



**华东医药股份有限公司**  
HUADONG MEDICINE CO.,LTD

*(Shenzhen Stock Exchange      Code: 000963)*

## **2017 Annual Audit Report**

*March, 2018*

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# Auditor's Report

PCCPAAR [2018] No. 1508

To the Shareholders of Huadong Medicine Co., Ltd.:

## **I. Audit Opinion**

We have audited the accompanying financial statements of Huadong Medicine Co., Ltd. (the "Company"), which comprise the consolidated and parent company balance sheets as at December 31, 2017, the consolidated and parent company income statements, the consolidated and parent company cash flow statements, and the consolidated and parent company statements of changes in equity for the year then ended, as well as notes to financial statements.

In our opinion, the attached financial statements present fairly, in all material respects the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with China Accounting Standards for Business Enterprises.

## **II. Basis for Audit Opinion**

We conducted our audit in accordance with China Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the China Code of Ethics for Certified Public Accountants, and we have fulfilled other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **III. Key Audit Matters**

Key audit matters are those matters that, in our professional Judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not express a separate opinion on these matters.

#### **(I) Impairment of accounts receivable**

##### **1. Key audit matters**

As of December 31, 2017, the carrying amount of accounts receivable amounts to 4.88 billion yuan, accounting for 17.55% of the consolidated operating revenue of 2017, and accounting for 30.56% of the total assets at the end of 2017. As the Company's management (the "Management") needs to use significant accounting estimates and judgements when determining the estimated recoverable amount of accounts receivable, and if the accounts receivable cannot be recovered on time or cannot be recovered, the impact on the financial statements is significant. Therefore, we have identified impairment of accounts receivable as a key audit matter.

##### **2. Responsive audit procedures**

Our main audit procedures for impairment of accounts receivable are as follows:

- (1) We assessed and tested the effectiveness of the design and execution of internal control related to impairment of accounts receivable;
- (2) We obtained understandings of and assessed the accounting policies related to impairment of accounts receivable by reviewing sales contracts and interviewing the Management;
- (3) We checked the historical payment by customers, analyzed customer credit and discussed the recoverability of accounts receivable with the Management;
- (4) We obtained schedule of provision for bad debts and checked whether it was accrued according to the policies on bad debts, and recalculated the amount of bad debts;
- (5) We checked the impact of accounts receivable written-off on provision for bad debts; and
- (6) We reviewed documents related to subsequent collection of accounts receivable

such as bank statements and bookkeeping vouchers on a random basis, and performed confirmation procedures on parts of accounts receivable at the end of the accounting period on sampling basis.

## (II) Revenue recognition

### 1. Key audit matters

The Company is mainly engaged in manufacturing and sale of pharmaceuticals. In 2017, it has achieved operating revenue of 27.83 billion yuan. As stated in section III (XXIV) of the notes to the financial statements, revenue shall be recognized when all the main risks and rewards related to the goods are transferred to the purchaser. Revenue is one of the key performance indicators of the Company, which involves the inherent risk of revenue being included in the wrong accounting period or being manipulated. Therefore, we have identified whether revenue has been recognized in the appropriate accounting period and whether revenue is free from material misstatements as key audit matters.

### 2. Responsive audit procedures

Our main audit procedures are as follows:

- (1) We assessed and tested the effectiveness of the design and execution of internal control related to revenue recognition;
- (2) We performed substantial analysis procedure on revenue and cost, including analysis of monthly revenue, cost, and gross profit margin fluctuations of the current period, and analysis of current period revenue, cost, gross profit margin with preceding period comparative;
- (3) We performed detailed testing on part of revenue and accounts receivable on sampling basis, and reviewed the authenticity of the recognized revenue by reviewing of sales contracts, invoices, dispatch orders and receipts, and performing of confirmation procedures on accounts receivable; and
- (4) We performed cut-off tests on sales records round the balance sheet date, to check the accuracy of the timing of revenue recognition.

## **IV. Other Information**

The Management is responsible for the other information. The other information comprises the information included in the Company's annual report, but does not

include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **V. Responsibilities of the Management and Those Charged with Governance for the Financial Statements**

The Management is responsible for preparing and presenting fairly the financial statements in accordance with China Accounting Standards for Business Enterprises, as well as designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and use the going concern basis of accounting unless the Management either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

#### **VI. Certified Public Accountants' Responsibility for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with China Standards on Auditing will always detect a material

misstatement when it exists. Misstatement can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

We exercise professional judgement and maintain professional skepticism throughout the audit performed in accordance with China Standards on Auditing. We also:

(I) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(II) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in circumstances.

