
Others	63,973,283.98	100,113,041.02
Total	3,276,170,061.41	3,358,802,575.69

Notes to the Financial Statements

For January – June 2019

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28. Other payables (Continued)

(3) Other payables (Continued)

② Breakdown of accrued expenses

Item	Closing balance	Opening balance
Advertisement and promotion expenses	314,502,686.36	96,861,750.25
Terminal expenses	249,733,980.49	272,705,084.32
Freight expenses	184,612,812.15	186,406,294.36
Medicine service expenses	43,226,179.78	47,838,105.35
Research and development expenditures	29,781,219.08	41,310,583.56
Travel expenses	22,865,210.48	24,327,813.81
Utilities expenses	10,802,448.13	9,721,122.70
Rental expenses	10,479,300.38	4,470,691.66
Trademark fee	7,360,000.00	12,018,735.48
Conference expenses	6,436,860.02	11,255,646.44
Agency fee	4,274,338.27	4,534,858.54
Consulting fee	1,238,244.35	2,060,433.96
Others	48,718,038.96	83,674,897.35
Total	934,031,320.45	797,186,017.78

③ Disclosures of other payables by aging

Item	Closing balance	Proportion (%)	Opening balance	Proportion (%)
Within 1 year	2,929,296,558.27	89.41	3,017,948,976.26	89.85
Over 1 year	346,873,503.14	10.59	340,853,599.43	10.15
Total	3,276,170,061.41	100.00	3,358,802,575.69	100.00

④ The Group had no significant other payables with aging over 1 year as on 30 June 2019 and 31 December 2018.

Notes to the Financial Statements

For January – June 2019

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29. Contract Liabilities

(1) Contract liabilities are as follows:

Item	Closing balance	Opening balance
Product sales payment received in advance	1,597,699,024.03	3,685,541,240.09
Medical payment received in advance	2,668,274.72	1,105,983.15
Total	1,600,367,298.75	3,686,647,223.24

(2) Contract liabilities disclosed by aging

Item	Closing balance	Proportion (%)	Opening balance	Proportion (%)
Within 1 year	1,551,048,200.34	96.92	3,639,753,808.83	98.73
Over 1 year	49,319,098.41	3.08	46,893,414.41	1.27
Total	1,600,367,298.75	100.00	3,686,647,223.24	100.00

(3) The Group had no significant contract liabilities with aging over 1 year as on 30 June 2019 and 31 December 2018.

30. Current portion of non-current liabilities

Item	Closing balance	Opening balance
Long-term borrowings due within 1 year (Note VI. 32)	500,500,000.00	153,000,000.00
Lease liabilities due within 1 year (Note VI. 33)	211,851,930.67	190,315,704.52
Total	712,351,930.67	343,315,704.52

Notes to the Financial Statements

For January – June 2019

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 Other Current Liabilities

Item	Closing balance	Opening balance
Stay-recognition tax	179,667,958.20	–
Total	179,667,958.20	–

32. Long-term Borrowings

Item	Closing balance	Opening balance
Credit borrowings	490,000,000.00	539,553,706.06
Mortgage borrowings	24,000,000.00	27,000,000.00
Less: Long-term borrowings due within 1 year (Note VI. 30)	500,500,000.00	153,000,000.00
Total	13,500,000.00	413,553,706.06

Notes:

- ① Mortgage loans are guaranteed by minority shareholders of the Group's sub-subsidiaries with the property. Temporary value of the property is RMB 43,190 thousand.
- ② Interest rate for long-term borrowings was 4.4574% as on 30 June 2019 (31 December 2018: 4.5751%).

The Group had no overdue long-term borrowings as on 30 June 2019.

33 Lease Liabilities

Item	Closing balance	Opening balance
Lease liabilities	808,167,233.79	790,806,267.71
Less: Amount due within 1 year (Note VI. 30)	211,851,930.67	190,315,704.52
Total	596,315,303.12	600,490,563.19

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34. Long-term Payables

Item	Closing balance	Opening balance
Long-term payables	20,538,601.94	20,464,502.00
Special payables	7,146,810.00	7,146,810.00
Total	27,685,411.94	27,611,312.00

(1) Long-term payables

Item	Closing balance	Opening balance
State funds payable	17,560,288.11	17,486,188.17
Department of Finance of Guangxi Zhuang Autonomous Region	2,264,426.47	2,264,426.47
State Administration of Medicine	305,000.00	305,000.00
Others	408,887.36	408,887.36
Total	20,538,601.94	20,464,502.00

(2) Special payables

Item	Opening balance	Increase	Decrease	Closing balance	Reason
Compensation for relocation due to policies	7,146,810.00	-	-	7,146,810.00	Government compensation for relocation due to policies
Total	7,146,810.00	-	-	7,146,810.00	-

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35. Long-term Employee Benefits Payable

Item	Closing balance	Opening balance
Post-employment benefits-provision for long service bonus	323,529.64	325,325.54
Total	323,529.64	325,325.54

36. Provisions

Item	Opening balance	Closing balance	Cause
Estimated loss on return of products	500,191.19	500,191.19	Estimated based on the disposal assets agreement. It has not been settled yet.
Employee benefits for restructuring of Guangyao General Institute	47,491,349.60	47,011,853.43	Note (1)
Unemployed fee for relocation of Qi Xing	1,609,771.69	857,765.78	Note (2)
Total	<u>49,601,312.48</u>	<u>48,369,810.40</u>	–

Note:

- (1) The Company obtained 100% of the share of Guangyao General Institute through business combination involving enterprises under common control in year of 2015. According to the employee resettlement scheme, when agreed in the restructuring, Guangyao General Institute should offer pension and medical benefits for the retirees, in-service staff, family members and dependents who were enrolled as on 30 June 2014, and employee benefits are accrued consequently.
- (2) According to the employee resettlement scheme arising from the relocation of Qi Xing, the employee who has provided continuous service for 15 years and within 5 years to the age of mandatory retirement shall be paid salary monthly till retirement if no position is assigned to them. The settlement fee for relocation of Qi Xing were accrued consequently.

Notes to the Financial Statements

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37. Deferred income

Item	Opening balance	Current increase in grants	Amount recognized into non-operating income	Amount recognized into other income	Amount offset costs	Appropriation to cooperators	Other decrease	Closing balance	Reason
Government grants related to assets	175,332,823.35	25,053,200.00	2,371,616.04	6,921,449.69	-	239,800.00	-	190,853,157.62	
Including:									
Technology funds granted by the government	78,079,580.22	20,253,200.00	-	4,422,610.88	-	239,800.00	-	93,670,369.34	Government grant
Compensation for relocation	694,665.26	-	36,498.78	-	-	-	-	658,166.48	Government grant
Special project funds for environmental protection	2,209,919.01	-	-	167,831.68	-	-	-	2,042,087.33	Government grant
Construction funds for innovation platform and laboratory	12,316,694.31	-	-	1,061,667.71	-	-	-	11,255,026.60	Government grant
Land support funds granted by the government	56,010,977.75	-	-	508,347.66	-	-	-	55,502,630.09	Government grant
Support funds for industrial development	16,417,271.04	3,800,000.00	-	309,335.42	-	-	-	19,907,935.62	Government grant
Others	9,603,715.76	1,000,000.00	2,335,117.26	451,656.34	-	-	-	7,816,942.16	Government grant
Other government grants related to income	315,090,781.38	442,848,159.11	22,559,367.30	338,456,080.69	23,464,667.05	4,375,300.00	1,215,047.28	367,868,478.17	
Including:									
Technology funds granted by the government	98,918,950.63	18,522,310.00	-	14,130,150.56	-	2,551,000.00	-	100,760,110.07	Government grant
Special funds for technology exports	1,700.00	-	-	1,700.00	-	-	-	-	Government grant
Medical industrial research project funds	6,882,062.57	1,584,100.00	-	1,408,087.63	-	1,824,300.00	-	5,233,774.94	Government grant
Special funds for energy-saving project	670,950.00	-	-	6,300.00	-	-	-	664,650.00	Government grant
Compensation for relocation	204,286,257.95	92,048,068.69	22,559,367.30	-	23,464,667.05	-	-	250,310,292.29	Government grant
Support funds for industrial development	-	330,109,068.49	-	322,109,068.49	-	-	-	8,000,000.00	Government grant
Others	4,330,860.23	584,611.93	-	800,744.01	-	-	1,215,047.28	2,899,650.87	Government grant
Total	490,423,604.73	467,901,359.11	24,930,983.34	345,377,530.38	23,464,667.05	4,615,100.00	1,215,047.28	558,721,635.79	

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38. Other non-current liabilities

Item	Closing balance	Opening balance
Commitment to the investment in Southern Antitumor Company	50,225,000.00	50,225,000.00
Stay-recognition tax	5,577,234.23	–
Total	55,802,234.23	50,225,000.00

Note: Performance obligation according to the agreement and the Article as the subsidiaries of the Group acquired 50% shares of Southern Antitumor company.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39. Share capital

	Opening balance		Changes in the current period					Closing balance	
	Amount	Proportion (%)	Issuance	Share dividends	Capitalizing of capital reserves	Others	Subtotal	Amount	Proportion (%)
Restricted shares									
Shares held by state-owned companies	236,315,006.00	14.54	-	-	-	-	-	236,315,006.00	14.54
Shares held by other domestic investors	98,396,693.00	6.05	-	-	-	-	-	98,396,693.00	6.05
Including: Shares held by companies other than state-owned companies	-	-	-	-	-	-	-	-	-
Shares held by domestic natural persons	-	-	-	-	-	-	-	-	-
Others	98,396,693.00	6.05	-	-	-	-	-	98,396,693.00	6.05
Shares held by foreign investors	-	-	-	-	-	-	-	-	-
Total restricted shares	334,711,699.00	20.59	-	-	-	-	-	334,711,699.00	20.59
Unrestricted shares									
Ordinary shares denominated in RMB	1,071,179,250.00	65.88	-	-	-	-	-	1,071,179,250.00	65.88
Domestically-listed shares held by foreign investors	-	-	-	-	-	-	-	-	-
Overseas-listed shares held by foreign investors	219,900,000.00	13.53	-	-	-	-	-	219,900,000.00	13.53
Others	-	-	-	-	-	-	-	-	-
Total Unrestricted shares	1,291,079,250.00	79.41	-	-	-	-	-	1,291,079,250.00	79.41
Total shares	1,625,790,949.00	100.00	-	-	-	-	-	1,625,790,949.00	100.00

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40. Capital Surplus

Item	Opening balance	Increase	Decrease	Closing balance
Share premium	9,048,269,635.38	–	–	9,048,269,635.38
Other capital reserves	816,814,414.01	–	–	816,814,414.01
Including: Capital reserve transferred under previous accounting system	24,955,836.66	–	–	24,955,836.66
Total	<u>9,865,084,049.39</u>	<u>–</u>	<u>–</u>	<u>9,865,084,049.39</u>

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For January – June 2019

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41. Other Comprehensive Income

Item	Current period							
	Opening balance	Opening balance after adjustment	Current amount before tax	Less: profit or loss transferred from other comprehensive income in previous periods	Less: Income tax expense	Attributable to the parent company, net of tax	Attributable to minority shareholders, net of tax	Closing balance
I. Other comprehensive income that will not be reclassified to profit or loss	(1,004,799.94)	(1,004,799.94)	(1,416,738.57)	-	(212,510.79)	(1,204,227.78)	-	(2,209,027.72)
Including: Other comprehensive income that will not be reclassified to profit or loss under equity method	1,448,181.81	1,448,181.81	-	-	-	-	-	1,448,181.81
Change in fair value of investments in other equity instruments	(2,452,981.75)	(2,452,981.75)	(1,416,738.57)	-	(212,510.79)	(1,204,227.78)	-	(3,657,209.53)
II. Other comprehensive income that may be reclassified into profit or loss	527,660.84	527,660.84	(771,608.29)	-	-	(771,608.29)	-	(243,947.45)
Including: Other comprehensive income that may be reclassified to profit or loss under equity method	29,136.57	29,136.57	31,704.40	-	-	31,704.40	-	60,840.97
Gains and losses arising from changes in fair value of available-for-sale financial assets (original financial instrument standards)	-	-	-	-	-	-	-	-
Difference arising from the translation of foreign currency financial statements	498,524.27	498,524.27	(803,312.69)	-	-	(803,312.69)	-	(304,788.42)
Total other comprehensive income	(477,139.10)	(477,139.10)	(2,188,346.86)	-	(212,510.79)	(1,975,836.07)	-	(2,452,975.17)

Notes to the Financial Statements

For January – June 2019

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42. Surplus Reserve

Item	Opening balance	Increase	Decrease	Closing balance
Statutory surplus reserve	1,249,809,540.14	–	–	1,249,809,540.14
Discretionary surplus reserve	<u>118,925,617.49</u>	<u>–</u>	<u>–</u>	<u>118,925,617.49</u>
Total	<u><u>1,368,735,157.63</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>1,368,735,157.63</u></u>

Note: In accordance with the Company Law and the Company's Articles of Association, the Group should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Group can cease appropriation when the statutory surplus reserve accumulated reaches 50% of the registered capital.

Discretionary surplus reserve can be drawn after the Group drawing statutory surplus reserve. Discretionary surplus reserve can be utilized to cover losses of the previous years or to increase equity after the approval.

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43. Undistributed profits

Item	Current period	Prior period
Closing balance of undistributed profits of prior year before adjustments	8,825,776,191.86	6,285,996,409.09
Adjustments to opening balance of undistributed profits at the current year (Add: +; Less:-)	–	(67,801,004.52)
Undistributed profits at the beginning of current year after adjustments	8,825,776,191.86	6,218,195,404.57
Add: Net profit attributable to shareholders of the parent company for the current period	2,547,561,346.51	2,618,999,726.26
Less: Appropriation of statutory surplus reserve	–	–
Appropriation of discretionary surplus reserve	–	–
Appropriation of provision for general risk	–	–
Ordinary share dividends payable	689,335,362.38	619,426,351.57
Ordinary shares dividends converted to share capital	–	–
	<hr/>	<hr/>
Closing balance of undistributed profits	<u>10,684,002,175.99</u>	<u>8,217,768,779.26</u>

Note:

- (1) As on 30 June 2019, surplus reserve of subsidiaries comprised in undistributed profit, attributable to the parent company, was RMB 1,040,761 thousand (31 December 2018: RMB 1,040,761 thousand).
- (2) According to the resolution of the 2018 annual general meeting held on 28 June 2019, the Company shall issue cash dividends to all shareholders at RMB 0.424 per share (tax included), RMB 689,335 thousand in total, based on the 1,625,790,949 outstanding shares at the year end of 2018.

Notes to the Financial Statements

For January – June 2019

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44. Operating Income and Operating Costs

(1) Operating Income and Operating Costs

Category	Current period		Prior period	
	Income	Cost	Income	Cost
Main businesses	33,199,319,702.26	25,858,276,064.59	14,725,777,236.68	10,032,269,562.05
Other businesses	141,508,052.11	35,662,512.37	114,236,443.35	18,345,773.64
Total	<u>33,340,827,754.37</u>	<u>25,893,938,576.96</u>	<u>14,840,013,680.03</u>	<u>10,050,615,335.69</u>

(2) Disclosure by category

Reporting segment	Current period		Prior period	
	Income	Cost	Income	Cost
Great Southern TCM	6,760,668,903.25	3,731,153,951.68	5,185,909,732.92	2,854,651,458.44
Great Health	5,854,279,786.87	2,951,597,473.37	5,275,237,534.84	3,298,878,873.56
Great Commerce	20,526,806,266.78	19,129,059,783.02	4,215,089,681.00	3,840,290,083.68
Others	57,564,745.36	46,464,856.52	49,540,287.92	38,449,146.37
Total	<u>33,199,319,702.26</u>	<u>25,858,276,064.59</u>	<u>14,725,777,236.68</u>	<u>10,032,269,562.05</u>

Notes to the Financial Statements

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44. Operating Income and Operating Costs (Continued)

(3) Disclosure by primary operating region

Reporting segment	Current period		Prior period	
	Income	Cost	Income	Cost
Southern China Area	24,236,556,717.37	19,882,655,755.39	8,221,051,979.82	6,037,160,956.45
Eastern China Area	3,430,207,541.42	2,171,145,408.10	2,662,352,347.56	1,587,760,932.79
Northern China Area	1,529,709,194.93	936,715,519.64	1,205,524,967.04	711,036,909.16
Northeast Area	347,780,527.43	240,720,212.31	256,064,243.22	167,462,020.41
Southwest Area	2,508,066,008.18	1,747,738,266.31	1,797,451,324.71	1,150,627,518.93
Northwest Area	1,126,755,914.47	859,854,929.13	567,898,578.39	363,289,189.90
Export	20,243,798.45	19,445,973.72	15,433,795.94	14,932,034.41
Total	<u>33,199,319,702.26</u>	<u>25,858,276,064.59</u>	<u>14,725,777,236.68</u>	<u>10,032,269,562.05</u>

(4) Total sales to the top five customers are RMB 2,335,042 thousand (January to June 2018: RMB 865,806 thousand), accounting for 7.03% of the Group's primary operating income for the current period (January to June 2018: 5.88%)

Customer	Income	Proportion to total income (%)
Customer 1	715,083,444.49	2.15
Customer 2	517,953,720.91	1.56
Customer 3	378,419,397.77	1.14
Customer 4	369,224,451.14	1.11
Customer 5	354,361,423.11	1.07
Total	<u>2,335,042,437.42</u>	<u>7.03</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44. Operating Income and Operating Costs (Continued)

(5) Other business income and other business cost

Category	Current period		Prior period	
	Income	Cost	Income	Cost
Leases of assets	37,352,743.18	12,386,307.00	61,341,028.25	7,969,131.29
Consulting fee	31,927,694.33	–	3,148,289.56	–
License fee for franchise	21,306,728.01	–	20,236,066.02	–
Destruction of goods revenue	13,381,504.24	7,945,268.11	–	–
Export income	7,343,543.75	–	–	–
Property management fee	5,236,792.55	39,002.38	5,488,220.33	31,968.48
Sales of materials	3,726,281.94	468,992.97	54,325.47	100,184.93
Technical service income	3,286,792.38	952,509.13	120,867.92	–
Collection of utility on behalf of others	2,969,277.58	4,740,114.90	2,705,781.48	4,272,395.02
Service income	2,539,654.69	2,774,936.85	1,560,031.11	2,890,726.90
Trademark fee income	941,087.69	–	10,095,140.95	–
Income from franchise store management fee	318,365.24	–	1,639,767.86	–
Others	11,177,586.53	6,355,381.03	7,846,924.40	3,081,367.02
Total	<u>141,508,052.11</u>	<u>35,662,512.37</u>	<u>114,236,443.35</u>	<u>18,345,773.64</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45. Taxes and Surcharges

Item	Current period	Prior period
Urban maintenance and construction tax	72,736,083.03	63,150,363.22
Education surcharge	31,357,599.68	27,293,060.68
Local education surcharge	20,894,857.02	18,228,735.59
House property tax	12,986,749.02	14,040,679.45
Vehicle and vessel use tax	90,244.44	65,812.58
Stamp duty	20,863,086.83	14,200,101.10
Land use tax	3,480,662.58	2,460,078.00
Others	796,245.51	588,661.12
Total	163,205,528.11	140,027,491.74

Note: Please refer to Note V. Taxes for basic rates of the above taxes and surcharges.