(III) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

(IV) Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

(V) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(VI) Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision

and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding the planned audit scope, time schedule and significant audit findings, including any deficiencies in internal control of concern that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Pan-China Certified Public Accountants LLP

Hangzhou · China

Chinese Certified Public Accountant  
(Engagement Partner)

Chinese Certified Public Accountant

Date of Report: March 28, 2018

*The auditor's report and the accompanying financial statements are English translations of the Chinese auditor's report and statutory financial statements prepared under accounting principles and practices generally accepted in the People's Republic of China. These financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions. In case the English version does not conform to the Chinese version, the Chinese version prevails.*



Huadong Medicine Co., Ltd.  
Consolidated balance sheet as at December 31, 2017  
*(Expressed in Renminbi Yuan)*

Assets	Note No.	Closing balance	Opening balance
Current assets:			
Cash and bank balances	1	2,505,070,113.49	2,661,321,219.62
Settlement funds			
Loans to other banks			
Financial assets at fair value through profit or loss			
Derivative financial assets			
Notes receivable	2	965,969,108.65	956,836,494.97
Accounts receivable	3	4,884,927,855.50	4,466,145,766.04
Advances paid	4	243,339,486.36	317,704,858.86
Premiums receivable			
Reinsurance accounts receivable			
Reinsurance reserve receivable			
Interest receivable			
Dividend receivable	5	780,000.00	240,000.00
Other receivables	6	46,239,949.69	29,818,329.33
Reverse-REPO financial assets			
Inventories	7	3,406,376,273.50	3,084,420,723.43
Assets classified as held for sale			
Non-current assets due within one year			
Other current assets	8	740,018,713.65	192,481,123.17
Total current assets		12,792,721,500.84	11,708,968,515.42
Non-current assets:			
Loans and advances paid			
Available-for-sale financial assets	9	91,111,431.20	91,111,431.20
Held-to-maturity investments			
Long-term receivable			
Long-term equity investments	10	74,905,765.70	64,557,786.62
Investment property	11	25,399,477.24	13,810,831.89
Fixed assets	12	1,977,136,010.34	1,850,489,677.14
Construction in progress	13	201,427,103.98	80,075,673.92
Construction materials			
Fixed assets disposal			
Productive biological assets			
Oil & gas assets			
Intangible assets	14	609,838,848.26	490,878,309.69
Development expenditures			
Goodwill	15	42,948,300.30	14,256,645.61
Long-term prepayments	16	13,642,049.81	14,512,787.53
Deferred tax assets	17	82,917,971.24	58,490,609.86
Other non-current assets	18	75,058,078.55	69,276,427.96
Total non-current assets		3,194,385,036.62	2,747,460,181.42
Total assets		15,987,106,537.46	14,456,428,696.84

Huadong Medicine Co., Ltd.  
Consolidated balance sheet as at December 31, 2017 (continued)  
*(Expressed in Renminbi Yuan)*