46. Selling and distribution expenses

Item	Current period	Prior period
Employee benefits	1,341,928,850.61	931,452,461.18
Advertising and promotion fees	713,158,860.37	523,318,532.47
Freight and miscellaneous charges	410,394,557.85	300,830,311.96
Sales and service fees	372,996,860.60	239,347,604.00
Depreciation expenses	81,804,990.44	6,191,625.19
Traveling expenses	72,267,619.16	61,904,326.27
Conference expenses	32,339,999.91	21,847,104.25
Office expenses	25,183,312.02	10,922,945.05
Rental expenses	14,517,013.57	16,029,962.13
Consulting fees	7,593,944.61	5,771,259.40
Others	109,028,802.39	57,999,255.92
Total	3,181,214,811.53	2,175,615,387.82

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47. General and administrative expenses

Item	Current period	Prior period
Employee benefits	594,365,356.12	426,832,315.07
Trademark license fees	101,978,366.05	76,360,519.75
Depreciation expenses	71,292,968.43	28,288,519.03
Amortization	41,331,457.44	20,231,262.57
Office expenses	31,121,118.66	22,418,788.36
Repairing expenses	23,395,604.03	15,083,713.22
Traveling expenses	12,048,349.81	9,316,221.48
Professional service fees	9,027,129.01	7,299,553.35
Rental expenses	8,808,066.01	20,867,375.68
Freight and miscellaneous charges	8,445,743.64	7,865,303.13
Utilities	7,613,233.77	4,930,690.10
Conference expenses	4,774,175.90	2,191,570.23
Consulting fees	4,537,456.46	4,102,037.08
Insurance premium	2,241,956.89	1,747,545.97
Others	65,110,303.98	60,768,448.17
Total	986,091,286.20	708,303,863.19

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48. Research and development expenditures

Item	Current period	Prior period
Employee benefits	121,387,132.81	93,847,117.87
Special research and development	49,194,768.08	65,604,586.15
Raw materials	26,007,936.99	25,210,674.86
Depreciation expenses	14,929,240.56	10,939,895.30
Trial production expenses	11,015,596.11	12,816,443.71
Clinical trial expenses	10,309,703.36	12,692,353.26
Technique research expenses	8,968,095.68	402,993.64
Amortization cost	2,106,408.02	2,077,933.43
Safety research	194,174.76	2,352,073.54
Others	32,706,699.28	16,343,038.69
Total	276,819,755.65	242,287,110.45

49. Financial expenses

Item	Current period	Prior period
Interest expenses	177,686,291.20	28,496,077.13
Interest expenses of notes	7,982,688.37	2,346,077.43
Interest income	(140,283,685.29)	(104,730,231.45)
Exchange gains/(losses)	455,225.69	(250,739.44)
Service charge of finance institutions	7,823,134.33	5,105,816.23
Cash discount	4,424,188.17	25,273.50
Interest expenses related to lease	17,730,290.55	858,117.44
Others	4,055,293.13	28,749.35
Total	79,873,426.15	(68,120,859.81)

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

50. Other Income

Item	Current period	Prior period	Amount recognized into non-recurring profit or loss in the current period	Asset related/ income related
Technology funds granted by the government	4,422,610.88	3,719,864.73	4,422,610.88	Asset related
Special project fund for environmental protection	167,831.68	133,131.66	167,831.68	Asset related
Construction funds for innovation platform and laboratory	1,061,667.71	1,067,293.57	1,061,667.71	Asset related
Land support funds granted by the government	508,347.66	334,128.00	508,347.66	Asset related
Support funds for industrial development	309,335.42	482,793.06	309,335.42	Asset related
Others	1,445,814.04	395,864.07	1,445,814.04	Asset related
Subtotal	7,915,607.39	6,133,075.09	7,915,607.39	
Technology funds granted by the government	17,105,310.56	10,560,435.01	17,105,310.56	Income related
Special fund for Technology export	1,700.00	–	1,700.00	Income related
Medical industrial research project funds	1,408,087.63	3,202,820.13	1,408,087.63	Income related
Special funds for energy-saving project	6,300.00	6,300.00	6,300.00	Income related
Support funds for industrial development	322,109,068.49	–	322,109,068.49	Income related
Others	7,964,310.22	96,947,539.40	7,964,310.22	Income related
Subtotal	348,594,776.90	110,717,094.54	348,594,776.90	—
Total	356,510,384.29	116,850,169.63	356,510,384.29	—

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51. Investment Income

Item	Current period	Prior period
Long-term equity investment income under equity method	81,252,582.98	192,362,082.74
Interest income from finance products and structured deposit	28,431,469.62	36,577,133.86
Investment income from disposal of financial assets held for trading	7,286,631.84	–
Investment income from the period in which the Group held the non-current financial assets	989,254.20	–
Investment income from disposal of long-term equity investment	–	827,082,321.78
Investment income from the period in which the Group held the financial assets at FVTPL	–	206,043.85
Total	<u>117,959,938.64</u>	<u>1,056,227,582.23</u>

52. Gains from changes in fair value

Sources of gains from change in fair value	Current period	Prior period
Other non-current financial assets	10,825,875.00	251,311,570.27
Financial assets held for trading	–	(34,668.77)
Total	<u>10,825,875.00</u>	<u>251,276,901.50</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

53. Impairment Losses in respect of credit

Item	Current period	Prior period
Loss on bad debts of notes receivable	(4,316,307.06)	–
Loss on bad debts of accounts receivable	(56,643,821.20)	(25,904,022.24)
Loss on bad debts of other receivables	(25,035.66)	(3,320,030.91)
Total	<u>(60,985,163.92)</u>	<u>(29,224,053.15)</u>

54. Impairment loss in respect of Assets

Item	Current period	Prior period
Loss on decline in value of inventories	(7,142,028.16)	(3,969,385.70)
Fixed asset impairment loss	–	(109,402.27)
Total	<u>(7,142,028.16)</u>	<u>(4,078,787.97)</u>

55. Gains from disposal of assets

Item	Current period	Prior period	Amount recognized into non-recurring profit or loss in the current period
Gains on damaging and scrapping of non-current assets	(41,511.02)	–	(41,511.02)
Including: gains from disposal of fixed assets	(41,511.02)	–	(41,511.02)
Total	<u>(41,511.02)</u>	<u>–</u>	<u>(41,511.02)</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

56. Non-operating income

Item	Current period	Prior period	Amount recognized into non-recurring profit or loss in the current period
Proceed from damage and scrapping of non-current assets	336,468.89	78,284.75	336,468.89
Government grant	24,935,383.34	25,053,581.68	24,935,383.34
Penalty income	132,103.66	57,548.23	132,103.66
Income from sale of scrap	2,358,952.07	1,827,759.61	2,358,952.07
Debt forgiveness	4,748,169.58	6,858.58	4,748,169.58
Compensation for demolition and relocation	266,517.78	266,517.78	266,517.78
Compensation	380,514.94	665,885.70	380,514.94
Remuneration of expatriates	1,192,838.68	2,088,498.56	1,192,838.68
Others	4,246,079.46	3,831,333.77	4,246,079.46
Total	38,597,028.40	33,876,268.66	38,597,028.40

57. Non-operating expenses

Item	Current period	Prior period	Amount recognized into non-recurring profit or loss in the current period
Losses on damage and scrapping of non-current assets	930,534.89	827,581.17	930,534.89
Public welfare donation expenditure	1,091,034.92	1,787,117.76	1,091,034.92
Penalty and overdue fines	210,353.78	1,581,506.63	210,353.78
Others	1,415,012.16	854,545.94	1,415,012.16
Total	3,646,935.75	5,050,751.50	3,646,935.75

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

58. Income Tax Expenses

(1) Income tax expenses

Item	Current period	Prior period
Current tax expenses	561,621,493.45	150,313,771.48
Deferred tax expenses	(27,670,709.96)	201,485,620.19
Total	<u>533,950,783.49</u>	<u>351,799,391.67</u>

(2) Adjustment processes of accounting profit and income tax expenses

Item	Current period
Total profit	3,211,761,957.25
Income tax expenses calculated at statutory/applicable rates	481,764,293.59
Tax effect of different rates applicable to subsidiaries	26,804,710.44
Adjustment effect of income tax of prior period	1,153,819.41
Tax effect of non-taxable income	(15,485,632.91)
Tax effect of costs, expenses and losses not deductible for tax purposes	8,273,702.28
Tax effect of use of deductible loss of previously unrecognized DTA	(27,547,734.18)
Tax effect of deductible temporary differences or deductible loss of unrecognized DTA in the current period	58,107,371.38
Tax rate adjustment leads to the change of deferred income tax asset/liability balance at the beginning of the year	880,253.48
Income tax expenses	<u>533,950,783.49</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

59. Other comprehensive income

Please refer to Note VI. 41.

60. Items in the Cash Flow Statement

(1) Cash received from other operating activities

Item	Current period	Prior period
Other operating income	141,508,052.11	114,236,443.35
Interest income	140,283,685.29	104,730,231.45
Deposit received and other items	37,901,799.57	86,217,369.90
Government grant	24,930,983.34	152,767,077.38
Non-operating income	8,546,140.16	8,729,155.16
Total	<u>353,170,660.47</u>	<u>466,680,277.24</u>

(2) Cash paid for other operating activities

Item	Current period	Prior period
Cash paid for selling and distribution expenses	1,605,161,781.97	1,653,673,708.19
Cash paid for general and administrative expenses	105,645,185.52	119,843,764.25
Financial expenses-bank charges	7,823,134.33	5,105,816.23
Others	66,724,746.55	190,009,171.34
Total	<u>1,785,354,848.37</u>	<u>1,968,632,460.01</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

60. Items in the Cash Flow Statement (Continued)

(3) Cash received from other investing activities

Item	Current period	Prior period
The difference between consideration paid and cash or cash equivalents of the acquired company	–	415,177,153.74
Repayment of internal borrowings from BYS (Haozhou)	–	15,618,641.39
Interest received	42,083.41	15,657.85
Total	42,083.41	430,811,452.98

(4) Cash paid to other investing activities

Item	Current period	Prior period
Book balance of currency assets at the time of the Group's subsidiaries are excluded from consolidation scope	–	161,611.03
Total	–	161,611.03

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

60. Items in the Cash Flow Statement (Continued)

(5) Cash received from other financing activities

Item	Current period	Prior period
Return of deposit for notes	1,138,621,703.91	–
Return of deposit for bank borrowings	1,000,000.00	–
Borrowings of minority shareholders of subsidiary company	–	1,300,000.00
Total	<u>1,139,621,703.91</u>	<u>1,300,000.00</u>

(6) Cash paid to other financing activities

Item	Current period	Prior period
Deposit for notes paid	1,065,936,822.05	–
Lease payment	143,791,298.08	9,342,024.81
Repayment of minority shareholder loans	–	514,297.67
Total	<u>1,209,728,120.13</u>	<u>9,856,322.48</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

61. Supplementary Information of Cash Flow Statement

(1) Supplementary information of cash flow statement

<i>Supplementary information</i>	Current period	Prior period
1. Reconciliation from net profit to cash flows from operating activities:		
Net profit	2,677,811,173.76	2,659,363,288.68
Add: Provision for assets impairment	7,142,028.16	4,078,787.97
Impairment loss in respect of credit	60,985,163.92	29,224,053.15
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of bearer biological assets ("-" refers to income)	299,473,825.50	109,850,968.58
Amortization of intangible assets ("-" refers to income)	11,905,399.14	14,942,813.82
Amortization of long-term prepaid expenses ("-" refers to income)	14,761,795.86	7,902,955.47
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" refers to income)	41,511.02	749,296.42
Losses on scrapping of fixed assets ("-" refers to income)	594,066.00	–
Loss on changes in fair value ("-" refers to income)	(10,825,875.00)	(251,276,901.50)
Financial expenses ("-" refers to income)	195,416,581.75	29,842,474.28
Investment losses ("-" refers to income)	(117,959,938.64)	(1,056,227,582.23)
Decrease in deferred tax assets ("-" refers to income)	(18,592,878.85)	(13,254,293.50)
Increase in deferred tax liabilities ("-" refers to income)	11,364,227.19	217,444,333.63
Decrease in inventories ("-" refers to income)	818,684,114.61	103,628,984.68
Decrease of operating receivables ("-" refers to income)	(2,234,013,426.88)	(332,403,932.78)
Increase of operating payables ("-" refers to income)	(2,642,531,112.81)	(321,088,118.35)
Others ("-" refers to income)	–	–
Net cash flow from operating activities	(925,743,345.27)	1,202,777,128.32

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

61. Supplementary Information of Cash Flow Statement (Continued)

(1) Supplementary information of cash flow statement (Continued)

<i>Supplementary information (Continued)</i>	Current period	Prior period
2. Significant 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	–	–
Factoring financing payable	1,887,754,990.15	–
3. Net changes in cash and cash equivalents		
Cash at the end of period	15,142,206,211.91	13,774,437,712.70
Less: Cash at the beginning of year	15,071,612,198.38	11,495,535,159.70
Add: Cash equivalents at the end of the period	–	–
Less: Cash equivalents at the beginning of the year	–	–
Net increase in cash and cash equivalents	70,594,013.53	2,278,902,553.00

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

61. Supplementary Information of Cash Flow Statement (Continued)

(2) Breakdown of cash and cash equivalents

Item	Closing balance	Opening balance
I. Cash	15,142,206,211.91	15,071,612,198.38
Including: Cash on hand	1,034,474.71	981,910.86
Bank deposits that are readily available for payment	14,974,269,509.29	15,049,107,347.81
Other cash that are readily available for payment	166,902,227.91	21,522,939.71
II. Cash equivalents	–	–
Including: Debt investment maturing within three months	–	–
III. Closing balance of cash and cash equivalents	15,142,206,211.91	15,071,612,198.38
Including: Cash and cash equivalents in the parent or subsidiaries with restriction in use	–	–

Note: Cash and cash equivalents do not include those of the parent company and subsidiaries with restriction in use.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

62. Assets with Restriction on Ownership or Use Right

Item	Closing balance of book value	Reason for restriction
Cash at bank and on hand	RMB 1,007,268 thousand	The Group's deposit of notes payable is RMB 787,139 thousand, factoring deposit for accounts receivable of RMB 100,000 thousand, frozen account funds of RMB 61,284 thousand, margin of credit of RMB 21,485 thousand, term deposit of RMB 22,000 thousand, receivables factoring collection of RMB 13,877 thousand, guarantee deposit of RMB 715 thousand, housing fund is RMB 588 thousand, bid bond of RMB 180 thousand.
Accounts receivable	RMB 1,250,631 thousand	The Group's short-term borrowings of RMB 1,250,631 thousand is derived from accounts receivable as pledge or factoring.
Notes receivable	RMB 2,086,347 thousand	The Group's notes receivable pledged is RMB 23,911 thousand. Notes receivable discounted but not yet due is RMB 177,715 thousand. Notes receivable endorsed but not yet due is RMB 1,884,721 thousand.
Fixed assets	RMB 5,509 thousand	This group's the original value of the houses and buildings of fixed assets of HKD 8,893 thousand, the net value of HKD 6,262 thousand (Converted to RMB 5,509 thousand), the original value of the investment properties of HKD 6,843 thousand, the net value of HKD 3,589 thousand (Converted to RMB 3,157 thousand) as collateral, to obtain the overdraft limit of HKD 300 thousand, and 90 days L/C issue credit of HKD 100,000 thousand, which has been issued before maturity of the L/C EUR 48 thousand, USD 326 thousand from the Bank of China (Hong Kong) co., Ltd.
Investment properties	RMB 3,157 thousand	
Total	RMB 4,352,912 thousand	

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

63. Foreign Currency Funds Items

(1) Foreign Currency Funds Item

Item	Closing Balance of Foreign Currency	Exchange rate	Closing balance of RMB in equivalent
Cash at bank and on hand			
Including: USD	5,373,054.17	6.8747	36,938,135.50
HKD	13,594,901.55	0.8797	11,958,891.09
EUR	42,829.23	7.8170	334,796.09
AUD	8,361.76	4.8156	40,266.89
Accounts receivable			
Including: USD	2,164,868.99	6.8747	14,882,824.85
HKD	7,324,294.32	0.8797	6,442,888.74
EUR	5,299.93	7.8170	41,429.55
Advances to suppliers			
Including: HKD	8,190.00	6.8747	56,303.79
Other receivables			
Including: HKD	666,806.78	0.8797	586,563.25
Accounts payable			
Including: USD	3,618,583.58	6.8747	24,876,676.54
HKD	240,227.20	0.8797	211,318.26
EUR	70,647.55	7.8170	552,251.90
Contract liabilities			
Including: USD	69,156.79	6.8747	475,432.18
Other payables			
Including: HKD	3,465,243.28	0.8797	3,048,235.90

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VII. CHANGE IN THE SCOPE OF CONSOLIDATION

1. Reasons of changing in the scope of consolidation

Compared with the previous year, 2 new consolidated units were added for other reasons in this period. The reason is:

- (1) In January of this year, Wang Laoji Great Health Company, a wholly-owned subsidiary of the Group, invested in the establishment of Wang Lao Ji Great Health Industry (Lanzhou) Co., Ltd. with a registered capital of RMB 50,000 thousand, and the proportion of capital contribution subscribed by Wang Laoji Great Health Company to registered capital is 100.00%.
- (2) In April of this year, Caizhilin Pharmaceutical, a wholly-owned subsidiary of the Group, invested in the establishment of Guangyao Baiyunshan Traditional Chinese Medicine Technology (Gansu) Co., Ltd., with a registered capital of RMB50,000 thousand, and the proportion of capital contribution subscribed by Caizhilin Pharmaceutical to registered capital is 100.00%.

VIII. EQUITY IN OTHER ENTITIES

1. Equity in subsidiaries

(1) Composition of Enterprises Group

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'000)	Shareholding (%)		Voting (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
Xing Qun	Guangzhou	Guangzhou	Pharmaceutical manufacturing	77,168.90	88.99	-	88.99	-	Establishment or Investment
Guangzhou Baiyunshan Xing Qun Health Technology Co., Ltd. ⁽¹⁾	Guangzhou	Guangzhou	Pharmaceutical manufacturing	3,000.00	-	88.99	-	100.00	Establishment or Investment
Zhong Yi	Guangzhou	Guangzhou	Pharmaceutical manufacturing	217,410.00	100.00	-	100.00	-	Establishment or Investment
Chen Li Ji	Guangzhou	Guangzhou	Pharmaceutical manufacturing	112,845.41	100.00	-	100.00	-	Establishment or Investment
Guangzhou Chen Li Ji Great Health Industry Co., Ltd. ⁽²⁾	Guangzhou	Guangzhou	Trading	15,000.00	-	44.00	-	44.00	Establishment or Investment
Guangzhou Han Fang	Guangzhou	Guangzhou	Pharmaceutical manufacturing	246,046.30	99.96	-	100.00	-	Establishment or Investment
Guangzhou Qi Xing Pharmaceutical	Guangzhou	Guangzhou	Pharmaceutical manufacturing	82,416.74	100.00	-	100.00	-	Establishment or Investment

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VIII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'000)	Shareholding (%)		Voting (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
Qi Xing	Guangzhou	Guangzhou	Pharmaceutical manufacturing	100,000.00	-	100.00	-	100.00	Establishment or Investment
Jing Xiu Tang	Guangzhou	Guangzhou	Pharmaceutical manufacturing	86,232.35	88.40	-	88.40	-	Establishment or Investment
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd ⁽¹⁾	Guangzhou	Guangzhou	Pharmaceutical manufacturing	3,000.00	-	45.08	-	51.00	Establishment or Investment
Pan Gao Shou	Guangzhou	Guangzhou	Pharmaceutical manufacturing	65,436.20	87.77	-	87.77	-	Establishment or Investment
Guangzhou Pan Gao Shou Natural Healthcare Products Co., Ltd ⁽¹⁾	Guangzhou	Guangzhou	Pharmaceutical manufacturing	14,000.00	-	87.77	-	100.00	Establishment or Investment
Wang Lao Ji	Guangzhou	Guangzhou	Pharmaceutical manufacturing	204,756.88	96.093	-	96.093	-	Business combination not under common control
Guangzhou Wang Lao Ji Food Co., Ltd.	Guangzhou	Guangzhou	Trading	1,000.00	-	96.093	-	96.093	Business combination not under common control
GP Corp.	Guangzhou	Guangzhou	Pharmaceutical trading	2,227,000.00	80.00	-	80.00	-	Business combination not under common control
Guangzhou Jian Min Pharmaceutical Chain Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	86,000.00	-	80.00	-	80.00	Business combination not under common control
Guangzhou Jian Min Pharmaceutical Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	8,000.00	-	80.00	-	80.00	Business combination not under common control
Guangzhou Qi Hua Medical Instruments Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	44,880.00	-	80.00	-	80.00	Business combination not under common control

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VIII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'000)	Shareholding (%)		Voting (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
Guangzhou Wan Kang Orthopedics Medical Instruments Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	10,000.00	-	80.00	-	80.00	Business combination not under common control
Fujian Guangyao Jie Da Pharmaceutical Co., Ltd.	Fuzhou	Fuzhou	Pharmaceutical trading	30,100.00	-	41.60	-	41.60	Business combination not under common control
Hubei Guangyao An Kang Pharmaceutical Co., Ltd.	Wuhan	Wuhan	Pharmaceutical trading	60,000.00	-	40.80	-	40.80	Business combination not under common control
Guangzhou Guo Ying Pharmaceutical Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	552,000.00	-	80.00	-	80.00	Business combination not under common control
Guangzhou Xin Te Pharmaceutical Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	123,000.00	-	80.00	-	80.00	Business combination not under common control
Foshan Guangyao Jian Ze Pharmaceutical Co., Ltd.	Foshan	Foshan	Pharmaceutical trading	13,500.00	-	48.00	-	48.00	Business combination not under common control
Shenzhen Guangyao Lian Kang Pharmaceutical Co., Ltd.	Shenzhen	Shenzhen	Pharmaceutical trading	90,000.00	-	80.00	-	80.00	Business combination not under common control
Hunan Guangyao Heng Sheng Pharmaceutical Co., Ltd.	Changsha	Changsha	Pharmaceutical trading	85,000.00	-	80.00	-	80.00	Business combination not under common control

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VIII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'000)	Shareholding (%)		Voting (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
Hainan Guangyao Chen Fei Pharmaceutical Co., Ltd.	Haikou	Haikou	Pharmaceutical trading	156,000.00	-	48.00	-	48.00	Business combination not under common control
Shanxi Guangyao Kang Jian Pharmaceutical Co., Ltd.	Xi'an	Xi'an	Pharmaceutical trading	87,500.00	-	48.00	-	48.00	Business combination not under common control
Guangdong Meixian Pharmaceutical Co., Ltd.	Meizhou	Meizhou	Pharmaceutical trading	14,000.00	-	48.00	-	48.00	Business combination not under common control
Jiangmen Guangyao Qiao Kang Pharmaceutical Co., Ltd.	Jiangmen	Jiangmen	Pharmaceutical trading	80,000.00	-	80.00	-	80.00	Business combination not under common control
Guangyao Sichuan Pharmaceutical Co., Ltd.	Chengdu	Chengdu	Pharmaceutical trading	50,000.00	-	40.80	-	40.80	Business combination not under common control
Hubei Guangyao Ji Da Pharmaceutical Co., Ltd.	Wuhan	Wuhan	Pharmaceutical trading	30,500.00	-	56.00	-	56.00	Business combination not under common control
Guangxi Guangyao Xin Shi Dai Pharmaceutical Co., Ltd.	Nanning	Nanning	Pharmaceutical trading	50,000.00	-	56.00	-	56.00	Business combination not under common control
Guangzhou Pharmaceutical (Hong Kong) Co., Ltd.	Hong Kong	Hong Kong	Pharmaceutical trading	5,000.00	-	80.00	-	80.00	Business combination not under common control

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VIII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'000)	Shareholding (%)		Voting (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
Jian Min International Co., Ltd.	Hong Kong	Hong Kong	Pharmaceutical trading	HKD300.00	-	80.00	-	80.00	Business combination not under common control
Zhuhai Guangyao Kang Ming Pharmaceutical Co., Ltd.	Zhuhai	Zhuhai	Pharmaceutical trading	13,210.00	-	80.00	-	80.00	Business combination not under common control
Foshan Guangyao Feng Kang Pharmaceutical Co., Ltd.	Foshan	Foshan	Pharmaceutical trading	5,700.00	-	80.00	-	80.00	Business combination not under common control
Guangzhou Pharmaceutical Pharmacy Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	60,000.00	-	80.00	-	80.00	Business combination not under common control
Guangzhou Pharmaceutical Information Technology Co., Ltd.	Guangzhou	Guangzhou	Service	60,000.00	-	80.00	-	80.00	Establishment or Investment
Guangzhou Pharmaceutical Nanpi Pharmacy Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	1,500.00	-	52.00	-	52.00	Establishment or Investment
Zhongshan Guangyao Gui Kang Pharmaceutical Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	6,000.00	-	80.00	-	80.00	Establishment or Investment
Cai Zhi Lin	Guangzhou	Guangzhou	Pharmaceutical trading	32,202.00	100.00	-	100.00	-	Establishment or Investment
Jingyu Guangyao Dong'e Chinese Raw Medicine Development Co., Ltd. ⁽¹⁾	Jingyu	Jingyu	Pharmaceutical trading	3,000.00	-	57.50	-	60.00	Establishment or Investment
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies	Guangzhou	Guangzhou	Pharmaceutical trading	2,940.00	-	100.00	-	100.00	Establishment or Investment
Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd.	Fengshun	Fengshun	Pharmaceutical trading	2,000.00	-	60.00	-	60.00	Establishment or Investment

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VIII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'000)	Shareholding (%)		Voting (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Guangzhou	Guangzhou	Pharmaceutical manufacturing	20,000.00	-	100.00	-	100.00	Establishment or Investment
Guangzhou Cai Zhi Lin Corporation Bei Shang Chinese Raw Medicine Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	5,000.00	-	100.00	-	100.00	Establishment or Investment
Guangzhou Ao Ma Medical Instruments Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	6,680.00	-	100.00	-	100.00	Establishment or Investment
Heilongjiang Sengong Guangyao Raw Medicine Development Co., Ltd.	Ha'erbin	Ha'erbin	Pharmaceutical trading	3,000.00	-	60.00	-	60.00	Establishment or Investment
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Wulanchabu	Wulanchabu	Pharmaceutical trading	1,000.00	-	80.00	-	80.00	Establishment or Investment
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Linyi	Linyi	Pharmaceutical trading	2,000.00	-	60.00	-	60.00	Establishment or Investment
Meizhou Guangyao Cai Zhi Lin Pharmaceutical Co., Ltd.	Meizhou	Meizhou	Pharmaceutical manufacturing	10,000.00	-	100.00	-	100.00	Establishment or Investment
Gansu Guangyao baiyunshan Chinese Medicine Technology Co., Ltd.	Dingxi	Dingxi	Pharmaceutical trading	50,000.00	-	100	-	100	Establishment or Investment
Pharmaceutical Import & Export	Guangzhou	Guangzhou	Pharmaceutical trading	24,000.00	100.00	-	100.00	-	Establishment or Investment
Guangzhou Bai Di	Guangzhou	Guangzhou	Pharmaceutical manufacturing	131,600.00	100.00	-	100.00	-	Establishment or Investment
Guangzhou Baiyunshan Wei Yi Industries Co., Ltd.	Guangzhou	Guangzhou	Trading	10,000.00	-	51.00	-	51.00	Establishment or Investment
Tibet Linzhi Guangyao Development Co., Ltd ⁽¹⁾	Linzhi	Linzhi	Pharmaceutical trading	2,000.00	-	54.82	-	55.00	Establishment or Investment
WJ Great Health	Guangzhou	Guangzhou	Food manufacturing	500,000.00	100.00	-	100.00	-	Establishment or Investment

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VIII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'000)	Shareholding (%)		Voting (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
Wang Lao Ji Great Health Industry (Ya'an) Co., Ltd.	Ya'an	Ya'an	Food manufacturing	50,000.00	-	100.00	-	100.00	Establishment or Investment
Guangzhou Wang Lao Ji Great Health Enterprise Development Co., Ltd.	Guangzhou	Guangzhou	Food manufacturing	10,000.00	-	100.00	-	100.00	Establishment or Investment
Guangzhou Wang Lao Ji Industry Company	Guangzhou	Guangzhou	Food manufacturing	1,000.00	-	100.00	-	100.00	Establishment or Investment
Wang Lao Ji Great Health Industry (Beijing) Sales Co., Ltd.	Beijing	Beijing	Trading	5,000.00	-	100.00	-	100.00	Establishment or Investment
Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd.	Meizhou	Meizhou	Food manufacturing	50,000.00	-	100.00	-	100.00	Establishment or Investment
Guangzhou Wang Lao Ji Great Health E-Commerce Co., Ltd.	Guangzhou	Guangzhou	Trading	3,000.00	-	100.00	-	100.00	Establishment or Investment
Wang Lao Ji Great Health Industry (Lanzhou) Co., Ltd.	Lanzhou	Lanzhou	Trading	50,000.00	-	100.00	-	100.00	Establishment or Investment
Guangxi Baiyunshan Ying Kang Pharmaceutical Co., Ltd. (hereinafter referred to as "Guangxi Ying Kang")	Nanning	Nanning	Pharmaceutical manufacturing	31,884.50	51.00	-	51.00	-	Business combination not under common control
Yi Gan	Guangzhou	Guangzhou	Pharmaceutical manufacturing	55,000.00	60.00	-	60.00	-	Establishment or Investment
Baiyunshan Medical and Healthcare Industry Company	Guangzhou	Guangzhou	Commercial services	116,000.00	100.00	-	100.00	-	Establishment or Investment
Tibet Linzhi Baiyunshan Tibetan Health Castle Management Co., Ltd.	Linzhi	Linzhi	Health services	50,000.00	-	100.00	-	100.00	Establishment or Investment
Guangzhou Baiyunshan Hospital	Guangzhou	Guangzhou	Medical	40,816.00	-	51.00	-	51.00	Business combination not under common control

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VIII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'000)	Shareholding (%)		Voting (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
Guangzhou Baiyunshan Run Kang Confinement Service Center Co., Ltd.	Guangzhou	Guangzhou	Service	10,000.00	-	51.00	-	51.00	Establishment or Investment
Xing Zhu	Guangzhou	Guangzhou	Pharmaceutical manufacturing	126,480.00	100.00	-	100.00	-	Establishment or Investment
Wang Lao Ji Investment	Guangzhou	Guangzhou	Commercial services	10,000.00	100.00	-	100.00	-	Establishment or Investment
WJ Catering	Guangzhou	Guangzhou	Commercial services	20,000.00	-	80.00	-	80.00	Establishment or Investment
Tian Xin	Guangzhou	Guangzhou	Pharmaceutical manufacturing	45,693.00	82.49	-	82.49	-	Business combination under common control
Guangzhou Baiyunshan Tian Xin Pharmaceutical Technology Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	800.00	-	100.00	-	100.00	Establishment or Investment
Guang Hua	Guangzhou	Guangzhou	Pharmaceutical manufacturing	55,285.00	84.48	-	84.48	-	Business combination under common control
Guang Hua Health ⁽¹⁾	Guangzhou	Guangzhou	Pharmaceutical manufacturing	10,000.00	-	63.36	-	75.00	Establishment or Investment
Ming Xing	Guangzhou	Guangzhou	Pharmaceutical manufacturing	46,091.90	100.00	-	100.00	-	Business combination under common control
Guangzhou Xing Ji Industries Co., Ltd.	Guangzhou	Guangzhou	Manufacturing	100.00	-	100.00	-	100.00	Establishment or Investment
Weiling	Jiexi	Jiexi	Pharmaceutical manufacturing	11,790.00	100.00	-	100.00	-	Business combination under common control

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VIII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'000)	Shareholding (%)		Voting (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
Pharmaceutical Technological	Guangzhou	Guangzhou	Pharmaceutical trading	2,000.00	51.00	-	51.00	-	Business combination under common control
Wang Lao Ji Da Zhai Beverages Co., Ltd.	Yangquan	Yangquan	Food manufacturing	50,000.00	-	60.00	-	60.00	Establishment or Investment
Guangzhou Wang Lao Ji Da Zhai Beverages Co., Ltd.	Guangzhou	Guangzhou	Food manufacturing	35,000.00	-	60.00	-	60.00	Establishment or Investment
Guangyao Baiyunshan Hong Kong Company	Hong Kong	Hong Kong	Pharmaceutical trading	HKD132,500.00	100.00	-	100.00	-	Business combination under common control
Guangzhou Baiyunshan Macao Co., Ltd.	Macao	Macao	Pharmaceutical trading	MOP 1,000.00	99.90	-	99.90	-	Establishment or Investment
Guangzhou Baiyunshan Chemical Pharmaceutical Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical trading	163,470.00	100.00	-	100.00	-	Establishment or Investment
Zhejiang Guang Kang Pharmaceutical Co., Ltd.	Shengzhou	Shengzhou	Pharmaceutical manufacturing	85,000.00	-	51.00	-	51.00	Establishment or Investment
Guangyao Baiyunshan Chemical Pharmaceutical (Zhuhai) Co., Ltd.	Guangzhou	Guangzhou	Pharmaceutical manufacturing	100,000.00	-	100.00	-	100.00	Establishment or Investment
Guangyao Haima	Guangzhou	Guangzhou	Advertising	500.00	100.00	-	100.00	-	Business combination not under common control
Baiyunshan Pharmaceutical Marketing	Guangzhou	Guangzhou	Pharmaceutical trading	40,000.00	100.00	-	100.00	-	Establishment or Investment
Guangzhou Baiyunshan Jin Ge Male Health Consulting Co., Ltd.	Guangzhou	Guangzhou	Service	1,000.00	-	100.00	-	100.00	Establishment or Investment

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VIII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(1) Composition of Enterprises Group (Continued)

Subsidiary	Main place of business	Registration place	Nature of business	Registered capital (RMB'000)	Shareholding (%)		Voting (%)		Acquisition method
					Direct	Indirect	Direct	Indirect	
Guangyao General Institute	Guangzhou	Guangzhou	Medical research	80,000.00	100.00	-	100.00	-	Business combination under common control
Guangzhou Baiyunshan Medical Instruments investment	Guangzhou	Guangzhou	Commercial services	10,000.00	-	100.00	-	100.00	Establishment or Investment
Guangzhou Baiyunshan Chemical and pharmaceutical manufacturing	Guangzhou	Guangzhou	Pharmaceutical manufacturing	100,000.00	100.00	-	100.00	-	Establishment or Investment

Note:

- ① The reason of difference between the ratio of equity interest held and the ratio of voting rights held of these 6 companies is that the Company indirectly holds these 6 companies through subsidiaries which are not wholly-owned by the Company, leading to the ratio of equity interest held lower than the ratio of voting rights held.
- ② Reasons for the Group that controlling this company with less than half voting rights held is that the Group has the power to decide on its financial and operating policies and profit from its operating activities.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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VIII. EQUITY IN OTHER ENTITIES (Continued)

1. Equity in subsidiaries (Continued)

(2) Significant non-wholly owned subsidiaries

Subsidiary	Shareholding of minority shareholders (%)	Profit or loss attributable to minority shareholders in the current period	Dividend paid to minority shareholders in the current period	Closing balance of minority shareholders' equity
GP Corp.	20.00	44,468,669.19	–	1,185,983,588.23
Wang Lao Ji	3.907	4,472,985.48	–	22,554,060.82

(3) Primary financial information of significant non-wholly owned subsidiaries

Subsidiary	Closing balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
GP Corp.	21,551,610,180.61	1,756,157,167.11	23,307,767,347.72	18,181,295,094.40	493,316,438.05	18,674,611,532.45
Wang Lao Ji	1,063,575,727.73	225,519,951.63	1,289,095,679.36	701,217,461.62	7,743,453.28	708,960,914.90

Subsidiary	Current period			
	Operating income	Net profit	Total comprehensive income	Operating cash flows
GP Corp.	19,902,234,347.48	168,813,606.84	168,813,606.84	(2,270,767,967.67)
Wang Lao Ji	1,036,696,521.11	114,689,564.47	114,689,564.47	129,302,339.57

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

VIII. EQUITY IN OTHER ENTITIES (Continued)

2. Equity in Joint Ventures or Associates

(1) Summary for financial information of insignificant associates and joint ventures

Item	Closing balance/ Current period	Opening balance/ Prior period
Joint ventures:		
Total book balance of investments	667,098,578.72	661,295,124.97
Calculated by rate of interests held:		
– Net profit	55,763,592.24	305,162,068.66
– Other comprehensive income	–	(8,821.96)
– Total comprehensive income	55,763,592.24	305,153,246.70
Associates		
Total book balance of investments	1,138,382,457.06	1,098,662,910.42
Calculated by rate of interests held:		
– Net profit	27,709,976.18	70,921,573.37
– Other comprehensive income	31,704.40	29,136.57
– Total comprehensive income	27,741,680.58	70,950,709.94

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Group's operating activities are subject to various financial risks: market risk (mainly foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management plan addresses the unpredictability of financial markets and seeks to reduce potential adverse effects on the Group's financial performance.

1. Market risk

(1) Foreign exchange risk

Foreign exchange risk refers to the risk of loss due to exchange rate changes. The Group's foreign exchange risk is mainly related to the US Dollar, the Euro, the Japanese Yen and the Hong Kong Dollar. Except that the purchase and sale of several subsidiaries of the Group are in US dollars, Euros, Japanese Yen and Hong Kong dollars, the Group's other major business activities are settled in Renminbi ("RMB"). As on 30 June 2019, except for the assets or liabilities described in the following table, which are in US dollars, Euros, Japanese Yen, and Hong Kong Dollars, Australian Dollars, the Group's assets and liabilities balances are all in Renminbi. The foreign exchange risk arising from the assets and liabilities of these foreign currency balances may have an impact on the Group's operating results

Item	Closing Balance	Opening Balance
Cash at bank and on hand	49,272,089.58	50,686,895.28
Accounts receivable	21,367,143.14	25,818,380.94
Advances to suppliers	56,303.79	–
Other receivables	586,563.25	596,411.37
Total financial assets in foreign currency	71,282,099.76	77,101,687.59
Accounts payable	25,640,246.70	11,311,566.29
Contract liabilities	475,432.18	32,378.59
Other payables	3,048,235.90	205,308.23
Current portion of non-current liabilities	–	–
Total financial liabilities in foreign currency	29,163,914.78	11,549,253.11

Note: The financial department of the Group's headquarters is responsible for monitoring the scale of the Group's foreign currency transactions and foreign currency assets and liabilities in order to minimize the foreign exchange risks; for this reason, the Group may sign forward exchange agreements or currency swap agreements to achieve the purpose of avoiding foreign exchange risks.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

1. Market risk (Continued)

(1) Foreign exchange risk (Continued)

As on 30 June 2019, for all types of financial assets and financial liabilities of the Group in US dollar and Hong Kong dollar, if the RMB appreciates or depreciates against the US dollar and Hong Kong dollar by 10% and other factors remain unchanged, the Group's net profit will increase or decrease by approximately RMB 3,159 thousand (As on 30 June 2018: approximately RMB 5,074 thousand).

(2) Interest rate risk

As on 30 June 2019, the Group's long-term interest-bearing debt balance was RMB 13,500 thousand. If the annual interest rate decreased by 50 basis points and other factors remained unchanged, the Group's net profit will increase by RMB 415 thousand (As on 31 December 2018: RMB 16,908 thousand).

(3) Other price risks

The equity investments in listed companies held by the Company are as below:

Item	Closing Balance	Opening Balance
Other investments in equity instruments	–	–
Other non-current financial assets	<u>153,585,035.02</u>	<u>142,759,160.02</u>
Total	<u><u>153,585,035.02</u></u>	<u><u>142,759,160.02</u></u>

As on 30 June 2019, if all other variables remain unchanged and the value of equity instruments rises or falls by 10%, the Company's net profit will increase or decrease by RMB 15,358.50 thousand (As on 31 December 2018: net profit and other comprehensive income will increase by RMB 14,276 thousand). The management believes that 10% reasonably reflects the reasonable range of possible changes in the value of equity instruments in the next year.

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS *(Continued)*

2. Credit risk

The Group manages credit risk by portfolio. Credit risk mainly arises from bank deposits, accounts receivable, other receivables, notes receivable, account receivables financing, etc.

The Group's bank deposits are mainly deposited in state-owned banks and other large and medium-sized listed banks. The Group believes that it does not have significant credit risk and will not incur any significant losses due to default by the other party.

In addition, for accounts receivable, other receivables and notes receivable, the Group has established relevant policies to control credit risk exposure. The Group assesses the creditworthiness of customers and sets the corresponding credit period based on their financial status, the possibility of obtaining guarantees from third parties, credit history and other factors such as current market conditions. The Group also monitors customers' credit records regularly. For customers with poor credit history, the Group will adopt methods such as sending written reminders, shortening credit terms or cancelling credit terms to ensure that the Group's overall credit risk stays within the controllable range.

3. Liquidity risk

Each subsidiary of the Group is responsible for its own cash flows forecast. Based on the summary of cash flows forecasts of the subsidiaries, the finance department of the headquarter continuously monitors short-term and long-term capital needs at the group level to ensure that sufficient cash reserves and marketable securities are readily available; meanwhile the finance department of the headquarter continuously monitors compliance with the terms of the loan agreement and obtains commitments from major financial institutions to provide sufficient backup funds to meet short-term and long-term funding needs.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

3. Liquidity risk (Continued)

As at the balance sheet date, the Group's financial assets and financial liabilities stated in undiscounted contractual cash flows by the expiration date are as following:

Period	Closing balance					Total
	Within 1 year	1-2 years	2-5 years	Over 5 years	No fixed maturity date	
Financial assets:						
Cash at bank and on hand	16,149,474,568.74	-	-	-	-	16,149,474,568.74
Notes receivable	1,418,119,952.33	-	-	-	-	1,418,119,952.33
Accounts receivable	13,339,877,618.66	-	-	-	-	13,339,877,618.66
Accounts receivable financing	1,149,913,285.25	-	-	-	-	1,149,913,285.25
Other receivables	1,110,668,698.71	-	-	-	-	1,110,668,698.71
Subtotal	<u>33,168,054,123.69</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,168,054,123.69</u>
Financial liabilities:						
Short-term borrowings	6,933,817,782.13	-	-	-	-	6,933,817,782.13
Current portion of non-current liabilities	712,351,930.67	-	-	-	-	712,351,930.67
Notes payable	2,519,190,112.19	-	-	-	-	2,519,190,112.19
Accounts payable	9,426,337,781.28	-	-	-	-	9,426,337,781.28
Other payables	4,057,351,352.04	-	-	-	-	4,057,351,352.04
Long-term payables	-	-	-	27,685,411.94	-	27,685,411.94
Subtotal	<u>23,649,048,958.31</u>	<u>-</u>	<u>-</u>	<u>27,685,411.94</u>	<u>-</u>	<u>23,676,734,370.25</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

3. Liquidity risk (Continued)

(cont.)

Period	Opening balance					Total
	Within 1 year	1-2 years	2-5 years	Over 5 years	No fixed maturity date	
Financial assets:						
Cash at bank and on hand	16,114,883,673.51	-	-	-	-	16,114,883,673.51
Notes receivable	1,328,195,500.54	-	-	-	-	1,328,195,500.54
Accounts receivable	10,872,458,472.34	-	-	-	-	10,872,458,472.34
Accounts receivable financing	1,452,402,183.47	-	-	-	-	1,452,402,183.47
Other receivables	1,056,551,186.68	-	-	-	-	1,056,551,186.68
Subtotal	<u>30,824,491,016.54</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,824,491,016.54</u>
Financial liabilities:						
Short-term borrowings	5,905,703,286.10	-	-	-	-	5,905,703,286.10
Current portion of non-current liabilities	343,315,704.52	-	-	-	-	343,315,704.52
Notes payable	2,656,176,505.09	-	-	-	-	2,656,176,505.09
Accounts payable	9,313,277,657.72	-	-	-	-	9,313,277,657.72
Other payables	3,466,357,353.39	-	-	-	-	3,466,357,353.39
Long-term payables	-	-	-	27,611,312.00	-	27,611,312.00
Subtotal	<u>21,684,830,506.82</u>	<u>-</u>	<u>-</u>	<u>27,611,312.00</u>	<u>-</u>	<u>21,712,441,818.82</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

X. DISCLOSURE OF FAIR VALUE

1. Financial instruments not measured at fair value

Financial assets and financial liabilities not measured at fair value comprise: receivables, short-term borrowings, payables and long-term payables.

Difference between book value and fair value of financial assets and financial liabilities not measured at fair value is insignificant.

2. Financial instruments measured at fair value

According to the lowest hierarchy of input value, which is significant to the overall measurement, in the measurement of fair value, hierarchies of the fair value can be divided into:

The first hierarchy: Quoted price (unadjusted) of the same assets or liabilities in active market;

The second hierarchy: Direct (i.e. price) or indirect (i.e. estimated results based on price) observable input value of assets or liabilities excluding quoted market price in the first hierarchy;

The third hierarchy: Input value of assets or liabilities based on variables excluding observable market data (unobservable input value).

The hierarchy of a fair value measurement result is determined by the bottom level of the input value, which is significant to the overall measurement of fair value.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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X. DISCLOSURE OF FAIR VALUE (Continued)

2. Financial instruments measured at fair value (Continued)

(1) Closing balance of fair value of assets and liabilities measured at fair value

Item	Closing balance of fair value			Total
	The first hierarchy	The second hierarchy	The third hierarchy	
I. Continuous measurement at fair value				
A. Financial assets held for trading	-	-	-	-
1. Financial assets measured at FVTPL	-	-	-	-
2. Financial assets designated at FVTPL	-	-	-	-
B. Other debt investments	-	-	-	-
C. Other investments in equity instruments	-	-	-	-
(1) Equity instrument investments	-	-	83,481,132.33	83,481,132.33
D. Other non-current financial assets	-	-	-	-
(1) Equity instrument investments	29,393,682.66	-	208,370,648.50	237,764,331.16
E. Investment properties	-	-	-	-
F. Biological assets	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets continuously measured at fair value	<u>29,393,682.66</u>	<u>-</u>	<u>291,851,780.83</u>	<u>321,245,463.49</u>

3. The basis for determining the market price of the first-level fair value measurement project:

The fair value of the listed company's stock is determined according to the closing price of the exchange on the last trading day of the period.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

X. DISCLOSURE OF FAIR VALUE (Continued)

4. Valuation methods and qualitative and quantitative information of important parameters adopted in valuation techniques for the continuing third hierarchy fair value measurement projects are as follows:

Item	Closing balance of fair value	Valuation method	Significant unobservable input	Influence on fair value
Equity instrument investment	83,481,132.33	Market discount method	Lack of liquidity discount	The higher the discount, the lower the liquidity
Other non-current financial assets	237,764,331.16	Market discount method	Lack of liquidity discount	The higher the discount, the lower the liquidity

5. Adjustment information between the beginning and closing book value of the continuing third hierarchy fair value measurement projects is as follows:

Item	Opening balance	Transferred to the third hierarchy	Transferred from the third hierarchy	Total amount of profit or loss for the current period		Purchase, issuance, sale and settlement		Gains and losses recognized through profit or loss at the period end of assets held at the period end
				Recognized in profit or loss	Recognized in other comprehensive income	Disposal	Closing balance	
Other investments in equity instruments	84,897,870.89	-	-	-	(1,416,738.56)	-	83,481,132.33	-
Other non-current financial assets	198,623,524.78	-	-	9,747,123.72	-	-	208,370,648.50	-

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Information of the Parent Company

Parent company	Registration place	Nature of business	Registered capital (RMB in thousand)	Shareholding of the parent company in the Group (%)	Proportion of the voting right held by the parent company (%)
GPHL	No. 45, North Shamian Street, Liwan District, Guangzhou	Manufacturing and trading	1,252,810.98	45.04	45.04

Note: The ultimate control party of the Group is State-owned Assets Supervision and Administration Commission of Guangzhou Municipal Government.

2. Subsidiaries of the Group

Please refer to Note VIII. 1. Equity in subsidiaries.