Liabilities & Equity	Note No.	Closing balance	Opening balance
Current liabilities:			
Short-term borrowings	19	375,570,000.00	473,116,662.44
Central bank loans			
Absorbing deposit and interbank deposit			
Loans from other banks			
Financial liabilities at fair value through profit or loss			
Derivative financial liabilities			
Notes payable	20	373,668,239.37	465,561,227.34
Accounts payable	21	3,452,231,781.44	3,353,036,143.54
Advances received	22	73,962,132.90	41,012,026.97
Proceeds from sale of repurchase financial assets			
Handling fee and commission payable			
Employee benefits payable	23	55,056,718.58	42,256,741.01
Taxes and rates payable	24	620,983,831.51	422,116,391.26
Interest payable	25	29,735,614.19	31,215,454.05
Dividend payable	26	9,382,619.60	224,219.60
Other payables	27	1,121,948,123.70	924,956,769.81
Reinsurance accounts payable			
Insurance policy reserve			
Deposit for agency security transaction			
Deposit for agency security underwriting			
Liabilities classified as held for sale			
Non-current liabilities due within one year	28		28,471,620.00
Other current liabilities			
Total current liabilities		6,112,539,061.29	5,781,967,256.02
Non-current liabilities:			
Long-term borrowings	29		21,280,000.00
Bonds payable	30	992,440,873.26	989,495,117.70
Including: Preferred shares			
Perpetual bonds			
Long-term payables			
Long-term employee benefits payable			
Special payables			
Provisions			
Deferred income	31	73,263,682.09	21,845,360.00
Deferred tax liabilities			
Other non-current liabilities			
Total non-current liabilities		1,065,704,555.35	1,032,620,477.70
Total liabilities		7,178,243,616.64	6,814,587,733.72
Equity:			
Share capital/Paid-in capital	32	972,116,416.00	486,058,208.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve	33	2,941,585,201.18	3,436,248,298.06
Less: Treasury shares			
Other comprehensive income			
Special reserve			
Surplus reserve	34	492,254,774.51	357,328,881.15
General risk reserve			
Undistributed profit	35	3,987,313,404.87	2,998,888,532.03
Total equity attributable to the parent company		8,393,269,796.56	7,278,523,919.24
Non-controlling interest		415,593,124.26	363,317,043.88
Total equity		8,808,862,920.82	7,641,840,963.12
Total liabilities & equity		15,987,106,537.46	14,456,428,696.84

Huadong Medicine Co., Ltd.  
Parent company balance sheet as at December 31, 2017  
(Expressed in Renminbi Yuan)

Assets	Note No.	Closing balance	Opening balance
Current assets:			
Cash and bank balances		1,591,016,109.85	1,665,869,581.49
Financial assets at fair value through profit or loss			
Derivative financial assets			
Notes receivable		427,572,109.00	446,354,244.14
Accounts receivable	1	2,911,736,820.04	2,899,628,363.63
Advances paid		142,242,938.23	232,354,523.91
Interest receivable			
Dividend receivable		13,515,000.00	
Other receivables	2	638,289,837.58	457,427,565.19
Inventories		1,756,699,036.26	1,767,027,789.30
Assets classified as held for sale			
Non-current assets due within one year			
Other current assets		471,229,884.51	150,000,000.00
Total current assets		7,952,301,735.47	7,618,662,067.66
Non-current assets:			
Available-for-sale financial assets		91,111,431.20	91,111,431.20
Held-to-maturity investments			
Long-term receivable			
Long-term equity investments	3	2,768,715,075.14	2,542,429,470.08
Investment property		9,524,274.46	486,542.27
Fixed assets		77,946,411.55	155,786,317.30
Construction in progress			2,080,915.14
Construction materials			
Fixed assets disposal			
Productive biological assets			
Oil & gas assets			
Intangible assets		49,197,866.44	44,540,975.60
Development expenditures			
Goodwill			
Long-term prepayments		1,075,675.87	
Deferred tax assets		51,112,272.82	39,044,139.38
Other non-current assets			
Total non-current assets		3,048,683,007.48	2,875,479,790.97
Total assets		11,000,984,742.95	10,494,141,858.63

Huadong Medicine Co., Ltd.

Parent company balance sheet as at December 31, 2017 (continued)

(Expressed in Renminbi Yuan)

Liabilities & Equity	Note No.	Closing balance	Opening balance
Current liabilities:			
Short-term borrowings			
Financial liabilities at fair value through profit or loss			
Derivative financial liabilities			
Notes payable		81,387,151.15	346,064,139.06
Accounts payable		2,518,692,675.13	2,529,095,581.90
Advances received		23,499,711.43	15,782,202.00
Employee benefits payable		1,027,441.42	2,261,582.33
Taxes and rates payable		113,430,716.49	100,818,657.13
Interest payable		29,230,137.01	29,230,136.98
Dividend payable		224,219.60	224,219.60
Other payables		54,513,989.20	28,451,263.69
Liabilities classified as held for sale			
Non-current liabilities due within one year			
Other current liabilities			
Total current liabilities		2,822,006,041.43	3,051,927,782.69
Non-current liabilities:			
Long-term borrowings			
Bonds payable		992,440,873.26	989,495,117.70
Including: Preferred shares			
Perpetual bonds			
Long-term payables			
Long-term employee benefits payable			
Special payables			
Provisions			
Deferred income		48,396,535.71	7,658,018.50
Deferred tax liabilities			
Other non-current liabilities			
Total non-current liabilities		1,040,837,408.97	997,153,136.20
Total liabilities		3,862,843,450.40	4,049,080,918.89
Equity:			
Share capital/Paid-in capital		972,116,416.00	486,058,208.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve		2,946,144,660.01	3,432,202,868.01
Less: treasury shares			
Other comprehensive income			
Special reserve			
Surplus reserve		570,110,533.95	435,184,640.59
Undistributed profit		2,649,769,682.59	2,091,615,223.14
Total equity		7,138,141,292.55	6,445,060,939.74
Total liabilities & equity		11,000,984,742.95	10,494,141,858.63