3. Associates and joint ventures of the Group

Information of associates or joint ventures which have had transactions with the Company in the current year, or had transactions with the Company in prior years and formed a balance in current year is as follows:

Associates or joint ventures	Relationship with the Company
Nuo Cheng	Joint venture
HWBYS	Joint venture
Baxter Qiao Guang	Joint venture
Chuangmei Medicines	Associates
Guangzhou Baiyunshan Southern Anti-tumor Biological Products Co., Ltd.	Associates
Yi Xin Tang	Associates
Baiyunshan Yi Xin Tang	Associates

4. Other Related Parties without Control Relationship

Other related parties	Relationship with the Company
Guangzhou Yu Fa Medical Instruments Co., Ltd.	Controlled by the same parent company
Guangzhou South China Medical Instruments Co., Ltd.	Controlled by the same parent company
Guangzhou Hua Cheng Pharmaceutical Co., Ltd. (hereinafter referred to as "Hua Cheng")	Controlled by the same parent company

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

5. Related Party Transactions

(1) Related party transaction of purchase and sales of goods, rendering and receiving of services

① Purchase of goods from related parties

Related party	Type	Content	Pricing policy and decision-making procedure	Current period		Prior period	
				Amount	% of total (similar category)	Amount	% of total (similar category)
HWBYS	Purchase of goods	Medicinal material or medicine	Market price	92,587,495.59	0.31	35,784,016.72	0.44
Baxter Qiao Guang	Purchase of goods	Medicinal material or medicine	Market price	20,694,654.16	0.07	940,735.05	0.01
Chuangmei Medicines	Purchase of goods	Medicinal material or medicine	Market price	18,239,761.51	0.06	9,663,275.70	0.12
Hua Cheng	Purchase of goods	Medicinal material or medicine	Market price	4,272,130.98	0.01	2,689,334.74	0.03
Yi Xin Tang	Purchase of goods	Medicinal material or medicine	Market price	(5,362.18)	-	-	-
Wang Lao Ji	Purchase of goods	Medicinal material or medicine	Market price	-	-	558,751,989.66	6.81
GP Corp.	Purchase of goods	Medicinal material or medicine	Market price	-	-	42,994,960.12	0.52
Total				<u>135,788,680.06</u>	<u>0.45</u>	<u>650,824,311.99</u>	<u>7.93</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

5. Related Party Transactions (Continued)

(1) Related party transaction of purchase and sales of goods, rendering and receiving of services (Continued)

② Sales of goods to related parties

Related party	Type	Content	Pricing policy and decision-making procedure	Current period		Prior period	
				Amount	% of total (similar category)	Amount	% of total (similar category)
Chuangmei Medicine	Sales of good	Medicinal material or medicine	Market price	218,644,291.87	0.66	141,046,086.98	0.96
HWBYS.	Sales of good	Medicinal material or medicine	Market price	89,562,909.77	0.27	92,507,795.58	0.63
Hua Cheng	Sales of good	Medicinal material or medicine	Market price	49,826,574.72	0.15	73,487,016.80	0.50
YiXin Tang	Sales of good	Medicinal material or medicine	Market price	33,699,783.18	0.10	3,476,255.68	0.02
BaiyunshanYi Xin Tang	Sales of good	Medicinal material or medicine	Market price	2,891,424.59	0.01	-	-
Baxter Qiao Guang	Sales of good	Medicinal material or medicine	Market price	756,851.47	-	452,841.29	-
Nuo Cheng	Sales of good	Medicinal material or medicine	Market price	60,868.11	-	10,108.36	-
GP Corp.	Sales of good	Medicinal material or medicine	Market price	-	-	152,486,547.82	1.04
Wang Lao Ji	Sales of good	Medicinal material or medicine	Market price	-	-	381,790,903.99	2.61
Total	-	-	-	<u>395,442,703.71</u>	<u>1.19</u>	<u>845,257,556.50</u>	<u>5.76</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

5. Related Party Transactions (Continued)

(1) Related party transaction of purchase and sales of goods, rendering and receiving of services (Continued)

③ Rendering of services to related parties

Related party	Type	Content	Pricing policy and decision-making procedure	Current period		Prior period	
				Amount	% of total (similar category)	Amount	% of total (similar category)
HWBYS	Rendering of services	Advertising agency service	Market price	16,982,919.11	68.26	28,002,158.04	37.97
Hua Cheng	Rendering of services	Advertising agency service	Market price	5,461,262.76	21.95	1,283,732.45	1.74
GuangYao	Rendering of services	Advertising agency service	Market price	744,415.25	2.99	677,231.13	0.92
Baxter Qiao Guang	Rendering of services	Advertising agency service	Market price	22,954.72	0.09	28,056.61	0.04
Wang Lao Ji	Rendering of services	Advertising agency service	Market price	-	-	40,976,218.30	55.56
GP Corp.	Rendering of services	Advertising agency service	Market price	-	-	82,696.23	0.11
Subtotal	-	-	-	23,211,551.84	-	71,050,092.76	-
Hua Cheng	Rendering of services	Consigned processing	Market price	12,188,012.10	14.09	-	-
HWBYS	Rendering of services	Consigned processing	Market price	414,354.86	100.00	709,993.85	5.61
Wang Lao Ji	Rendering of services	Consigned processing	Market price	-	-	11,305,878.83	89.36
Subtotal	-	-	-	12,602,366.96	-	12,015,872.68	-
HWBYS	Rendering of services	Research and development services	Market price	-	-	153,301.89	5.69
Subtotal	-	-	-	-	-	153,301.89	-
Total	-	-	-	35,813,918.80	-	83,219,267.33	-

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(2) **The Group had no associated trusteeship/Entrusted management for the current period.**

(3) **The Group had no associated contracting for the current period.**

(4) **Leases**

① *The Group as the lessor*

A. Office Tenancy Agreement – 5th Floor, Front building, North Shamian Street

According to the tenancy agreement entered into by the Company and GPLH on 27 June 2013, the Company leases 5th Floor of the Front building located at No. 45 North Shamian Street to GPLH for office use. The lease is renewed on 1 July 2016, with a term of three years. And GPLH should pay the company RMB 201 thousand for the current period (for the period January-June 2018: RMB 188 thousand).

B. Warehouse and Office Building Tenancy Agreement

According to the tenancy agreement entered into by the Company and GP Corp., the Company leases certain buildings to GP Corp. for the use of warehouse and office. Rent is paid at the price specified in the agreement annually. The lease term is from 1 January 2017 to 31 June 2019, and the rent for current period is RMB 0 thousand due from GP Corp. (for the year January-June 2018: RMB 545 thousand).

According to the tenancy agreement entered into by the Company and GP Corp., the Company leases the first floor of the building located in No.74 of Duobao Road to GP Corp. as a shop. Rent is paid at the price specified in the agreement annually with a lease term from 1 January 2015 to 31 October 2021. The rent is RMB 0 thousand for the current period (for the year January-June 2018: RMB 259 thousand).

According to the tenancy agreement entered into by the Company and Baxter Qiao Guang, the Company leases the building located on No. 25 of Fangcun Dadao Road, Guangzhou to Baxter Qiao Guang as workshop. The lease agreement started on 10 May 2007 to the relocation date. The rent is RMB 1,590 thousand for the year January-June 2019 (for the year January-June 2018: RMB 1,486 thousand).

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(4) Leases *(Continued)*

① *The Group as the lessor (Continued)*

B. Warehouse and Office Building Tenancy Agreement *(Continued)*

According to the tenancy agreement entered into by the Company's subsidiaries, Guangzhou Bai Di and Nuo Cheng, Guangzhou Bai Di leases the building located in No.1 of North Wanbao Street, Panyu District, Guangzhou to Nuo Cheng for the use as a plant. Rent is paid at the price specified in the agreement annually with a lease term from 15 March 2011 to 14 March 2019. According to the plant lease agreement signed by Guangzhou Baiyunshan Bai Di bio-pharmaceutical co., Ltd. and Nuo Cheng biological on March 11, 2019, the new lease term is from 15 March 2019 to 14 March 2022. And Nuo Cheng should pay Guangzhou Bai Di the rent of RMB 1,430 thousand for the year January-June 2019 (for the year January-June 2018: RMB 1,129 thousand).

According to the tenancy agreement entered into by the Company's subsidiaries, Guang Hua and HWBYS, Guang Hua leases part of No.355 of North Shatai Road in Guangzhou to HWBYS for the use of parking lot. Rent is paid at the price specified in the agreement monthly with a lease term from 10 September 2017 to 9 March 2018. The rent is RMB 0 thousand for the year January-June 2019 (for the year January-June 2018: RMB 12 thousand).

According to the tenancy agreement entered into by the Company's subsidiaries, Guang Hua and GP Corp., Guang Hua leases part of No.355 of North Shatai Road, Guangzhou to GP Corp. Rent is paid at the price specified in the agreement monthly with a lease term from 15 July 2015 to 14 July 2020. The rent is RMB 0 thousand for the year January-June 2019 (for the year January-June 2018: RMB 174 thousand).

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(4) Leases *(Continued)*

② *The Group as the lessee*

A. Tenancy Agreement

According to the tenancy agreement entered into by the Company and GPLH, GPLH leases certain premises to the Company for the use of warehouse and office. Rent is paid at the price specified in the agreement annually with a lease term from 1 January 2017 to 31 December 2019. The Group should pay GPLH the rent of RMB 3,733 thousand for the current year (for the year January-June 2018: RMB 1,368 thousand).

According to the tenancy agreement entered into by HWBYS and Baiyunshan Pharmaceutical Marketing, a subsidiary of the Company, Baiyunshan Pharmaceutical Marketing is authorized by HWBYS to use 704 room on the 7 floor and the 8 to 11 floor of Shennong Building on No. 389 of North Sha Tai Road, Baiyun District, Guangzhou as office place. Rent is paid at the price specified in the agreement annually. Thereinto, the lease term for 704 room on the 7 floor started from 1 April 2018 to 31 December 2023; the lease term for the 8 to 11 floor started from 1 January 2018 to 31 December 2023. Baiyunshan Pharmaceutical Marketing shall pay rental of RMB 2,189 thousand for the above-mentioned place to HWBYS (for the year January-June 2018: RMB 0 thousand).

(5) The Group had no guarantee for related parties for the current year.

(6) The Group had no borrowing or lending between related parties for the current year.

(7) The Group had no transfer of asset and debt restructuring for the current year.

(8) **Employee benefits of key management personnel**

Employee benefits of the Group's key management personnel amounted to RMB 1,430 thousand for the year January to June 2019 (for the year January to June 2018: RMB1,304 thousand). The Group's key management personnel of current year include 9 persons, such as director, general manager, vice general manager, and secretary to the Board of Director (for the January to June 2018: 9 persons). Among them, 4 received their salaries from the Group (for the year January to June 2018: 4 persons).

Notes: Chen Mao has resigned as an executive director and the vice chairperson of the Company with effect from 31 May 2019. After resignation, Chen Mao no longer holds any position in the Company or the Company's subsidiaries.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(9) Other related party transactions

① License Agreement

- (a) Pursuant to the Trademark License Agreements entered into by Wang Lao Ji Great Health and GPLH on 25 May 2012 and 26 April 2013 respectively, and the Confirmation letter signed based on the Trademark License Agreements. GPLH authorized the use of 5 trademarks by Wang Lao Ji Great Health. Wang Lao Ji Great Health agreed to pay license fees to GPLH at 2.1% of net sales. The payment is made to GPLH and the Company at 53% and 47% respectively. The Trademark License Agreement has expired on 24 May 2018. The two parties entered into the Trademark License Agreement on 28 May 2018, the trademark license fee is agreed to be paid to the Company by Wang Lao Ji Great Health at $2.5\% \times (1 + \text{VAT rate})$ of net sales of the audited annual financial statements prepared in accordance with China Accounting Standards. According to the Trademark License Agreement signed by the Company and GPLH in 2012 and the Supplemental Agreement to the Trademark License Agreement signed on 28 May 2018, the Company should pay 80% of the trademark license fee which collects during the trademark custody period to GPLH. The term of the license use right is three years, which is from 25 May 2018 to 24 May 2021 (after the expiration of the contract, the two parties may give priority to renewal if there is no objection).

According to the supplemental agreement signed by the Company and Guangzhou Pharmaceutical Group and Wang Laoji Pharmaceuticals on July 28, 2005, after Wang Laoji Pharmaceutical was changed to Foreign Investment Co., Ltd., on or before January 1, 2019, The trademark usage fee is paid at 2.1% of the net sales, and is paid directly to GPLH and the company at 53% and 47% respectively; according to the Supplementary Agreement of the Trademark Escrow Agreement signed on January 17, 2019, from January 1st to December 31st, 2021, the trademark usage fee will be paid at 2.1% of the net sales, and will be paid directly to GPLH and the company at 80% and 20% respectively.

Pursuant to the Confirmation of Asset Delivery for the Transfer of Wang Lao Ji series of trademarks signed by the Company and GPLH on April 30, 2019, the exclusive rights of the “Wang Lao Ji” series of trademarks involved in this transaction (excluding rejected 2 applications for registration of defensive trademarks) has been completed in accordance with the agreement. Since May 1, 2019, the Company has obtained the exclusive right to use the “Wang Lao Ji” series of trademarks.

The Company should receive license fee amounted to RMB 151,824 thousand for the year January to June 2019 (for the year January to June 2018: RMB 50,764 thousand) and GPLH should receive RMB 96,348 thousand (for the year January to June 2018: RMB 71,807 thousand).

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(9) Other related party transactions *(Continued)*

① License Agreement *(Continued)*

- (b) 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), include: (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 takes effect, 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 these 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 took effect on 5 July 2013, and will expire on the date of trademark transfer or the date of termination from both parties’ negotiation. According to the new license contract, the trademark license fee shall be calculated according to the net sales $\times 2.1\% \times (1 + \text{VAT rate})$ shown in the audited annual financial statements prepared by the trademark licensee using Chinese Accounting Standards; Within the term of this agreement, that is, within the three years from January 1, 2019 to December 31, 2021, the annual limit of the trademark license fee received by the trustee from wanglaoji pharmaceutical shall be RMB 50,000 yuan, among which the consignor shall receive 80% of the royalty and the consignee shall receive 20% of the royalty.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(9) Other related party transactions *(Continued)*

① License Agreement *(Continued)*

(b) *(Continued)*

Meanwhile, when the legal dispute is settled, GPLH committed to legally transfer the trademark “Wang Lao Ji” and other 4 trademarks authorized to Wang Lao Ji exclusively to the company within 2 years since the above-mentioned trademarks can be transferred in accordance with the effective laws and regulation.

Pursuant to Notice of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. on Unfulfilled Commitment in respect of Shareholders, Related Parties and the Company issued on 25 June 2014, the term of contract expire on 20 January 2015. On 13 March 2015, the first Extraordinary 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.

The Company’s 18th meeting of the 7th Board of Directors held on 27 December 2018 and 28 March 2019, and the 1st Extraordinary General Meeting of Shareholders in 2019, reviewed and approved the Proposal on the Company’s Cash Purchase Trademark Transaction Scheme and Related Agreements and Related Transactions, the proposed agreement to transfer the 420 trademark exclusive rights of the “Wang Lao Ji” series held by the controlling shareholder GPLH (including some trademarks still pending registration); according to the Agreement on the Delivery of Assets for the Transfer of Wang Lao Ji Series of Trademarks signed between the Company and GPLH on April 30th 2019, the above-mentioned “Wang Lao Ji” series trademark exclusive right (excluding the rejected two defensive trademark registration applications) involved in this transaction has been completed in accordance with the agreement. Upon the completion of the agreement, the company obtained the exclusive right to use the “Wang Lao Ji” series of trademarks according to law. Since May 1, 2019, the Company has collected trademark usage fees at a rate of 100%.

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(9) Other related party transactions *(Continued)*

① License Agreement *(Continued)*

- (c) Pursuant to Trademark License Agreement entered into by Xing Qun and the Company on 25 December 2018, Xing Qun is authorized to use 32 kinds of trademark owned by GPLH on 32 kinds of designated plant beverage and coke products from 1 January 2019 to 31 December 2019 (both parties otherwise agreed to extend the term if need to). 2.1%× (1+ VAT rate) of net sale volume for the authorized products, as audited in annual financial statements according prepared under ASBE, shall be paid to the Company as a license fee. The Company entered into License Agreement for Chamomile with Xing Qun. License fee (in weak endorsement form) is 0.8% of net sale volume, as audited in annual financial statements according prepared under ASBE. Xing Qun should pay the Company license fee amounted to RMB 54 thousand from January to June of 2019. (For the year January to June of 2018: RMB 612 thousand).

Based on the arrangement of the Trademark Trusteeship Agreement, Trademark Trusteeship Supplementary Agreement and Confirmation of the delivery of the assets of the “Wang Lao Ji” series of trademarks entered into by GPLH and the Company, Xing Qun should pay the Company the above license fee amounted to RMB 54 thousand for the year January to June of 2019 (for the year January to June of 2018: RMB 612 thousand), and should totally pay GPLH RMB 8 thousand (for the year January to June of 2018: RMB 490 thousand).

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(9) Other related party transactions *(Continued)*

① License Agreement *(Continued)*

- (d) Pursuant to multiple Trademark License Contracts entered into by Guangzhou Baiyunshan He Huang Great Health Products Co., Ltd. and the Company for the period from 2014 to 2017, Guangzhou Baiyunshan He Huang Great Health Products Co., Ltd. is authorized to use 32 kinds of trademark owned by GPLH on 32 kinds of plant beverages and non-alcoholic beverages. $2.1\% * (1+\text{VAT rate})$ of net sale volume for the authorized products, as audited in annual financial statements according prepared under ASBE, shall be paid to the Company as a license fee. In December 2018, as the License Contract has expired, the Company and He Huang Great Health entered into the contract again, license fee of which is 2.1% prior to 19 June 2018 and 0.8% after 19 June 2018. On 18 December 2018, the Company and He Huang Great Health signed the Confirmation Letter that, for authorized products of which license contract not mature yet, trademark license fee is calculated at $0.8\% * (1+\text{VAT rate})$ of net sale volume for the authorized products, as audited in annual financial statements according prepared under ASBE. In addition, the Company and He Huang Great Health entered into license Contract for new products (retro style tea product series and lemon tea products) with trademark fee of 0.8%. Guangzhou Baiyunshan He Huang Great Health Products Co., Ltd. should pay the Company license fee amounted to RMB 641 thousand for the year January to June of 2019 (for the year January to June of 2018: RMB 874 thousand).

Based on The Arrangement of the Trademark Trusteeship Agreement and Trademark Trusteeship Supplementary Agreement entered into by GPLH and the Company, Guangzhou Baiyunshan He Huang Great Health Products Co., Ltd. should pay the Company the above license fee amounted to RMB 641 thousand for the year January to June of 2019 (For the year January to June of 2018: RMB 874 thousand), and should totally pay GPLH RMB 356 thousand (For the year January to June of 2018: RMB 699 thousand).

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

5. Related Party Transactions *(Continued)*

(9) Other related party transactions *(Continued)*

① License Agreement *(Continued)*

- (e) Pursuant to Trademark License Agreement entered into by Guangzhou Wang Lao Ji Da Zhai Beverages Co., Ltd. and the Company on 6 September 2017, Guangzhou Wang Lao Ji Da Zhai Beverages Co., Ltd. is able to use 32 kinds of trademark owned by GPLH for 32 kinds of herbal beverages and non-alcoholic beverages from 6 September 2017 to 5 September 2020 (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 Guangzhou Wang Lao Ji Da Zhai Beverages Co., Ltd. Trademark License Agreement will expire on 5 September 2020. Guangzhou Wang Lao Ji Da Zhai Beverages Co., Ltd. should pay the Company license fee amounted to RMB 693 thousand for the year January to June of 2019. (for the year January to June of 2018: RMB 265 thousand).

Based on the Arrangement of the Trademark Trusteeship Agreement and Trademark Trusteeship Supplementary Agreement entered into by GPLH and the Company, Guangzhou Wang Lao Ji Da Zhai Beverages Co., Ltd. should pay the Company the above license fee amounted to RMB 693 thousand for the year January to June of 2019 (For the year January to June of 2018: RMB 265 thousand), and should totally pay GPLH RMB 554 thousand (For the year January to June of 2018: RMB 212 thousand).

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

6. Receivables and Payables of Related Parties

(1) Receivables

Item	Closing Balance		Opening Balance	
	Book value	Provision for bad debts	Book value	Provision for bad debts
Notes receivable:				
Chuangmei Medicines	97,539,408.06	–	67,778,737.45	–
Hua Cheng	8,825,294.60	–	967,279.69	–
Yi Xin Tang	789,649.16	–	424,149.97	–
Total	107,154,351.82	–	69,170,167.11	–
Accounts receivable:				
HWBYS	37,020,317.94	370,203.18	45,851,564.23	458,515.64
Baxter Qiao Guang	–	–	231,360.00	2,313.60
Chuangmei Medicines	48,251,832.63	482,518.33	106,497,509.92	1,065,173.77
GPHL	297,955.00	2,979.55	3,120.00	31.20
Hua Cheng	12,740,221.96	127,402.22	10,730,644.45	107,306.44
Wang Lao Ji	–	–	–	–
Yi Xin Tang	9,297,455.79	96,178.28	13,405,525.06	137,258.97
GP Corp.	569,814.35	5,698.14	–	–
Total	108,177,597.67	1,084,979.70	176,719,723.66	1,770,599.62
Advances to suppliers:				
HWBYS	37,747,431.99	–	27,610,685.72	–
Hua Cheng	1,709,309.68	–	8,302.97	–
Total	39,456,741.67	–	27,618,988.69	–

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

6. Receivables and Payables of Related Parties (Continued)

(1) Receivables (Continued)

Item	Closing Balance		Opening Balance	
	Book value	Provision for bad debts	Book value	Provision for bad debts
Dividends receivable:				
HWBYS	50,000,000.00	-	-	-
Nuo Cheng	37,938,523.45	-	37,938,523.45	-
Chuang Mei	2,086,509.54	-	2,097,521.02	-
Total	<u>90,025,032.99</u>	<u>-</u>	<u>40,036,044.47</u>	<u>-</u>
Other receivables:				
HWBYS	3,488,613.22	-	3,950,767.44	-
GPHL	1,661,127.95	-	2,032,085.00	-
Hua Cheng	1,816,800.00	-	1,816,800.00	-
Baxter Qiao Guang	2,919,955.89	-	1,279,120.80	-
Guangzhou South China Medical Instruments Co., Ltd.	100,000.00	100,000.00	100,000.00	100,000.00
Nuo Cheng	998,441.89	-	-	-
Guangzhou Baiyunshan Southern Anti-tumor Biological Products Co., Ltd.	1,556.40	-	-	-
Total	<u>10,986,495.35</u>	<u>100,000.00</u>	<u>9,178,773.24</u>	<u>100,000.00</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

6. Receivables and Payables of Related Parties (Continued)

(2) Payables

Item	Closing Balance	Opening Balance
Notes payable:		
HWBYS	66,403,995.50	37,612,860.00
Chuangmei Medicines	–	5,000,000.00
Hua Cheng	614,780.00	168,218.00
Total	67,018,775.50	42,781,078.00
Accounts payable:		
Baxter Qiao Guang	4,770,444.06	3,682,927.03
HWBYS	6,182,681.95	3,285,233.23
Chuangmei Medicines	13,552,452.27	8,704,951.71
Hua Cheng	1,494,436.10	1,471,492.91
Yi Xin Tang	329,707.82	511,970.00
Total	26,329,722.20	17,656,574.88
Contract liabilities:		
Chuangmei Medicines	17,897,654.18	30,791,568.30
HWBYS	1,949,734.44	5,738,465.12
Hua Cheng	4,424,778.76	141,400.00
Yi Xin Tang	85,965.71	33,801.25
Nuo Cheng	–	150.00
Total	24,358,133.09	36,705,384.67
Dividends payable:		
GPHL	310,497,363.67	–
Total	310,497,363.67	–
Other payables:		
GPHL	167,004,927.15	116,611,943.50
HWBYS	222,508.25	339,822.35
Chuangmei Medicines	20,000.00	–
Total	167,247,435.40	116,951,765.85

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

XII. COMMITMENTS OR CONTINGENCY

1. Significant Commitments

(1) Capital commitments

Item	Closing balance	Opening balance
Signed but not recognized in the financial statement		
– Commitment on purchasing long-term assets	3,156,892,011.05	1,064,737,221.31
– Large amount contract	–	–
– Commitments on external investment	–	–
Total	<u>3,156,892,011.05</u>	<u>1,064,737,221.31</u>

(2) Commitments of operating lease

As of the balance sheet date, the irrevocable operating leases that the Group has signed are as follows:

Item	Closing balance	Opening balance
Minimum lease payment of irrevocable operating lease:		
1 year subsequent to balance sheet date	167,304,631.78	116,778,536.53
2 year subsequent to balance sheet date	123,588,009.54	108,790,462.05
3 year subsequent to balance sheet date	112,265,610.73	113,892,279.49
Over 3 year subsequent to balance sheet date	<u>279,080,618.55</u>	<u>247,566,091.45</u>
Total	<u>682,238,870.59</u>	<u>587,027,369.52</u>

Note: Operating lease rent recognized into profit or loss for the period from January to June of year 2019 was RMB 109,704 thousand (January to June of year 2018: RMB 55,239 thousand)

(3) As on 30 June 2019, the Group has no unrecognized commitment related to investment in joint ventures.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XII. COMMITMENTS OR CONTINGENCY (Continued)

1. Significant Commitments (Continued)

(4) Other commitments

- ① The Group's share of the capital expenditures commitments of the joint ventures is as follows:

Item	Closing balance	Opening balance
Buildings, machineries and equipments	<u>291,500.00</u>	<u>5,000.00</u>
Total	<u>291,500.00</u>	<u>5,000.00</u>

- ② Capital expenditures commitments authorized by the management but are not yet contracted for:

Item	Closing balance	Opening balance
Buildings, machineries and equipments	<u>1,985,927,900.91</u>	<u>877,784,270.00</u>
Commitments on external investments	<u>–</u>	<u>320,000,000.00</u>
Total	<u>1,985,927,900.91</u>	<u>1,197,784,270.00</u>

- ③ Fulfillment of commitments for the prior year

The Group has fulfilled the capital expenditures and operating lease commitments as on 30 June 2019.

XII. COMMITMENTS OR CONTINGENCY *(Continued)*

2. Contingencies

(1) Alliance BMP's put option

According to the Equity Transfer Contract entered into by the listed company, Alliance BMP Limited (hereinafter referred to as "Alliance BMP") and GP Corp., the listed company granted Alliance BMP a put option. Alliance BMP can choose to sell its remaining 20% equity of GP Corp. to the listed company within the exercise period.

The exercise period of the put option starts from the day six months subsequent to the settlement date, on which the listed company buys 30% equity of GP Corp. held by Alliance BMP in cash from Alliance BMP, to anytime within thirty-six months subsequent to the settlement date. Within the exercise period, Alliance BMP has the right (no obligation) to transfer all of its remaining equity of GP Corp. to Guangyao Baiyunshan according to the Contract. Guangyao Baiyunshan is obliged to accept the equity according to the Contract.

If Alliance BMP exercises the put option, the exercise price of the put option shall be determined based on the valuation result by the qualified independent valuer. The transaction price shall not be lower than the transaction consideration adjusted for the 30% equity of GP Corp., and should be within the scope accepted by the relevant laws and regulations, normative documents, regulatory policies of Chinese law in respect of the management of state-owned assets, China Securities Regulatory Commission, Shanghai Stock Exchange and/or Hong Kong Exchanges and Clearing Limited. If GP Corp. has an increase in capital or the board of director makes a resolution to pay dividends to shareholders subsequent to the signature date but prior to the date on which Alliance BMP exercises the put option, the listed company and Alliance BMP shall take the impact of such capital increase or dividends into consideration and make corresponding adjustments with the same proportion to the transaction price. After the listed company accepts the equity and completes the purchase of the remaining 20% equity of GP Corp., GP Corp. shall be a wholly-owned subsidiary of the listed company.

If Alliance BMP does not exercise the put option, the listed company still holds 80% equity of GP Corp, and GP Corp. is still a holding subsidiary of the listed company.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XII. COMMITMENTS OR CONTINGENCY *(Continued)*

2. Contingencies *(Continued)*

(2) Jin Ge income distribution did not reach an agreement

In December 2001, Baiyunshan Pharmaceutical General Factory, Pharmaceutical Science and Technology Company and other units signed the “Agreement”, stipulating that the new drug declaration (sildenafil citrate) change reporting unit is Baiyunshan Pharmaceutical General Factory, Baiyunshan Technology Company, It is determined that Baiyunshan Pharmaceutical General Factory is a production unit, and Baiyunshan Science and Technology Company owns all the property rights and benefits of applying for new drugs. In 2003, Baiyunshan Pharmaceutical General Factory and Baiyunshan Science and Technology Company obtained the new drug certificate. Due to the influence of the patent protection period of the original research drug, Baiyunshan Pharmaceutical General Factory failed to obtain the production approval and was not actually put into production.

In 2012, Baiyunshan Pharmaceutical Factory restarted the registration of the production of sildenafil citrate tablets. After investing a lot of manpower and resources, Baiyunshan Pharmaceutical Factory and Guangzhou Baiyunshan Pharmaceutical Group Co., Ltd. Baiyunshan Chemical Pharmaceutical Factory (“Baiyunshan Chemical Pharmaceutical Factory”) obtained the production batch of sildenafil citrate tablets and the production batch of raw materials in July 2014 and August 2014 respectively.

After obtaining the production approval of sildenafil citrate tablet, Baiyunshan Pharmaceutical Factory obtained several patents such as Jin Ge pink tablets (BYS) and sildenafil citrate raw materials. The trademark “Jin Ge” registered by Baiyunshan Pharmaceutical General Factory was approved as the drug product name, and the “Jin Ge” trademark was exclusively owned by the company. At the first shareholder meeting and the fifth board meeting of Baiyunshan Technology Co., Ltd. in 2015, Beijing Kangyeyuan proposed to sell the Baiyunshan Pharmaceutical General Factory in order not to affect the marketing of the products. Regarding the issue of Jin Ge’s rights and interests, between the shareholders of the two sides, Baiyunshan Technology Co., Ltd. and Baiyunshan Pharmaceutical General Factory need to discuss and finalize. Baiyunshan Pharmaceutical Factory has carried out a large amount of market research, marketing planning, channel investment and brand building work for Jin Ge’s sales. Jin Ge has achieved good sales performance since its listing.

Affected by changes in the patent protection period of the original research drug and the actual cooperation mode between the two parties, in view of the different contributions of the parties in the process of research and development, production and operation of King Ge, in order to safeguard the interests of all parties, avoid the impact of income distribution disputes on Jin Ge’s good development trend, the representatives of the two shareholders have conducted many consultations on Jin Ge’s property rights and benefits, but the two sides have not been able to reach an agreement.

XII. COMMITMENTS OR CONTINGENCY *(Continued)*

2. Contingencies *(Continued)*

(2) Jin Ge income distribution did not reach an agreement *(Continued)*

In terms of related income distribution, Baiyunshan Pharmaceutical General Factory has reasonably estimated the company's due income based on the contribution of Baiyunshan Technology Co., Ltd. to Jin Ge, and made corresponding provisions, but the shareholders of both parties have not yet reached the income distribution. Consensus, the company is temporarily unable to calculate the specific impact of the company's current or future profits.

(3) Please refer to Note XIV. (1) for contingencies related to litigation.

XIII. EVENTS AFTER THE BALANCE SHEET DATE

As of the date of this report, the company has non-adjustment items in the material balance sheet date.

XIV. OTHER SIGNIFICANT MATTERS

1. Litigations

(1) Litigation of the Group's Subsidiary A

- (a) Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. filed a claim with the Court on the unreceived payment of RMB 36,880 thousand against the Group's Subsidiary A on 5 February 2015, and claimed compensation for the due payment and the overdue interest.

Pursuant to the Paper of Civil Judgment numbered (2015) SuiYueFaMinErChuZi No.328-3 issued by the People's Court of Guangzhou Yuexiu District on 14 March 2016, the prosecution by Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. was dismissed.

On 23 March 2016, Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. lodged an appeal.

Pursuant to Paper of Civil Judgment numbered (2016) Yue01MinZhong No.10682 issued by the Intermediate People's Court of Guangzhou on 16 December 2016, Paper of Civil Judgment numbered (2015) SuiYueFaMinErChuZi No.328-3 issued by the People's Court of Guangzhou Yuexiu District was quashed, and the case was referred to the People's Court of Guangzhou Yuexiu District.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

1. Litigations *(Continued)*

(1) Litigation of the Group's Subsidiary A *(Continued)*

(a) *(Continued)*

On 5 February, 2018, the People's Court of Guangzhou Yuexiu District rendered a judgment of the first instance that: lacking sufficient fact and without merit, the claims of Guangdong Guangsheng Nonferrous Metal Group Co., Ltd., which seeks for compensation from Subsidiary A, were dismissed by the Court because Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. failed to present evidence to prove that the goods involved had been delivered to Subsidiary A. Hence, Subsidiary A had no need to pay the due payment and the overdue interest mentioned in the above case.

On 12 March 2018, Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. lodged an appeal against the case. On August 30, 2018, the second trial was held in the Intermediate People's Court of Guangzhou. On November 6, 2018, the Intermediate People's Court of Guangzhou made a Paper of Civil Judgment numbered 2018 Yue01MinZhong No.12715, and decided that the appeal of Guangdong Guangsheng Nonferrous Metals Group Co., Ltd. was not established. The appeal was dismissed, and the original judgment was upheld.

Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. filed a claim against Subsidiary A for the unreceived payment of RMB 18,440 thousand on 4 February 2015, and required Subsidiary A to pay the due payment and the overdue interest.

Pursuant to Paper of Civil Judgment numbered (2015) SuiLiFaMinErChuZi No.774-3 issued by the People's Court of Guangzhou Liwan District on 21 December 2015, the prosecution by Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. was dismissed, and transferred to public security organization to handle as criminal case. Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. has lodged an appeal.

Pursuant to Paper of Civil Judgment numbered (2016) Yue01MinZhong No.3446 issued by the Intermediate Court of Guangzhou on 16 December 2016, Paper of Civil Judgment numbered (2015) SuiYueFaMinErChuZi No.774-3 issued by the People's Court of Guangzhou Liwan District was quashed, and the case was referred to the People's Court of Guangzhou Liwan District.

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

1. Litigations *(Continued)*

(1) Litigation of the Group's Subsidiary A *(Continued)*

(a) *(Continued)*

On 27 December 2017, the People's Court of Guangzhou Liwan District made a civil judgment that all the claims of Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. were dismissed.

On 10 January 2018, Guangdong Guangsheng Nonferrous Metal Group Co., Ltd. appealed to the Intermediate People's Court of Guangzhou. On 9 May 2018, the meeting was held at the Intermediate People's Court of Guangzhou. The judgment made by the Intermediate People's Court of Guangzhou on 27 August on the second trial of the re-examination of the Guangsheng case, case number: (2018) Yue01MinZhong No.6503, dismissed the appeal of Guangsheng and upheld the original judgment. On 21 September 2018, the Intermediate People's Court of Guangzhou issued a Proof for the effectuation of the judgment.

On January 4, 2019, Guangdong Guang Sheng Nonferrous Metals Group co., LTD. filed a claim against Subsidiary A to Guangzhou Tianhe district people's court, the request for informal lending dispute case ordered Subsidiary A together with five other defendants to repay the principal and RMB 36 million from the date of payments to the actual repayment date, according to the annual interest rate to pay capital takes up 6% of the interest during the period of RMB 9,060,000.

On February 18, 2019, Subsidiary A filed a jurisdictional objection to the people's court of Tianhe district, Guangzhou. On April 30, 2019, the people's court of Tianhe district of Guangzhou issued a civil order (2018) no. 29792 of the early days of the People's Republic of Guangdong 0106, and ruled to dismiss the objection to the jurisdiction of Subsidiary A.

On May 5, 2019, Subsidiary A submitted the petition of objection to jurisdiction to the people's court of Tianhe district, Guangzhou. In view of the jurisdiction objection raised by Subsidiary A, the court date of this case has been rescheduled and has not been determined.

Guangdong Guangsheng Investment Group Energy Co., Ltd. filed a claim with the Court on the unreceived payment of RMB 47,400 thousand against the Group's Subsidiary A on 25 December 2014, and seek for freezing the bank accounts of Subsidiary A, and required Subsidiary A to pay the due payment and the overdue interest.

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For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

1. Litigations *(Continued)*

(1) Litigation of the Group's Subsidiary A *(Continued)*

(a) *(Continued)*

Pursuant to Paper of Civil Judgment numbered (2015) SuiLiFaMinErChuZi No.454-1 to No.468-1 issued by the People's Court of Guangzhou Liwan District on 21 December 2015, the prosecution by Guangdong Guangsheng Investment Group Energy Co., Ltd. was dismissed, and the case was transferred to public security organization to handle as criminal case. Guangdong Guangsheng Investment Group Energy Co., Ltd. lodged an appeal to the Intermediate People's Court of Guangzhou.

Pursuant to a total of 15 Paper of Civil Judgments numbered (2016) Yue01MinZhong No.3437 to No. 3445, No.5158 to No. 5163 issued by the Intermediate Court of Guangzhou on 16 December 2016, a total of 15 Paper of Civil Judgments numbered (2015) SuiLiFaMinErChuZi No.454-1 to No. 468-1 issued by the People's Court of Guangzhou Liwan District was quashed, and the case was referred to the People's Court of Guangzhou Liwan District.

On 27 December 2017, the People's Court of Guangzhou Liwan District made a civil judgment that all the claims of Guangdong Guangsheng Investment Group Energy Co., Ltd. were dismissed.

On 4 January 2018, Guangdong Guangsheng Investment Group Energy Co., Ltd. appealed to the Intermediate People's Court of Guangzhou. The second instance review of the case was tried at the Intermediate People's Court of Guangzhou on 9 May 2018 and a court order was to be made.

On 6 November 2018, the Intermediate People's Court of Guangzhou finalized the judgment, Guangdong Guangsheng Investment Group Energy Co., Ltd. could not prove that it had delivered the goods involved to Subsidiary A. The appeal was finally dismissed, and the original judgment was upheld considering the fact that a sales contract between the two parties existed and the goods had been delivered so that Subsidiary A had to pay is lack of evidence.

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

1. Litigations *(Continued)*

(1) Litigation of the Group's Subsidiary A *(Continued)*

(a) *(Continued)*

According to professional opinions provided by external lawyers, upstream suppliers of Subsidiary A could not provide Delivery Orders which can prove that the goods had been delivered to Guangzhou Defenghang Petrochemical Co., Ltd. and Guangzhou Tongtai Fuel Chemical Co., Ltd., thus the debtor-creditor relationship was not proven. Subsidiary A may not need to pay to the upstream suppliers, and there are no overdue accounts receivable.

With the assessment of the case and the consideration of the professional opinions provided by external lawyers, the management of Subsidiary A made separate provision for bad debts for both the accounts receivable for Guangzhou Defenghang Petrochemical Co., Ltd. and Guangzhou Tongtai Fuel Chemical Co., Ltd., with a provision rate of 10%. The amounts that had been paid, which includes other receivables of RMB 10,315.7 thousand of Guangzhou Defenghang Petrochemical Co., Ltd., and accounts receivable of RMB 10,541.8 thousand of Sinogas (Zhuhai) Petrochemical Co. Ltd., made provision for bad debts, with a provision rate of 100%.

(b) On November 11, 2014, Guangzhou Linhai trading industry co., ltd. sued to the court on the grounds that Subsidiary A of the group did not pay RMB 8,364.9 thousand in accordance with the contract, requiring Subsidiary A to pay the due payment and overdue interest.

On December 30, 2015, Guangzhou Liwan district people's court issued (2014) civil judgment no. 2424, 2425-4 of Guangzhou Liwan district people's court, and ordered Subsidiary A to pay due goods payment and overdue interest to Guangzhou Linhai trading industry co., LTD.

On December 21, 2016, the intermediate people's court of Guangzhou issued the civil judgment on (2016) no. 7733 and 7734 of Guangdong 01 minzhong district, and decided to revoke the civil judgment no. 2424 and 2425 of guangzhou liwan district people's court (2014).And rejected the appellee Guangzhou llnhai trade industrial co., LTD.

On November 7, 2017, the higher people's court of Guangdong province issued (2017) yuemin shen 6100 civil order, rejecting the retrial application of Guangzhou Linhai trade industry co., LTD.

Notes to the Financial Statements

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(Unless otherwise stated, amount shall be expressed in RMB.)

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

1. Litigations *(Continued)*

(1) Litigation of the Group's Subsidiary A *(Continued)*

(b) *(Continued)*

On March 15, 2018, Subsidiary A received from Guangzhou city people's procuratorate issued check KongShen accused people are subject to supervision by (2018) no. 357 of the civil case acceptance notice, content at Guangzhou Linhai trade industrial co., LTD. With Subsidiary A business contract dispute case, leads to the Guangzhou intermediate people's court (2016), Guangdong people throughout 7733, 01 civil referee no. 7734 as a result, apply to the Guangzhou municipal people's procuratorate for supervision. The procuratorate has accepted the case.

On July 13, 2018, Subsidiary A received Guangzhou municipal people's procuratorate of Guangzhou check people (rows) (2018) 44010000 573, Guangzhou check people(rows) supervisor (2018) 44010000 574 which shows not support supervision application decision, decision according to the rules of the people's procuratorate civil litigation supervision (try out), the provisions of article ninety of the people's procuratorate decides not to support the supervision application of Guangzhou Linhai trade industrial co., LTD.

On May 17, 2019, Guangzhou Linhai trading industry co., ltd. filed two lawsuits respectively with the people's court of Nansha district, Guangzhou regarding the above matters on the basis of two contracts, requesting to order subsidiary A and another defendant Hainan Lanhui new energy development co., ltd. to pay off the loan, interest, overdue interest and overdue repayment loss.

In one case, the loan amount was RMB 4,031,300, the loss of overdue repayment was RMB 228,900, the interest was RMB 121,000, and the overdue interest was RMB 3,764,000.

In the other case, the loan amount is RMB 4,031,300, the loss of overdue repayment is RMB 228,900, the interest is RMB 181,500, and the overdue interest is RMB 3,756,000.

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

1. Litigations *(Continued)*

(1) Litigation of the Group's Subsidiary A *(Continued)*

(b) *(Continued)*

On June 17, 2019, Subsidiary A filed two jurisdictional objections to the people's court of Nansha district, Guangzhou. On July 9, 2019, the people's court of Nansha district of Guangzhou issued A civil order {(2019) no. 3946 of Guangdong 0115 People's Republic of China and (2019) no. 3947 of Guangdong 0115 People's Republic of China}, and ruled to reject the objection of jurisdiction raised by Subsidiary A.

On July 18, 2019, Subsidiary A submitted the petition of objection to jurisdiction to the people's court of Nansha district, Guangzhou. In view of the jurisdiction objection raised by subsidiary A, the court date of this case has been rescheduled and has not been determined.

As of the date of the report, the above cases are still pending. On the basis of full reference to the professional opinions of external lawyers, the management of Subsidiary A evaluated the case and concluded that it was unlikely for subsidiary A to lose the case and cause direct economic losses.

(c) On September 6, 2018, Guangdong Guangsheng Nonferrous Metals group co., LTD. filed a claim against Subsidiary A to Guangzhou Tianhe district people's court, the request for informal lending dispute case ordered Subsidiary A together with five other defendants to repay the principal and RMB 18 million from the date of payments to the actual repayment date, according to the annual interest rate to pay capital takes up 6% of the interest during the period of RMB 4,216,500.

On October 23, 2018, the first instance of this case was held in the people's court of Tianhe district, Guangzhou. People's court of Tianhe district, Guangzhou. On March 5, 2019, the first-instance stage of the case was conducted in the Tianhe District People's Court of Guangzhou. On June 24, 2019, the second court session of this case was held in Tianhe district people's court of Guangzhou. Until now, the case is still awaiting a court ruling.

As of the date of the report, the above cases are still pending. On the basis of full reference to the professional opinions of external lawyers, the management of subsidiary A evaluated the case and concluded that it was unlikely for Subsidiary A to lose the case and cause direct economic losses.

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(Unless otherwise stated, amount shall be expressed in RMB.)

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XIV. OTHER SIGNIFICANT MATTERS (Continued)

1. Litigations (Continued)

(1) Litigation of the Group's Subsidiary A (Continued)

- (d) Subsidiary A with Hainan Nanhui new energy development co., LTD. (hereinafter referred to as the "Nanhui"), Guangzhou Yongyi energy technology development co., LTD. (hereinafter referred to as the "Yongyi") had business contract dispute. Nanhui and Yongyi used goods delivery lists of fraud (two companies' legal representative are Dajun Zhang) after Subsidiary A finished the payment referring the contract. But the actual is no goods, by the means to defraud the plaintiff's payment for goods, so the plaintiff is entitled to claim refund payment to the Yongyi company, at the same time, because Nanhui company for Yongyi "guarantee", issued by therefore guarantee responsibility. Subsidiary A filed a lawsuit against Lanhui company, Yongyi company and Zhongshan Shijinneng battery co., Ltd. in the case of sales contract dispute, requiring the two defendants to jointly return the payment of RMB 3 million and about RMB 630,000 of interest to Subsidiary A, totaling about RMB 3.63 million yuan.