Huadong Medicine Co., Ltd.  
Consolidated income statement for the year ended December 31, 2017  
(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
I. Total operating revenue		27,831,823,148.07	25,379,667,502.88
Including: operating revenue	1	27,831,823,148.07	25,379,667,502.88
Interest proceeds			
Premium earned			
Revenue from handling charges and commission			
II. Total operating cost		25,594,851,224.21	23,549,785,687.94
Including: Operating cost	1	20,561,718,277.77	19,219,105,526.11
Interest expenses			
Handling charges and commission expenditures			
Surrender value			
Net payment of insurance claims			
Net provision of insurance policy reserve			
Premium bonus expenditures			
Reinsurance expenses			
Taxes & surcharge for operations	2	163,056,334.07	131,745,979.98
Selling expenses	3	3,728,911,256.32	3,298,623,646.19
Administrative expenses	4	1,067,952,530.77	759,312,017.32
Financial expense	5	47,478,475.55	94,092,523.34
Assets impairment loss	6	25,734,349.73	46,905,995.00
Add: Gains on changes in fair value (or less: losses)			
Profit from net exposure to hedging risk (or less: losses)			
Investment income (or less: losses)	7	17,650,510.07	26,610,802.80
Including: Investment income from associates and joint ventures	7	14,196,379.08	13,403,988.12
Gains on asset disposal (or less: losses)	8	-1,343,706.28	-2,101,751.53
Gains on foreign exchange (or less: losses)			
Other income	9	87,996,713.69	
III. Operating profit (or less: losses)		2,341,275,441.34	1,854,390,866.21
Add: Non-operating revenue	10	6,345,774.63	59,530,953.63
Including: Gains on disposal of non-current assets			
Less: Non-operating expenditures	11	23,243,026.88	31,648,843.42
Including: Losses on disposal of fixed assets			
IV. Profit before tax (or less: total loss)		2,324,378,189.09	1,882,272,976.42
Less: Income tax	12	436,162,495.88	346,862,711.65
V. Net profit (or less: net loss)		1,888,215,693.21	1,535,410,264.77
(I) Categorized by the continuity of operations			
1. Net profit from continuing operations (or less: net loss)		1,888,215,693.21	1,535,410,264.77
2. Net profit from discontinued operations (or less: net loss)			
(II) Categorized by the portion of equity ownership			
1. Net profit attributable to owners of parent company (or less: net loss)		1,779,506,061.59	1,446,591,698.47
2. Non-controlling interest (or less: net loss)		108,709,631.62	88,818,566.30
VI. Other comprehensive income after tax			
Items attributable to the owners of the parent company			
(I) Not reclassified subsequently to profit or loss			
1. Changes in re-measurement on the net defined benefit liability/asset			
2. Items attributable to investees under equity method that will not reclassified to profit or loss			
(II) To be reclassified subsequently to profit or loss			
1. Items attributable to investees under equity method that may be reclassified to profit or loss			
2. Profit or loss from changes in fair value of available-for-sale financial assets			
3. Profit or loss from reclassification of held-to-maturity investments as available-for-sale financial assets			
4. Profit or loss on cash flow hedging			
5. Translation reserve			
6. Others			
Items attributable to non-controlling shareholders			
VII. Total comprehensive income		1,888,215,693.21	1,535,410,264.77
Items attributable to the owners of the parent company		1,779,506,061.59	1,446,591,698.47
Items attributable to non-controlling shareholders		108,709,631.62	88,818,566.30
VIII. Earnings per share (EPS):			
(I) Basic EPS (yuan per share)		1.83	1.50
(II) Diluted EPS (yuan per share)		1.83	1.50