After the hearing and combined with the trial results of the first-instance court, Subsidiary A applied to the first-instance court for withdrawal of the lawsuit. On December 3, 2018, Liwan court of Guangzhou issued A civil order no. 2868-2 of (2018) early republic of Guangdong 0103, allowing Subsidiary A to withdraw the lawsuit.

The management of Subsidiary A evaluated the case situation, and combined with the opinions of external lawyers, it was estimated that the receivables would probably not be collected, so the bad debt provision should be set aside at 100% ratio.

(2) Other litigation of the Group's Subsidiary A

- (a) On March 26, 2019, subsidiary A filed A lawsuit against Fujian Boswell medical polymer co., Ltd. in Liwan district people's court of Guangzhou for contract dispute, requiring the defendant to return the payment of 11,185.5 thousand yuan and the overdue liquidated damages of about 1,657 thousand yuan to Subsidiary A, totaling about 13,512 thousand yuan.

On May 16, 2019, Guangzhou Liwan district people's court issued a civil order no. 2801 of the early days of the People's Republic of China (2019), ordering to freeze the bank account (capital: 650,000 yuan) of Fujian Boswell medical polymer co., LTD., and the 100% equity of its Fuzhou Conlite medical device co., LTD.

On May 22, 2019, Fujian Boswell medical polymer co., Ltd. filed a jurisdictional objection to the people's court of Liwan district court, Guangzhou.

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

1. Litigations *(Continued)*

(2) Other litigation of the Group's Subsidiary A *(Continued)*

(a) *(Continued)*

On June 5, 2019, Liwan district people's court of Guangzhou issued a civil order (2019) no. 2801 of Guangdong 0103 and the beginning of the republic of China, rejecting the objection of Fujian Bosewell medical polymer co., ltd. to the jurisdiction. In view of the other party's objection to jurisdiction, the court date of this case has been rescheduled and has not been determined.

According to the professional opinions of external lawyers, the management of Subsidiary A evaluated the case. Out of the principle of prudence, Subsidiary A set aside 5.93 million yuan for the inventory of the Bosewell project.

(b) On December 10, 2014, Subsidiary A of the group sued Hengshan Zhongkong international paper co., ltd. in Hengyang intermediate people's court of Hunan province for not paying 5,191.2 thousand yuan as per the contract, requiring it to pay the due payment and overdue interest.

On December 5, 2014, the people's court of Hengshan county, Hunan province, according to the application of Hengshan county urban and rural construction investment co., LTD., ruled to accept the bankruptcy liquidation case of Hengshan Zhongkong international paper co., LTD. The case between Subsidiary A and Hengshan Zhongkong international paper co., ltd. was not tried by the court.

On November 20, 2015, the bankruptcy administrator of Hengshan Zhongkong international paper co., LTD., based on the Hunan Hengyang public security bureau's issue reports claimed that the seal of Hengshan Zhongkong International Paper Co., Ltd., which is stamped in the relevant evidence materials provided by the subsidiary A, is inconsistent with the seal used and Subsidiary A is not its creditors. Subsidiary A has reported the matter to Liwan district economic investigation team of Guangzhou public security bureau on February 29, 2016.

At the end of 2015, the management of subsidiary A evaluated the case situation, and combined with the opinions of external lawyers, separately made bad debt provision for the above-mentioned receivables of RMB 5,191.2 thousand, with the provision ratio of 100%.

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(Unless otherwise stated, amount shall be expressed in RMB.)

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

1. Litigations *(Continued)*

(3) Litigation of the Group's Subsidiary G

- (a) On 27 December 2016, Guangzhou Keyun branch of Ping'an Bank Co., Ltd. filed a claim for the unreceived repayment from Guangdong Huaqiang Pharmaceutical Co., Ltd. (hereinafter referred to as "Huaqiang") of the loan obtained from a transfer of accounts receivable to the Group's Subsidiary G, against Huaqiang, and several guarantors, and Subsidiary G which is the debtor of the accounts receivable.

During the period from April to June of 2014, Huaqiang obtained the loan through transferring the accounts receivable due from Subsidiary G to Ping'an Bank without notifying Subsidiary G. Subsidiary G was the debtor of the accounts receivable but was not aware of the transfer and has paid the involved payments for goods of RMB 66,340 thousand to Huaqiang. Ping'an Bank alleged that Subsidiary G should repay payments for goods because Huaqiang did not repay the loan in time. On 10 August 2018, the case is tried at the Intermediate People's Court of Guangzhou.

On 29 December 2018, the first-instance judgment was received. The court of first instance dismissed all the claims of Ping'an Bank Co., Ltd. Guangzhou Branch Yun Branch to the Subsidiary G. After preliminary confirmation with the Intermediate People's Court of Guangzhou, no appeal was received from Ping'an Bank as of 28 February 2019.

After evaluating the case and considering the professional opinions provided by external lawyers, the management of Subsidiary G considered that the Subsidiary G was not responsible for the liabilities of the supplier to the bank. Therefore, no provision had been recognized.

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

1. Litigations *(Continued)*

(3) Litigation of the Group's Subsidiary G *(Continued)*

- (b) On July 24, 2015, the subsidiary G of the group filed a complaint against Hubei Hongqiao pharmaceutical co., LTD. (hereinafter referred to as "Hubei Hongqiao") to Wuhan intermediate people's court for payment of 27,725.1 thousand yuan in arrears, requiring it to pay a total of 37,124.8 thousand yuan in payment for goods, interest owed and liquidated damages, and implementing property preservation before the lawsuit.

On January 24, 2017, Wuhan intermediate people's court made a first-instance judgment on the case, ordering Hubei Hongqiao to pay a total of 27,725.1 thousand yuan in arrears to Subsidiary G as of the effective date of the judgment, as well as liquidated damages and interest loss of part of the payment (counting to the date of actual repayment of the arrears). The judgment has taken effect, and the defendant has not fulfilled the court's judgment. Subsidiary G has entrusted local lawyers to submit materials to the court for enforcement. In this case, pre-litigation property preservation measures have been taken before the prosecution to seal up and freeze the land use right and bank account under the name of Hubei Hongqiao. Up to now, the preserved property is still in the effective sealing and freezing state. The court has commissioned an appraisal agency to evaluate the property. In March 2018, the court informed that the evaluation report had been sent to Hongqiao, Hubei, and the court organized an auction. The auction was successful in October 2018. Next, the court will verify the rights and interests in accordance with relevant laws and draw up the distribution plan of auction money. In May 2019, Subsidiary G received the first execution payment of 4 million yuan distributed by the court.

The management of Subsidiary G evaluated the case situation and, based on the opinions of external lawyers, set up bad debt provision for the above-mentioned uncollected accounts receivable of RMB 23,725.1 thousand, with a provision ratio of 100.00%.

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(Unless otherwise stated, amount shall be expressed in RMB.)

XIV. OTHER SIGNIFICANT MATTERS (Continued)

1. Litigations (Continued)

(3) Litigation of the Group's Subsidiary G (Continued)

- (c) On 5 April 2017, the Group's Subsidiary G filed a claim against Guangxi Liuzhou Baicaotang Pharmaceutical Co., Ltd. (hereinafter referred to as "Liuzhou Baicaotang") for defaults on the payment for goods with an amount of RMB 14,443.5 thousand with the People's Court of Guangzhou Liwan District, requesting Liuzhou Baicaotang to pay the due payment and the overdue interest.

On 24 July 2018, the People's Court of Guangzhou Liwan District made a first-instance judgment and sentenced Liuzhou Baicaotang to pay the Subsidiary G a payment of RMB 14,443.5 thousand and the overdue interest which is charged on the payment at a rate of five ten thousandth per day since 1 January 2018 (calculated to the date of actual settlement of the arrears), and compensate Subsidiary G's lawyer fee of RMB 416 thousand and return the appraisal fee of RMB 44.8 thousand which Subsidiary G had paid within 10 days from the effective date of the judgment.

In this case, the pre-litigation property preservation measures were taken before the prosecution, and the property rights and bank accounts of Liuzhou Baicaotang were sealed up and frozen. Up to now, the preserved property in the previous period is still in a valid state of sealing up and freezing.

Baicaotang appealed in August 2018. The dispute was transferred to the Intermediate People's Court of Guangzhou. In January 2019, the second trial was held. In March 2019, the court issued the Second Judgment, which ruled that Subsidiary G won the case. In May 2019, Subsidiary G filed an application for enforcement.

After evaluating the case and considering the professional opinions provided by external lawyers, the management of Subsidiary G decided to make a provision for bad debts at the ratio of 100% to the above accounts receivable of RMB 14,443.5 thousand.

- (d) On 7 February 2018, the Group's Subsidiary G filed a claim with the court against Guangdong Zirui pharmacy Co., Ltd. for the arrears from its 2015-2017 replenishment of a total of RMB 2,341.9 thousand (a total of 39 cases). The court supported Subsidiary G's claim request that the Zirui pay for the replenishment, but dismissed the Subsidiary G's request of the interest of the overdue payment.

As at the reporting date, the total of 39 cases were all closed. The court finally decided that the total amount of these 39 cases was RMB 1,189.8 thousand which has been received by Subsidiary G.

XIV. OTHER SIGNIFICANT MATTERS (Continued)

1. Litigations (Continued)

(3) Litigation of the Group's Subsidiary G (Continued)

- (e) On 18 August 2016, the Group's Subsidiary G filed a claim against Guilin Pharmaceutical Group Co., Ltd. (hereinafter referred to as "Guilin Medicine") for a total overdue payment of RMB 4,130.8 thousand and applied for property preservation. The People's Court of Guangzhou made the final the judgment that Guilin Medicine is required to pay Subsidiary G the due payment of RMB 4,130.8 thousand, the liquidated damages (from 22 August 2014 to the date of the actual payment is made, at the rate of five ten thousandth per day), the legal fees, and the litigation fees and litigation preservation fees for this case within 10 days from the effective date of the judgment. Both the first and second trials succeeded, and the relevant assets were seized in full, including 3 sets of real estate. The Subsidiary G applied to the court for enforcement, and is waiting for the court to auction the seized property.

After evaluating the case and considering the professional opinions provided by external lawyers, the management of Subsidiary G decided to make a provision for bad debts at the ratio of 100% to the above accounts receivable of RMB 4,130.8 thousand.

- (f) On 29 March 2018, the Group's Subsidiary G filed a claim against Weihai Qinuo Medical Instruments Co., Ltd. (hereinafter referred to as "Qinuo Medical") to refund the Subsidiary G's prepayments of RMB 1,521.39 thousand in total. The case was judged on the first instance on 6 July 2018. According to the judgment of the first trial, Qinuo Medical was sentenced to pay RMB 951.39 thousand and the interest to Subsidiary G, and the insurance premium of RMB 5,000.00 yuan and the case acceptance fee of RMB 5,555.00 yuan were borne by Qinuo Medical. The Subsidiary G was dissatisfied with the judgment and has filed an appeal.

As at the reporting date, Subsidiary G had received the judgment of the second instance. The court of second instance ruled that Qinuo Medical paid the prepayment of RMB 1,521,390.00 together with relevant interests. Subsidiary G has applied to the people's court of Huancui district, Weihai city for enforcement, and the court has issued the report property order and enforcement notice to Qinuo Medical.

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(Unless otherwise stated, amount shall be expressed in RMB.)

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

1. Litigations *(Continued)*

(3) Litigation of the Group's Subsidiary G *(Continued)*

- (g) Sub-subsidiary J (whose parent company is Subsidiary G) filed a claim against Hebei Xinglin Pharmaceutical Co., Ltd. for arrear of RMB 2,797,654.40 together with relevant interest.

After the second trial of the case on 26 February 2018, the defendant, Hebei Xinglin Pharmaceutical Co., Ltd., applied for judicial identification on the authenticity of the "Contract seal of Hebei Xinglin Pharmaceutical Co., Ltd." on the "Purchase and Sales Contract" and on whether the signatures of "Su Xueliang" on the three documents were signed by Su Xueliang himself. On 8 May 2018, the third trial were opened for the sample discussion. On the morning of 18 May 2018, the Intermediate People's Court of Nanning chose Guangxi Guigongming Forensic Center as the judicial appraisal institution through plate lottery. On 18 December 2018, Sub-subsidiary J sent the original contract and receipt to the Guangxi Guigongming Forensic Center for appraisal. On 8 April 2018, the People's Court of Nanning Qingxiu District, Guangxi Zhuang Autonomous Region, continued to freeze the bank deposit of Hebei Xinglin Pharmaceutical Co., Ltd., the defendant, for RMB 2,842,153.00, and the freezing period was till 7 April 2019. On April 2019, the court went to Shijiazhuang to complete the freezing of the account amount 2,842,153 yuan of Hebei Xinglin Company, the basic bank account in Huainan branch of Hebei Bank. On July 18, 2019, the judgment was received and the court supported Subsidiary J all the claims.

After evaluating the case and considering the professional opinions provided by external lawyers, the management of Sub-subsidiary J decided to make a provision for bad debts at the ratio of 50% to the above accounts receivable.

- (h) On May 31, 2019, Sub-subsidiary K (whose parent company is Subsidiary G) filed a lawsuit against Guangzhou Laitai pharmaceutical co., ltd. for a dispute over sales contract, demanding the refund of the undelivered part of the payment and the disposal of the inventory of goods, involving an amount of 4,249,779.20 yuan, which has been accepted by the people's court of Yuexiu district, Guangzhou.

The management of Sub-subsidiary K evaluated the case situation, and combined with the opinions of external lawyers, Sub-subsidiary K lost the case and it was not likely to cause direct economic losses.

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

1. Litigations *(Continued)*

(4) Litigation against the Group's Sub-subsidiary H

On 7 September 2016, Huarun Guokang (Beijing) Pharmaceutical Co., Ltd. filed a claim for the unreceived medicine goods from Sub-subsidiary H to Huaqiang, a third party in the transaction against Sub-subsidiary H and required Sub-subsidiary H to repay the payment for medicine goods of RMB 15,297.1 thousand.

Huarun Guokang purchased medicine from Sub-subsidiary H in 2014 and paid RMB 15,297.1 thousand. The plaintiff sold the above-mentioned medicine to Huaqiang, the third party on 30 May 2014. As Sub-subsidiary H and the third party are located in the same city and the two companies are close to each other, Huarun Guokang and Sub-subsidiary H agreed to transport medicine directly to the third party to save the transportation expenses. Huarun Guokang filed a claim for the unreceived payment for goods against the third party to the People's Court of Beijing Fengtai District. The first instance was tried on 21 July 2016. As the third party claimed that it has no obligation for paying the payment for goods because no medicine has been received, Huarun Guokang required Sub-subsidiary H to return the payment for medicine of RMB 15,297.1 thousand. Sub-subsidiary H raised an objection to jurisdiction during the period of submitting statement of defense. On 19 December 2016, the Court overruled the objection to jurisdiction lodged by Sub-subsidiary H and Huaqiang.

On 12 September 2017, the Second People's Court of Beijing made the final judgment and Paper of Civil Judgment numbered (2017) Jing02MinXiaZhong No. 827. The Court overruled the objection to jurisdiction lodged by Sub-subsidiary H and affirmed the original judgment.

On 12 June 2018, the first session was tried by the People's Court of Beijing Fengtai District and the case is currently under trial.

On March 22, 2019, civil judgment of Beijing Fengtai district people's court (2016) Beijing 0106 min chu no. 19433 rejected the lawsuit request of China resources Guokang (Beijing) pharmaceutical co., LTD.

After evaluating the case and considering the professional opinions provided by external lawyers, the management of Sub-subsidiary H believed that the company had fulfilled the purchase and sales contract, made the payment to the supplier, and obtained the receipt confirmation form of Huarun Guokang which proved that it had fulfilled its supply obligation to Huarun Guokang. The management of Sub-subsidiary H expects no compensation and thus does not recognize any provisions.

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(Unless otherwise stated, amount shall be expressed in RMB.)

XIV. OTHER SIGNIFICANT MATTERS (Continued)

1. Litigations (Continued)

(5) Respond to prosecution of other subsidiaries of the Group

- (a) For the dispute between Wang Lao Ji Great Health, a wholly-owned subsidiary of the Company, and Wuhan Jiaduobao Beverage Co., Ltd. in Changsha City arising from the slogan of “The red cans herbal tea – national top sales-JDB”, “7 of 10 cans of herbal tea sold in China are JDB. Many more people drink JDB to avoid suffering from excessive internal heat. Many more people drink JDB as its formula is more authentic.” or “JDB is approved as a national intangible cultural heritage masterpiece” which constitute false propaganda, under both the 1st trial ((2013) ChangZhongMinWuChuZi No.00308) and the 2nd trial((2016) XiangMinZhong No.94), the slogan of Wuhan Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. constitute false propaganda, and the infringement was sentenced to stop. And according to the judgment of the first trial, Wuhan Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. were sentenced to pay Wang Lao Ji Great Health pecuniary loss of RMB 9,022,978.20 and reasonable rights protection fee of RMB 239,779.00. The court of the second trial upheld the judgment of the lower court except for the compensation of to RMB 6 million, which is paid to Wang Lao Ji Great Health. Wuhan Jiaduobao Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. was dissatisfied with the first-instance judgment and applied for a retrial to the high court. The Supreme Court decided to arraign this case on 23 December 2016 as there are some applicable issues of this case, with reference of (2017) ZuiGaoFaMinZai No. 155. The Supreme People’s Court started the trial on 30 November 2017. The case was tried on 8 March 2019, and is at a retrial stage at present. On August 16, 2019, received the judgment from the Supreme People’s Court: (1) the cancellation of the Hunan Provincial Higher People’s Court (2016) Xiangmin No. 94 civil judgment; (2) the abolition of the Changsha Intermediate People’s Court (2013) in Hunan Province. Minwu Chuzi No. 00308 civil judgment; (3) Wuhan Jiaduobao Beverage Co., Ltd. immediately ceased to publish in the “Xiaoxiang Morning News” on the effective date of this judgment, including “China can sell 10 cans of herbal tea 7 is Jiaduobao” Advertisements for advertising words and the immediate cessation of use and destruction of product packaging bearing the advertisement of “National Sales Leading Red Canned Herbal Tea – Jiaduobao”; (4) Hunan Fengcai Haorunjia Trading Co., Ltd. on the effective date of this judgment Immediately stop selling the Jiaduobao herbal tea with the slogan “National Leading Red Canned Herbal Tea – Jiaduobao” printed on the package; (5) Wuhan Jiaduobao Beverage Co., Ltd. will compensate within 10 days from the effective date of this judgment to Guangzhou Pharmaceutical Group, Guangzhou Wang Lao Ji Da Great Health economic losses and reasonable expenses totaled RMB 1,000,000; (6) Rejected Guangzhou Pharmaceutical Group, Guangzhou Wang Lao Ji Great Health other litigation requests; The case acceptance fees for the first and second instance cases totaled RMB 165,200, one part RMB 99,120.00 was paid by Wuhan Jiaduobao Beverage Co., Ltd., and Guangzhou Pharmaceutical Group Co., Ltd. and Guangzhou Wanglaoji Health Industry Co., Ltd. jointly paid one other part RMB 66,080.

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

1. Litigations *(Continued)*

(5) Respond to prosecution of other subsidiaries of the Group *(Continued)*

(a) *(Continued)*

For the dispute between Wang Lao Ji Great Health, a wholly-owned subsidiary of the Group, and JDB (China) Beverage Co., Ltd. in Chongqing City arising from the slogan of “The red cans herbal tea – national top sales-renamed JDB”, both the first trial (case number: (2013) YuWuZhongMinFaChuZi No.00345), and the second trial (case number: (2014) YuGaoFaMinZhongZi No.318) made the judicial decision that the slogan involved in the case constitutes false propaganda and JDB (China) Beverage Co., Ltd. was sentenced to stop the infringement. And according to the judgment of the first trial, JDB (China) Beverage Co., Ltd. were required to pay Wang Lao Ji Great Health pecuniary loss and reasonable expenditures on safeguarding the legal rights of RMB 400,000.00. The court of the second trial upheld the judgment of the first trial. JDB (China) Beverage Co., Ltd. was dissatisfied with the first-instance judgment and applied for a retrial to the Supreme Court. The Supreme Court decided to arraign this case on 23 December 2016 as there are some applicable issues of this case, with reference of (2017) ZuiGaoFaMinZai No. 151. The Supreme People’s Court started the first trial and second trial on 30 November 2017 and 8 March 2019 respectively. On August 16, 2019, received the judgment from the Supreme People’s Court: (1) to revoke the civil judgment of Chongqing Higher People’s Court (2014) Gao Famin Zhong Zi Zi No. 00318; (2) to revoke the Fifth Intermediate People’s Court of Chongqing (2013); (3) Dismissed the claim of Guangzhou Wang Lao Ji Great Health; (4) The total acceptance fee for the first and second instance cases was 93,600 yuan, which was borne by Guangzhou Wang Lao Ji Great Health.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

1. Litigations *(Continued)*

(5) Respond to prosecution of other subsidiaries of the Group *(Continued)*

- (b) For the dispute between Wang Lao Ji Great Health, a wholly-owned subsidiary of the Group, and Guangdong Jiaduobao Beverage Co., Ltd. in Guangzhou City arising from the slogan of “I, Wang Jianyi, am the great-great grandson of Wang Lao Ji”, “I gave the exclusive formula to the JDB Group.”, “The herbal tea produced by Jiaduobao is prepared by my ancestral exclusive formula” and so on which constitute false propaganda and commercial slander, under both the first trial (case number: (2014) SuiZhongFaZhiMinChuZi No.2) and the second trial (case number: (2016) YueMinZhong No.293), the slogan of JDB (China) Beverage Co., Ltd. constitute false propaganda, and the infringement was sentenced to stop and make an apology. According to the judgment of the first trial, Guangdong JDB Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. were sentenced to pay Wang Lao Ji Great Health pecuniary loss and reasonable expenditures on safeguarding the legal rights of RMB 5,000,000.00. The court of the second trial upheld the judgment. Guangdong JDB Beverage Co., Ltd. and JDB (China) Beverage Co., Ltd. were dissatisfied with the first-instance judgment and applied for a retrial to the Supreme Court, numbered (2017) ZuiGaoFaMinShen No. 509. The Supreme People’s Court started the trial on 27 December 2017, and the decision of whether to accept its retrial application or not is under trial.

As at the reporting date, the case is currently at the review stage. The management of the Group considered that it is not probable that it will lose the case which results in direct economic loss after the assessment which takes the professional opinions provided by external lawyers into consideration.

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

1. Litigations *(Continued)*

(5) Respond to prosecution of other subsidiaries of the Group *(Continued)*

- (c) In year 2015, Guangzhou Hao Cheng Estate Management Development Co., Ltd. filed a claim to the dispute of lease contract by the Group's Subsidiary B and applied for termination to contract and compensation for the loss. Subsidiary B also filed a claim for the unreceived rental and penalty of Guangzhou Hao Cheng Estate Management Development Co., Ltd and its guarantor.

Pursuant to Paper of Civil Judgment numbered (2015) SuiYueFaMinSanChuZi No.186, issued by the People's Court of Guangzhou Yuexiu District on 30 June 2017, Lease Contract and Lease Supplementary Contract entered into by Guangzhou Hao Cheng Estate Management Development Co., Ltd. and Subsidiary B on 28 February 2014 was terminated on 9 September 2016. Subsidiary B shall fully pay Guangzhou Hao Cheng Estate Management Development Co., Ltd. the compensation of RMB 1,955,325.00 within 10 days from the date when this Paper of Civil Judgment takes effect, and other claims of Guangzhou Hao Cheng Estate Management Development Co., Ltd. were dismissed.

Pursuant to Paper of Civil Judgment numbered (2015) SuiYueFaMinSanChuZi No.639, issued by the People's Court of Guangzhou Yuexiu District on 30 June 2017, Guangzhou Hao Cheng Estate Management Development Co., Ltd. shall pay Subsidiary B penalty and rental of to RMB9,800 thousand for the period from 1 October 2014 to 31 January 2015, its guarantor shall undertake joint liability for the debts, and other claims of Subsidiary B were dismissed.

Pursuant to Paper of Civil Judgment numbered (2016) Yue0104MinChu No.100 issued by the People's Court of Guangzhou Yuexiu District on 30 June 2017, Guangzhou Hao Cheng Estate Management Development Co., Ltd. shall pay Subsidiary B rental and the penalty of RMB 33,205 thousand for the period from 1 February 2015 to 31 December 2015. Its guarantor shall undertake joint liability for the debts. Other claims of Subsidiary B were dismissed.

Guangzhou Hao Cheng Estate Management Development Co., Ltd. refused to accept the above-mentioned civil judgment and lodged an appeal. Subsidiary B filed a claim against Guangzhou Hao Cheng Estate Management Development Co., Ltd. and its guarantor on delays in paying rental and breach of contract damages for the period from 1 January 2016 to 9 September 2016 numbered (2018) Yue0104Minchu No. 813.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

1. Litigations *(Continued)*

(5) Respond to prosecution of other subsidiaries of the Group *(Continued)*

(c) *(Continued)*

The final judgment on 28 May 2018 included three cases in which Subsidiary B recovered the rent arrears from October 2014 to December 2015. The final judgment announced that rental shall be halved based on the contracted rental, and the interest on the rental payable was calculated based by the bank benchmark interest rate of similar loans. The estimated residual value of the renovation investment was 50% of the other leases except for the RMB 1,955,325.00 which was agreed by Subsidiary B.

On 28 June 2018, Subsidiary B and Guangzhou Hao Cheng Estate Management Development Co., Ltd. signed the Settlement Agreement after Guangzhou Hao Cheng Estate Management Development Co., Ltd. paid the principal and interest of RMB 27,966,723.12 to Subsidiary B and provided invoice of valuation fee of RMB 128,000, assets of RMB 230,000, invoice of RMB 1,725,325, and cash voucher of RMB 2,278,382.50 to Subsidiary B, and received the receipt from Subsidiary B for receiving refund of the deposit of RMB 5,800,000. On 29 June, Subsidiary B handed in the written application of unblocking the assets of Haocheng and Cai Song, and the written application of withdrawal of the appealed but not judged case which was numbered as (2018) Yue0104Minchu No. 813.

Both parties of the case had settled and had fulfilled the main part of the settlement agreement. Some legal settlement documents for the case are still being processed. Cai Song, one of the defendants in the latter two cases, filed a retrial application (case number: (2018) YueMinShen No. 12750 & No. 12751). Subsidiary B has filed a reply to the High Court, and the retrial application is still under review.

As at the reporting date, the management of Subsidiary B considered that it is not probable that it will lose the case which results in direct economic loss after the assessment which takes the professional opinions provided by external lawyers into consideration. The management of Subsidiary B does not recognize any provisions.

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

1. Litigations *(Continued)*

(5) Respond to prosecution of other subsidiaries of the Group *(Continued)*

- (d) On June 1, 2015, Guangzhou Ruiju enterprise management information consulting co., ltd. sued Subsidiary F of the group over a legal service contract dispute, requiring Subsidiary F to pay 22,421,800.00 yuan of legal service fee and overdue interest.

On January 8, 2016, Guangzhou Nansha district people's court made a civil judgment of first instance (2015), which ordered F subsidiary to pay 13,192,825.00 yuan of service fee to Guangzhou Ruiju enterprise management information consulting co., ltd. within 10 days after the judgment took legal effect.

Subsidiary F and Guangzhou Ruiju enterprise management information consulting co., ltd. both refused the first-instance judgment and filed an appeal to the intermediate people's court of Guangzhou. On May 17, 2016, the intermediate people's court of Guangzhou made the second instance civil judgment (2016) Guangdong01 minzhong 5137, ordering F subsidiary to pay 4,352,350.00 yuan of service fee to Guangzhou Ruiju enterprise management information consulting co., ltd. within 10 days after the judgment takes legal effect. Subsidiary F has paid the above service fee.

Guangzhou Ruiju enterprise management information consulting co., ltd. still refuses to accept the judgment of the second instance and applies to the higher people's court of guangdong province for retrial on September 1, 2016. On October 24, 2016, the higher people's court of guangdong province issued the "notice of response to civil application for retrial" to F subsidiary [case no.:(2016) yuemin shen 6609], informing Subsidiary F about the response. On December 13, 2017, the higher people's court of Guangdong province held a hearing to decide whether to accept the retrial application of Guangzhou Ruiju enterprise management information consulting co., LTD.

On March 12, 2018, the higher people's court of Guangdong province issued a ruling rejecting the retrial application of Guangzhou Ruiju enterprise management information consulting co., LTD.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

1. Litigations *(Continued)*

(5) Respond to prosecution of other subsidiaries of the Group *(Continued)*

(d) *(Continued)*

On September 12, 2018, Guangzhou Ruiju enterprise management information consulting co., Ltd. once again filed a lawsuit with the people's court of Nansha district, Guangzhou for legal service contract dispute, requiring F subsidiary to pay RMB 18,069,450.00 legal service fee and overdue interest. The trial began on October 23, 2018.

On November 15, 2018, Guangzhou Ruiju enterprise management information consulting co., Ltd. applied to the court to withdraw the lawsuit. On November 19, 2018, the people's court of Nansha district, Guangzhou issued a ruling to allow Guangzhou Ruiju enterprise management information consulting co., Ltd. to withdraw the lawsuit.

On March 17, 2019, Guangzhou Ruiju enterprise management information consulting co., LTD in Fujian province to the subsidiary filed suit. On March 28, Subsidiary F is put forward to the jurisdiction of the court, on April 17, 2019 in Longyan civil ruling, the second instance, the court ruled that the case transferred to the city of Guangzhou Nansha district people's court trial, on May 31, 2019, Longyan city intermediate people's court ruled make a second instance of civil ruling will be the case transferred to the city of Guangzhou Nansha district people's court for trial.

On March 24, 2019, Guangzhou Ruiju enterprise management information consulting co., LTD in Yueyang city of Hunan province to the subsidiary filed a lawsuit. On March 28 Subsidiary F sued is put forward to the jurisdiction of the court, on April 22, 20,19, Yueyang LouQu first-instance civil ruling, the people's court ruled that the case transferred to the city of Guangzhou Nansha district people's court for trial.

The above cases are all multiple lawsuits filed by Guangzhou Ruiju enterprise management information consulting co., Ltd. for the same incident with different reasons. The management of Subsidiary F has assessed the case situation, and it is expected that compensation will not be required, so it is not handled in accounting.

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

1. Litigations *(Continued)*

(5) Respond to prosecution of other subsidiaries of the Group *(Continued)*

- (e) Yinghui Food Store filed a claim for the advance payment of expenses on behalf of Subsidiary F with a total amount of RMB 2,130,444.00 in 2017. On 4 August 2017, the People's Court of Guangzhou Nan Sha District made a judgment of first instance and dismissed the appeal lodged by Yinghui Food Store. Yinghui Food Store was dissatisfied with the judgment of the first instance, and lodged an appeal to the Intermediate People's Court of Guangzhou on 21 August 2017, which was numbered (2017) Yue01minzhong No. 19018. The Intermediate People's Court of Guangzhou had held three inquiries on 7 November 2017, 21 November 2017 and 19 December 2017 respectively.

On 9 April 2018, the Intermediate People's Court of Guangzhou rendered a judgment of the second instance which dismissed the appeal lodged by Yinghui Food Store in Kunming Pan Long District and affirmed the original judgment.

On 4 September 2018, Yinghui Food Store filed a retrial application with the Higher People's Court of Guangdong Province.

As at the reporting date, the Guangdong Higher People's Court's ruling concerning about whether to accept the application for retrial of Yinghui Food Store or not is still under trial. With the assessment of the case and the consideration of the professional opinions provided by external lawyer, the management of Subsidiary F has evaluated the case and considered that it is unlikely that Subsidiary F will suffer from direct economic losses.

- (f) In 2018, Dali Baoxunfeng Trading Co., Ltd. filed a claim against the Group's Subsidiary F and requested Subsidiary F to pay a total of RMB 2,538,709.83 for the prepayments Baoxunfeng paid on behalf of Subsidiary F. On 7 September 2018, the People's Court of Guangzhou Nansha District made a first-instance judgment that sentenced Subsidiary F to pay Dali Baoxunfeng Trading Co., Ltd. RMB 39,244 for goods received and RMB 4,551.43 for the prepayment Baoxunfeng paid on behalf of Subsidiary F, and dismissed all other claims of Dali Baoxunfeng Trading Co., Ltd. Dali Baoxunfeng Trading Co., Ltd. was dissatisfied with the judgment of the first instance and filed an appeal with the Intermediate People's Court of Guangzhou on 10 September 2018. The case number of the second instance is (2018) Yue01MinZhong No. 21300.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

1. Litigations *(Continued)*

(5) Respond to prosecution of other subsidiaries of the Group *(Continued)*

(f) *(Continued)*

On 26 December 2018, the Intermediate People's Court of Guangzhou made a second-instance judgment which dismissed the appeal of Dali Baoxunfeng Trading Co., Ltd. and affirmed the original judgment.

On May 7, 2019, Dali Baoxunfeng trading co., ltd. filed a retrial application with the higher people's court of guangdong province.

As at the reporting date, the higher people's court of Guangdong province is waiting to decide whether to accept the retrial application of Dali Baoxunfeng trading co., LTD. The management of Subsidiary F has assessed the case and concluded that it is unlikely to cause direct economic losses.

- (g) In January 2018, Guangdong Guangsheng investment group energy co., ltd. demanded the payment of 81,408,500.00 yuan from the Subsidiary I of the group on the basis of purchase contract without receiving payment. The plaintiff in this case filed a lawsuit with the same cause on March 11, 2015, and was dismissed by the court of tianhe district on August 17, 2016 for involving criminal proceedings. This time, Guangdong Guangsheng investment group energy co., ltd. re-prosecuted the case on the ground that there is no evidence to reflect the economic crime involved in the dispute case. At present, the prosecution was rejected in the first instance, and Guangdong Guangsheng investment group energy co., LTD filed an appeal. The second instance is remanded to the court of first instance for retrial but no judgement.

As of the date of this report, the management of Subsidiary I and the lawyer acting for it have fully discussed and concluded that Guangdong Guangsheng investment group energy co., ltd. has not provided strong new evidence in this case, and the risk of losing the lawsuit of Subsidiary I is relatively small in the retrial stage, so the management of Subsidiary I has not done accounting treatment.

XIV. OTHER SIGNIFICANT MATTERS *(Continued)*

1. Litigations *(Continued)*

(5) Respond to prosecution of other subsidiaries of the Group *(Continued)*

- (h) In January 2018, Guangzhou Rural Commercial Bank Co., Ltd. Haizhu Branch requested the Group's Subsidiary I to pay an amount of RMB 38,549,941.94 due to Guangdong Zhonghui Sunshine Pharmaceutical Co., Ltd. to a specific bank account, as the right to accounts receivable due from Subsidiary I had been transferred to Guangzhou Rural Commercial Bank Co., Ltd. Haizhu Branch from Guangdong Zhonghui Sunshine Pharmaceutical Co., Ltd. The court of the first instance dismissed the claim. Guangzhou Rural Commercial Bank Co., Ltd. Haizhu Branch filed an appeal, the second instance of this case has been heard in the municipal intermediate people's court on March 21, 2019. The municipal intermediate people's court made a final judgment on June 12, 2019, still rejecting all the plaintiff's claims against our company, and the case has been concluded.

XV. INFORMATION OF SEGMENTS

(1) Recognition Basis and Accounting Policies for Reporting Segments

With the strategic management and business development, the Group basically completed the industrial chain layout and internal structure of 4 sectors in 2015, including "Great Southern TCM", "Great Commerce", "Great Health", "Great Medical Care". According to the requirements of regulatory laws, regulations and company management, four major sectors are identified as operating segments. As the business scale of "Great Medical Care" is lower than 10%, this segment is temporarily listed in "Others" column. Segment information is as follows:

- Great Southern TCM segment: research, development, manufacturing and sales for Chinese and Western medicine, chemical raw medicine, natural drug, biological medicine and intermediates of chemical raw medicine;
- Great Health segment: research, development, manufacturing and sales for the products of Great Health;
- Great Commerce segment: wholesale, retail, import and export for Western medicine, Chinese medicine and Medical Instruments.

Price transfer between segments is carried out in accordance with the price policy of sales to third party.

Assets and liabilities are allocated based on the segment operations, expenses attributable indirectly to each segment are allocated among segments based on the portion of revenue.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XV. INFORMATION OF SEGMENTS (Continued)

(2) Reporting financial information of Segments

- ① The segment information from January to June in 2019 and as of 30 June 2019 is as follows:

Item	Great Southern				Offset between segments	Total
	TCM	Great Health	Great Commerce	Other		
External revenue	6,835,993,139.17	5,858,769,064.10	20,585,983,072.27	60,082,478.83	-	33,340,827,754.37
Inter-segment revenue	120,949,889.51	46,568,320.87	3,309,307,055.88	194,061,855.04	(3,670,887,121.30)	-
Interest income	(30,020,651.25)	(65,711,511.68)	(11,999,938.98)	(33,331,300.36)	779,716.98	(140,283,685.29)
Interest expenses	13,505,366.49	1,144,468.72	232,363,378.93	18,083,623.24	(57,273,379.09)	207,823,458.29
Investment income from associates and joint ventures	21,348,676.14	-	2,321,230.47	56,935,095.90	647,580.47	81,252,582.98
Impairment losses in respect of assets	(2,344,692.87)	-	(4,797,335.29)	-	-	(7,142,028.16)
Impairment losses in respect of credit	2,289,904.72	(108,941.70)	(60,208,585.46)	(14,413.50)	(2,943,127.98)	(60,985,163.92)
Depreciation and amortization expenses	127,941,408.95	19,991,480.71	182,950,934.77	17,137,019.02	(6,141,028.68)	341,879,814.77
Total profit	1,250,387,678.34	1,425,456,934.16	242,596,385.82	167,342,023.50	125,978,935.43	3,211,761,957.25
Total assets	12,780,297,417.20	8,079,386,196.56	27,314,978,923.70	20,912,333,656.00	(15,733,150,317.36)	53,353,845,876.10
Total liabilities	7,333,210,245.74	3,654,048,403.93	22,217,317,020.01	3,499,800,811.69	(8,590,963,334.58)	28,113,413,146.79
Long-term equity investment in associates and joint ventures	297,820,840.12	-	63,504,961.15	1,444,155,234.52	-	1,805,481,035.79
Increases in other non-current assets excluding long-term equity investment	158,883,733.24	41,328,573.09	157,952,033.29	1,482,506,038.15	-	1,840,670,377.77

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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XV. INFORMATION OF SEGMENTS (Continued)

(2) Reporting financial Information of Segments (Continued)

- ② The segment information from January to June in 2018 and as of 30 June 2018 is as follows:

Item	Great Southern				Offset between segments	Total
	TCM	Great Health	Great Commerce	Other		
External revenue	5,272,401,349.70	5,277,589,213.31	4,229,646,595.56	60,376,521.46	-	14,840,013,680.03
Inter-segment revenue	176,823,919.84	12,518,551.64	3,119,907,083.31	104,649,895.95	(3,413,899,450.74)	-
Interest income	(22,419,540.20)	(52,823,420.36)	(4,772,926.50)	(24,714,344.39)	-	(104,730,231.45)
Interest expenses	9,539,945.85	2,158.14	51,191,229.65	3,345,300.75	(33,211,206.33)	30,867,428.06
Investment income from associates and joint ventures	24,143,931.28	-	3,170,793.29	164,916,606.55	130,751.62	192,362,082.74
Impairment losses in respect of assets	(12,637,639.89)	-	8,558,851.92	-	-	(4,078,787.97)
Impairment losses in respect of credit	(2,664,937.46)	112,553.40	(26,015,446.29)	(1,534,838.42)	878,615.62	(29,224,053.15)
Depreciation and amortization expenses	102,743,830.70	9,241,550.26	17,883,823.19	11,760,020.03	(72,052.50)	141,557,171.68
Total profit	886,916,277.57	687,360,730.18	64,986,707.63	513,225,532.78	858,673,432.19	3,011,162,680.35
Total assets	11,583,817,470.30	9,419,956,280.11	24,868,693,118.24	20,624,199,398.47	(15,014,482,397.64)	51,482,183,869.48
Total liabilities	6,887,053,492.19	5,896,869,489.81	20,476,717,007.50	2,871,177,504.92	(7,793,366,378.94)	28,338,451,115.48
Long-term equity investment in associates and joint ventures	276,421,358.40	-	62,991,964.68	1,420,544,712.31	-	1,759,958,035.39
Increases in other non-current assets excluding long-term equity investment	413,426,962.68	488,603,396.02	1,852,610,818.57	78,551,367.54	-	2,833,192,544.81

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XV. INFORMATION OF SEGMENTS *(Continued)*

(2) Reporting financial Information of Segments *(Continued)*

- ③ The Group's total revenue from external customers in the PRC and other countries/regions, and the total non-current assets other than financial assets and deferred tax assets located in the PRC and other countries/regions are summarized as follows:

	Current period	Prior period
External revenue		
PRC	33,313,240,412.17	14,824,579,884.09
Other countries/regions	27,587,342.20	15,433,795.94
	<u>33,340,827,754.37</u>	<u>14,840,013,680.03</u>
Total		
Total non-current assets		
PRC	9,775,159,344.66	8,183,215,368.88
Other countries/regions	18,310,661.60	18,298,592.95
	<u>9,793,470,006.26</u>	<u>8,201,513,961.83</u>
Total		

XVI. NOTE TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS

1. Accounts receivable

- ① The aging analysis of accounts receivable disclosed by booking date is as follows:

Aging	Closing balance	Opening balance
Within 1 year	188,806,433.93	263,355,485.52
1 to 2 years	1,498.00	–
2 to 3 years	–	–
3 to 4 years	–	1,467,557.00
4 to 5 years	1,467,557.00	–
Over 5 years	3,288,606.52	3,288,606.52
	<u>193,564,095.45</u>	<u>268,111,649.04</u>
Total closing balance of accounts receivable		
Less: Provision for bad debts	6,350,866.26	6,655,939.88
	<u>187,213,229.19</u>	<u>261,455,709.16</u>
Total net amount of accounts receivable		

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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XVI. NOTE TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

1. Accounts receivable (Continued)

② Accounts receivable disclosed by category

Category	Closing balance				
	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss ratio (%)	
Accounts receivable subject to separate provision	2,354,626.24	1.22	2,354,626.24	100.00	-
Accounts receivable subject to provision by portfolio of features of credit risk	191,209,469.21	98.78	3,996,240.02	2.09	187,213,229.19
Including: portfolio 1	191,209,469.21	98.78	3,996,240.02	2.09	187,213,229.19
Total	193,564,095.45	100.00	6,350,866.26	3.28	187,213,229.19

(Cont.)

Category	Opening balance				
	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss ratio (%)	
Accounts receivable subject to separate provision	2,354,626.24	0.88	2,354,626.24	100.00	-
Accounts receivable subject to provision by portfolio of features of credit risk	265,757,022.80	99.12	4,301,313.64	1.62	261,455,709.16
Including: portfolio 1	265,757,022.80	99.12	4,301,313.64	1.62	261,455,709.16
Total	268,111,649.04	100.00	6,655,939.88	2.48	261,455,709.16

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XVI. NOTE TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

1. Accounts receivable (Continued)

② Accounts receivable disclosed by category (Continued)

A. Accounts receivable subject to separate provision at the end of current period

Accounts receivable (by company)	Closing balance			Reason
	Accounts receivable	Provision for bad debts	Expected credit loss ratio (%)	
Customer 1	1,500,000.00	1,500,000.00	100.00	Customer bankruptcy. Amount is expected to be unrecoverable.
Customer 2	470,000.00	470,000.00	100.00	Full amount is expected to be unrecoverable.
Customer 3	315,508.74	315,508.74	100.00	Amount is expected to be unrecoverable.
Customer 4	69,117.50	69,117.50	100.00	Amount is expected to be unrecoverable.
Total	<u>2,354,626.24</u>	<u>2,354,626.24</u>	<u>100.00</u>	–

B. Accounts receivable subject to provision by aging portfolio

Aging	Closing balance		
	Book balance	Provision for bad debts	Expected credit loss ratio (%)
Within 1 year	188,806,433.93	1,888,064.34	1.00
1 to 2 years	1,498.00	149.80	10.00
2 to 3 years	–	–	–
3 to 4 years	–	–	–
4 to 5 years	1,467,557.00	1,174,045.60	80.00
Over 5 years	933,980.28	933,980.28	100.00
Total	<u>191,209,469.21</u>	<u>3,996,240.02</u>	<u>–</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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XVI. NOTE TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

1. Accounts receivable (Continued)

② Accounts receivable disclosed by category (Continued)

B. Accounts receivable subject to provision by aging portfolio (Continued)

Cont.

Aging	Opening balance		
	Book balance	Provision for bad debts	Expected credit loss ratio (%)
Within 1 year	263,355,485.52	2,633,554.86	1.00
1 to 2 years	–	–	–
2 to 3 years	–	–	–
3 to 4 years	1,467,557.00	733,778.50	50.00
4 to 5 years	–	–	–
Over 5 years	933,980.28	933,980.28	100.00
Total	<u>265,757,022.80</u>	<u>4,301,313.64</u>	<u>–</u>

③ Provision for bad debts

Category	Opening balance	Current change amount		Closing balance	
		Provision	Amount recovered or reversed		Amount resold or written-off
Provision for accounts receivable bad debts	<u>6,655,939.88</u>	<u>(305,073.62)</u>	–	–	<u>6,350,866.26</u>
Total	<u>6,655,939.88</u>	<u>(305,073.62)</u>	<u>–</u>	<u>–</u>	<u>6,350,866.26</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XVI. NOTE TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

1. Accounts receivable (Continued)

④ There is no accounts receivables written off in the current period.

⑤ The top five customers by closing balance of accounts receivable:

Company	Nature	Closing balance	Aging	Proportion of total closing balance of accounts receivable (%)	Closing balance of provision for bad debts
Customer 1	Payment for goods	118,970,043.84	Within 1 year	61.46	1,189,700.44
Customer 2	Payment for goods	12,905,000.00	Within 1 year	6.67	129,050.00
Customer 3	Payment for goods	12,155,026.00	Within 1 year	6.28	121,550.26
Customer 4	Payment for goods	5,163,164.00	Within 1 year	2.67	51,631.64
Customer 5	Payment for goods	4,177,055.00	Within 1 year	2.16	41,770.55
Total	-	<u>153,370,288.84</u>	-	<u>79.24</u>	<u>1,533,702.89</u>

⑥ The Group had no accounts receivable derecognized due to transfer of financial assets for the current period.

⑦ The Group had no assets or liabilities arising from the transfer of and the continuing involvement of accounts receivable for the current period.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

XVI. NOTE TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables

Item	Closing balance	Opening balance
Dividends receivable	235,110,108.80	382,928,791.41
Other receivables	1,604,096,342.22	1,494,964,007.39
Total	1,839,206,451.02	1,877,892,798.80

(1) Dividends receivable

① Dividends receivable are as follows:

Item (or investee)	Closing balance	Opening balance
Tian Xin	104,502,080.90	104,502,080.90
Guang Hua	43,882,205.44	102,009,719.65
Ming Xing	36,074,889.24	43,385,945.08
Banyunshan Hehuang	50,000,000.00	–
Xing Qun	650,933.22	7,550,441.54
Wang Lao Ji	–	41,665,953.14
Chen Li Ji	–	28,461,301.81
Pan Gao Shou	–	21,128,116.20
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	–	17,653,846.37
Zhong Yi	–	14,022,774.24
Guangzhou Pharmaceutical Import & Export Co., Ltd.	–	2,548,612.48
Total	235,110,108.80	382,928,791.41

② The Group had no significant dividends receivable with aging over one year for the current period.

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XVI. NOTE TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables (Continued)

(2) Other receivables

① Other receivables disclosed by aging are as follows:

Aging	Closing balance	Opening balance
Within 1 year	1,464,086,447.01	1,493,036,443.65
1 to 2 years	138,634,676.90	556,846.55
2 to 3 years	168,616.52	2,549,613.86
3 to 4 years	2,684,697.34	403,590.42
4 to 5 years	325,189.16	48,885.81
Over 5 years	7,463,836.18	7,524,842.18
Total book balance of other receivables	<u>1,613,363,463.11</u>	<u>1,504,120,222.47</u>
Less: Provision for bad debts	<u>9,267,120.89</u>	<u>9,156,213.08</u>
Total net value of other receivables	<u><u>1,604,096,342.22</u></u>	<u><u>1,494,964,007.39</u></u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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XVI. NOTE TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables (Continued)

(2) Other receivables (Continued)

② Other receivables disclosed by category

Category	Closing balance				
	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss ratio (%)	
Other receivables subject to separate provision	8,376,179.85	0.52	8,273,707.85	98.78	102,472.00
Other receivables subject to provision by portfolio of features of credit risk	1,604,987,283.26	99.48	993,413.04	0.06	1,603,993,870.22
Including: Portfolio 1	34,085,087.81	2.11	993,413.04	2.91	33,091,674.77
Portfolio 2	8,036,812.16	0.50	-	-	8,036,812.16
Portfolio 3	1,557,679,426.83	96.55	-	-	1,557,679,426.83
Portfolio 4	5,185,956.46	0.32	-	-	5,185,956.46
Total	<u>1,613,363,463.11</u>	<u>100.00</u>	<u>9,267,120.89</u>	<u>0.57</u>	<u>1,604,096,342.22</u>

Cont.

Category	Opening balance				
	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Expected credit loss ratio (%)	
Other receivables subject to separate provision	8,296,179.85	0.55	8,114,999.85	97.82	181,180.00
Other receivables subject to provision by portfolio of features of credit risk	1,495,824,040.62	99.45	1,041,213.23	0.07	1,494,782,827.39
Including: Portfolio 1	33,434,410.75	2.22	1,041,213.23	3.11	32,393,197.52
Portfolio 2	5,725,972.16	0.38	-	-	5,725,972.16
Portfolio 3	1,451,241,604.25	96.49	-	-	1,451,241,604.25
Portfolio 4	5,422,053.46	0.36	-	-	5,422,053.46
Total	<u>1,504,120,220.47</u>	<u>100.00</u>	<u>9,156,213.08</u>	<u>0.61</u>	<u>1,494,964,007.39</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XVI. NOTE TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables (Continued)

(2) Other receivables (Continued)

② Other receivables disclosed by category (Continued)

A. Other receivables subject to separate provision at the period end

Other receivables (By debtors)	Closing balance			Reason for provision
	Book balance	Provision for bad debts	Expected credit loss ratio (%)	
Other receivable 1	1,582,097.34	1,582,097.34	100.00	The amount is expected to be unrecoverable.
Other receivable 2	1,284,052.25	1,284,052.25	100.00	The amount is expected to be unrecoverable.
Other receivable 3	502,043.54	502,043.54	100.00	The amount is expected to be unrecoverable.
Other receivable 4	454,940.00	454,940.00	100.00	The amount is expected to be unrecoverable.
Other receivable 5	430,077.57	430,077.57	100.00	The amount is expected to be unrecoverable.
Others	4,122,969.15	3,980,497.15	96.54	The amount is expected to be unrecoverable.
Total	<u>8,376,179.85</u>	<u>8,233,707.85</u>	<u>-</u>	

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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XVI. NOTE TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables (Continued)

(2) Other receivables (Continued)

② Other receivables disclosed by category (Continued)

B. Other receivables subject to provision by aging portfolio

Aging	Closing balance			
	Book balance	Proportion (%)	Provision for bad debts	Expected credit loss ratio (%)
Within 1 year	33,265,681.35	97.6	332,656.81	1.00
1 to 2 years	175,500.26	0.51	17,550.03	10.00
2 to 3 years	-	-	-	-
3 to 4 years	1,400.00	-	700.00	50.00
4 to 5 years	-	-	-	-
Over 5 years	642,506.20	1.89	642,506.20	100.00
Total	<u>34,085,087.81</u>	<u>100.00</u>	<u>993,413.04</u>	<u>-</u>

Cont.

Aging	Opening balance			
	Book balance	Proportion (%)	Provision for bad debts	Expected credit loss ratio (%)
Within 1 year	32,601,097.04	97.51	326,009.00	1.00
1 to 2 years	120,454.02	0.36	12,045.40	10.00
2 to 3 years	1,400.00	-	420.00	30.00
3 to 4 years	-	-	-	-
4 to 5 years	43,604.31	0.13	34,883.45	80.00
Over 5 years	667,855.38	2.00	667,855.38	100.00
Total	<u>33,434,410.75</u>	<u>100.00</u>	<u>1,041,213.23</u>	<u>-</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XVI. NOTE TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables (Continued)

(2) Other receivables (Continued)

② Other receivables disclosed by category (Continued)

C. Other receivables subject to provision by other portfolio methods

Item	Closing balance			
	Book balance	Proportion (%)	Provision for bad debts	Expected credit loss ratio (%)
Accounts receivable subject to provision by portfolio of related parties	1,557,679,426.83	96.55	-	-
Accounts receivable subject to provision by portfolio of financial asset with extremely low credit risk	8,036,812.16	0.5	-	-
Accounts receivable subject to provision by margins, deposit portfolio	5,185,956.46	0.32	-	-
Total	<u>1,570,902,195.45</u>	<u>97.37</u>	<u>-</u>	<u>-</u>

③ Category of other receivables as per nature

Nature	Closing book balance	Opening book balance
Receivables due from related parties	1,557,679,426.83	1,451,241,604.25
Including: Entrusted loans	1,198,733,486.36	1,271,733,486.36
Other receivables due from related parties	358,945,940.47	179,508,117.89
Rental, margins, deposit, advances to employees	5,185,956.46	30,635,244.06
Others	50,498,079.82	22,243,372.16
Total	<u>1,613,363,463.11</u>	<u>1,504,120,220.47</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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XVI. NOTE TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables (Continued)

(2) Other receivables (Continued)

④ Provision for bad debts

Category	Opening balance	Current change amount		Closing balance	
		Provision	Amount recovered or reversed		Amount resold or written-off
Provision for other receivables bad debts	9,156,213.08	110,907.81	-	-	9,267,120.89
Total	9,156,213.08	110,907.81	-	-	9,267,120.89

⑤ The Group had no other receivables written off for the current period

⑥ The top five amount of the closing balance of other receivables by customers

Company	Nature	Closing balance	Aging	Proportion of total closing balance of other receivables (%)	Provision for bad debts Closing balance
Other receivables 1	Receivables due from related parties	566,256,985.23	Within 1 year	35.10	-
Other receivables 2	Receivables due from related parties	382,717,785.84	Within 1 year	23.72	-
Other receivables 3	Receivables due from related parties	184,186,440.73	Within 1 year, 1-2 years	11.42	-
Other receivables 4	Receivables due from related parties	131,830,982.10	Within 1 year	8.17	-
Other receivables 5	Receivables due from related parties	111,134,550.52	Within 1 year	6.89	-
Total		1,376,126,744.42	-	85.30	-

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XVI. NOTE TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables (Continued)

(2) Other receivables (Continued)

- ⑦ There is no receivables related to government grants for the current period
- ⑧ There is no other receivables that had been derecognized due to transfer of financial assets
- ⑨ There is no assets or liabilities arising from the transfer of and the continuing involvement of other receivables

3. Long-term Equity Investment

(1) Category of long-term equity investment

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investment in subsidiaries	7,688,989,281.83	171,000,000.00	7,517,989,281.83	7,198,539,281.83	171,000,000.00	7,027,539,281.83
Investment in joint ventures and associates	1,434,773,885.69	-	1,434,773,885.69	1,413,116,817.35	-	1,413,116,817.35
Total	<u>9,123,763,167.52</u>	<u>171,000,000.00</u>	<u>8,952,763,167.52</u>	<u>8,611,656,099.18</u>	<u>171,000,000.00</u>	<u>8,440,656,099.18</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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XVI. NOTE TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

3. Long-term Equity Investment (Continued)

(2) Investment in subsidiaries

Investee	Opening balance	Increase	Decrease	Closing balance	Provision for impairment provided in the current year	Closing balance of provision for impairment
Xing Qun	125,322,300.00	-	-	125,322,300.00	-	-
Zhong Yi	324,320,391.34	-	-	324,320,391.34	-	-
Chen Li Ji	142,310,800.00	-	-	142,310,800.00	-	-
Guangzhou Han Fang	249,017,109.58	-	-	249,017,109.58	-	55,000,000.00
Guangzhou Qi Xing Pharmaceutical 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	-	-
Wang Lao Ji	854,431,508.17	-	-	854,431,508.17	-	-
GP Corp.	2,891,825,159.88	421,600,000.00	-	3,313,425,159.8800	-	-
Cai Zhi Lin	165,458,900.00	-	-	165,458,900.00	-	69,000,000.00
Pharmaceutical Import & Export	18,557,303.24	-	-	18,557,303.24	-	-
Guangzhou Bai Di	129,145,812.38	61,650,000.00	-	190,795,812.3800	-	47,000,000.00
WLJ Great Health	900,000,000.00	-	-	900,000,000.00	-	-
Guangxi Ying Kang	21,536,540.49	-	-	21,536,540.49	-	-
Guangzhou Guangyao Yi Gan Biological Product Co, Ltd.	25,800,000.00	7,200,000.00	-	33,000,000.00	-	-
Guangzhou Baiyunshan Medical and Healthcare Industry Investment Co., Ltd.	111,600,000.00	-	-	111,600,000.00	-	-
Xing Zhu	126,480,000.00	-	-	126,480,000.00	-	-
Wang Lao Ji Investment Co., Ltd.	24,000,000.00	-	-	24,000,000.00	-	-
Tian Xin	96,192,658.47	-	-	96,192,658.47	-	-
Guang Hua	53,659,963.75	-	-	53,659,963.75	-	-
Ming Xing	95,381,794.18	-	-	95,381,794.18	-	-
Weiling Pharmaceutical	10,444,783.48	-	-	10,444,783.48	-	-
Pharmaceutical Technological	1,020,000.00	-	-	1,020,000.00	-	-
Guangzhou GPHL Guangyao Baiyunshan Great Health Hotel Co., Ltd.	500,000.00	-	-	500,000.00	-	-
Guangyao Baiyunshan Hong Kong Co., Ltd.	93,874,006.87	46,626,750.00	-	140,500,756.87	-	-
Guangzhou Baiyunshan Chemical Pharmaceutical Technology Co., Ltd.	163,470,000.00	-	-	163,470,000.00	-	-
Guangyao Haima	7,000,000.00	-	-	7,000,000.00	-	-
Guangzhou Baiyunshan selling Co., Ltd	40,000,000.00	-	-	40,000,000.00	-	-
Guangyao General Institution	98,000,000.00	-	-	98,000,000.00	-	-
Guangzhou baiyunshan medical instruments investment co. Ltd	10,000,000.00	-	-	10,000,000.00	-	-
Total	7,198,539,281.83	490,450,000.00	-	7,688,989,281.83	-	171,000,000.00

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XVI. NOTE TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

3. Long-term Equity Investment (Continued)

(3) Investments in joint ventures and associates

Investee	Investment costs	Opening balance	Increase	Decrease	Investment gains or losses recognized under equity method	Current year Adjustment to other comprehensive income	Declaration of the payment of cash dividends or profits	Provision for impairment provided	Others	Closing balance	Closing balance of provision for impairment	
I. Joint ventures												
HMBYS	100,000,000.00	385,065,942.31	-	-	30,679,034.52	-	50,000,000.00	-	-	365,744,976.83	-	
Baxter Qiao Guang	37,000,000.00	42,701,110.59	-	-	592,487.90	-	-	-	-	43,293,598.49	-	
Subtotal	137,000,000.00	427,767,052.90	-	-	31,271,522.42	-	50,000,000.00	409,038,575.32	-	-	-	
II. Associates												
Golden Eagle Asset Management Co., Ltd.	50,000,000.00	60,823,876.62	-	-	1,894,518.48	31,704.40	-	-	-	62,750,099.50	-	
Guangzhou Baiyunshan Weiji Medical Investment Management Co., Ltd.	2,020,000.00	2,032,056.21	-	-	(7,836.20)	-	-	-	-	2,024,220.01	-	
Xin Tang Pharmaceutical Investment Development Co., Ltd.	45,000,000.00	44,962,519.01	27,000,000.00	-	(41,687.42)	-	-	-	-	71,920,831.59	-	
Guangdong Guangao Jitshen Equity Investment Fund Management Co., Ltd.	4,000,000.00	3,070,247.16	-	-	(800,032.48)	-	-	-	-	2,270,214.68	-	
Yi Xin Tang	864,570,227.02	874,461,065.45	-	-	24,887,495.44	-	12,578,616.30	-	-	880,769,944.59	-	
Subtotal	965,590,227.02	985,349,764.45	27,000,000.00	-	25,992,457.82	31,704.40	12,578,616.30	-	-	1,025,735,310.37	-	
Total	1,102,590,227.02	1,413,116,817.35	27,000,000.00	-	57,203,980.24	31,704.40	62,578,616.30	-	-	1,454,773,885.69	-	

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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XVI. NOTE TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

4. Operating Income and Operating Costs

(1) Operating Income and Operating Costs

Category	Current period		Prior Period	
	Income	Cost	Income	Cost
Main businesses	2,923,366,968.29	1,506,977,644.58	2,100,829,274.30	1,017,129,519.98
Other businesses	349,898,253.93	140,147,433.12	235,255,444.26	106,072,454.11
Total	<u>3,273,265,222.22</u>	<u>1,647,125,077.70</u>	<u>2,336,084,718.56</u>	<u>1,123,201,974.09</u>

(2) Category by business

Reporting segments	Current period		Prior Period	
	Income	Cost	Income	Cost
Great Southern TCM	2,923,359,319.40	1,506,972,936.06	2,100,815,194.42	1,017,120,670.53
Great Commerce	7,648.89	4,708.52	14,079.88	8,849.45
Total	<u>2,923,366,968.29</u>	<u>1,506,977,644.58</u>	<u>2,100,829,274.30</u>	<u>1,017,129,519.98</u>

(3) Category by major operating region

Reporting segments	Current period		Prior Period	
	Income	Cost	Income	Cost
Southern China Area	1,727,899,261.29	838,731,868.55	1,131,523,506.22	591,921,520.43
Eastern China Area	639,164,918.52	353,938,487.02	399,265,620.37	157,456,565.15
Northern China Area	207,761,742.76	105,336,670.59	123,932,952.77	39,542,405.57
Northeast Area	39,709,540.23	24,275,916.55	41,596,303.73	22,526,842.42
Southwest Area	212,681,642.79	125,840,476.01	353,858,715.05	182,551,971.92
Northwest Area	96,149,862.70	58,854,225.86	50,652,176.16	23,130,214.49
Total	<u>2,923,366,968.29</u>	<u>1,506,977,644.58</u>	<u>2,100,829,274.30</u>	<u>1,017,129,519.98</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XVI. NOTE TO THE MAIN ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

4. Operating Income and Operating Costs (Continued)

- (4) Information of the top five customers as per sales: the total sales to the top five customers are RMB 1,344,277 thousand, which account for 45.98% of the Company's main business income for the year January-June 2019.

Customer	Sales	Proportion of total revenue (%)
Customer 1	1,023,445,925.46	35.01
Customer 2	126,415,243.69	4.32
Customer 3	87,126,851.15	2.98
Customer 4	59,113,513.68	2.02
Customer 5	48,175,477.96	1.65
Total	<u>1,344,277,011.94</u>	<u>45.98</u>

5. Investment income

Item	Current period	Prior Period
Investment Income from long-term equity investments under equity method	57,203,980.24	165,222,710.92
Interest income from financial products and structured deposits	28,388,931.94	31,207,224.09
Investment income generated by the disposal of transactional financial assets	7,286,631.84	–
Investment income from the holding period of other non-current financial assets	974,050.00	–
Disposal of long-term equity investment income	–	(291,895.42)
Investment income from the period in which the financial assets which is measured at FVTPL during their holding period	–	188,051.50
Total	<u>93,853,594.02</u>	<u>196,326,091.09</u>

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

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XIX. SUPPLEMENTARY INFORMATION

1. Breakdown of Non-Recurring Profit and Loss for the Current Period

Item	Amount	Note
Profit or loss from disposal of non-current assets	(41,511.02)	
Tax return or exemption with unauthorized approval, or without formal approval, or occurred occasional	–	
Government grants included in the profit or loss for the current year except for the government grants that are closely related to enterprise's normal business and is enjoyed by the Company continuously in quota or by the quantity of unified national standards in accordance with the national policy	381,445,767.63	
Fund possession costs included in the profit or loss for the current year and collected from non-financial enterprises	–	
Gains generated from the amount of the enterprise's investment costs for acquisition of subsidiaries, joint ventures and associates lower than the earnings from the fair value of the net identifiable assets of the invested entity that the enterprise should enjoy upon acquisition	–	
Profit or loss from non-monetary assets exchange	–	
Profit or loss from the assets which are invested or managed by others entrusted	–	
Provision for asset impairments provided due to force majeure, such as natural disaster	–	
Profit or loss from debt restructuring	–	
Enterprise restructuring expenses, such as expenditures for employee allocation and integration expenses	–	
Profit or loss generated from the amount of the transaction with the unfair transaction price exceeding the fair value	–	
Current profit or loss of the subsidiary from business combination under common control from the beginning of the period to the date of combination	–	
Profit or loss from contingencies irrelevant to normal businesses of the Company	–	

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

XIX. SUPPLEMENTARY INFORMATION (Continued)

1. Breakdown of Non-Recurring Profit and Loss for the Current Period (Continued)

Item	Amount	Note
Except for effective hedging business related to normal business of the Company, profit or loss from change of fair value from financial assets and liabilities held for trading, and investment income from disposal of financial assets and liabilities held for trading and available-for-sale financial assets	18,112,506.84	
Reverse of provision for impairment of receivables under individual impairment test	–	
Profit or loss from entrusted loans	–	
Profit or loss from change of fair value of investment properties measured subsequently at fair value	–	
Effects on the profit or loss for the current year by one-off adjustment of profit or loss for the current year according to the requirements of laws and regulations for tax, accounting, etc.	–	
income from custody fee of entrusted operation	–	
Other non-operating incomes and expenses except for the above-mentioned items	10,014,709.31	
Investment gains from long-term equity investment measured at fair value	–	
Other profit and loss items that meet the definition of non-recurring gains and losses	–	
Subtotal	<u>409,531,472.76</u>	
Amount of income tax influence	(64,437,336.06)	
Amount of minority equity impact (net of tax)	<u>(2,691,123.29)</u>	
Total	<u><u>342,403,013.41</u></u>	

Note: For non-recurring profit or loss, "+" expressed for gains and incomes and "-" expressed for losses or expenses.

The Company recognition of non-recurring profit or loss is in accordance with the requirements of Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public-Non-recurring profit or loss (Announcement of China Securities Regulatory Commission [2008] No. 43).

Notes to the Financial Statements

For January – June 2019

(Unless otherwise stated, amount shall be expressed in RMB.)

广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间 广药白云山 爱心满人间

XIX. SUPPLEMENTARY INFORMATION *(Continued)*

2. Return on Equity and Earnings per Share

Profits for the current year	Weighted Average Return on Equity (%)	Earnings per share	
		Basic EPS	Diluted EPS
Net profits attributable to the ordinary shareholders of the Company	11.10	1.567	1.567
Net profits attributable to the ordinary shareholders after subtracting the non-recurring profit or loss	9.60	1.356	1.356

Documents Available for Inspection

- I. The financial statements signed and stamped by the legal representative, responsible persons in charge of the accounting work of the Company and the responsible person of the accounting firm;
- II. The original company documents disclosed and announcements published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報) during the Reporting Period;
- III. The documents listed above are available at the Secretariat of the Company.