## Huadong Medicine Co., Ltd.

Parent company income statement for the year ended December 31, 2017

(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
I. Operating revenue	1	17,177,326,875.15	16,195,208,608.78
Less: Operating cost	1	16,305,903,185.02	15,389,091,775.84
Taxes & surcharge for operations		17,276,692.98	18,077,045.62
Selling expenses		339,665,571.52	296,318,395.21
Administrative expenses	2	128,135,587.78	129,029,932.26
Financial expense		12,912,694.23	33,451,637.57
Assets impairment loss		16,684,414.90	44,896,655.19
Add: Gain on changes in fair value (or less: losses)			
Profit from net exposure to hedging risk (or less: losses)			
Investment income (or less: losses)	3	1,067,125,107.70	920,644,506.88
Including: investment income from associates and joint ventures			
Gains on asset disposal (or less: losses)			12,591.93
Other income		32,043,612.42	
II. Operating profit (or less: losses)		1,455,917,448.84	1,205,000,265.90
Add: Non-operating revenue		2,429,692.88	7,524,485.23
Including: Gains on disposal of non-current assets			
Less: Non-operating expenditures		-2,344,441.43	123,155.28
Including: Losses on disposal of non-current assets			
III. Profit before tax (or less: total loss)		1,460,691,583.15	1,212,401,595.85
Less: Income tax		111,432,649.54	86,260,676.94
IV. Net profit (or less: net loss)		1,349,258,933.61	1,126,140,918.91
(I) Net profit from continuing operations (or less: net loss)		1,340,311,714.26	1,126,140,918.91
(II) Net profit from discontinued operations (or less: net loss)		8,947,219.35	
V. Other comprehensive income after tax			
(I) Not reclassified subsequently to profit or loss			
1. Changes in re-measurement on the net defined benefit liability/asset			
2. Items attributable to investees under equity method that will not reclassified to profit or loss			
(II) To be reclassified subsequently to profit or loss			
1. Items attributable to investees under equity method that may be reclassified to profit or loss			
2. Profit or loss from changes in fair value of available-for-sale financial assets			
3. Profit or loss from reclassification of held-to-maturity investments as available-for-sale financial assets			
4. Profit or loss on cash flow hedging			
5. Translation reserve			
6. Others			
VI. Total comprehensive income		1,349,258,933.61	1,126,140,918.91
VII. Earnings per share (EPS):			
(I) Basic EPS (yuan per share)			
(II) Diluted EPS (yuan per share)			

Huadong Medicine Co., Ltd.  
Consolidated cash flow statement for the year ended December 31, 2017  
*(Expressed in Renminbi Yuan)*

Items	Note No.	Current period cumulative	Preceding period comparative
<b>I. Cash flows from operating activities:</b>			
Cash receipts from sale of goods or rendering of services		29,926,227,802.25	28,135,843,559.88
Net increase of client deposit and interbank deposit			
Net increase of central bank loans			
Net increase of loans from other financial institutions			
Cash receipts from original insurance contract premium			
Net cash receipts from reinsurance			
Net increase of policy-holder deposit and investment			
Net increase from disposal of financial assets at fair value through profit or loss			
Cash receipts from interest, handling charges and commission			
Net increase of loans from others			
Net increase of repurchase			
Receipts of tax refund		5,045,269.39	11,401,476.56
Other cash receipts related to operating activities	1	528,390,097.14	198,568,235.55
Subtotal of cash inflows from operating activities		30,459,663,168.78	28,345,813,271.99
Cash payments for goods purchased and services received		22,054,603,449.35	21,611,510,254.84
Net increase of loans and advances to clients			
Net increase of central bank deposit and interbank deposit			
Cash payments for insurance indemnities of original insurance contracts			
Cash payments for interest, handling charges and commission			
Cash payments for policy bonus			
Cash paid to and on behalf of employees		1,249,094,266.80	1,011,420,916.81
Cash payments for taxes and rates		1,630,188,047.32	1,328,373,758.96
Other cash payments related to operating activities	2	3,864,658,741.61	3,047,545,533.56
Subtotal of cash outflows from operating activities		28,798,544,505.08	26,998,850,464.17
Net cash flows from operating activities		1,661,118,663.70	1,346,962,807.82
<b>II. Cash flows from investing activities:</b>			
Cash receipts from withdrawal of investments			300,000.00
Cash receipts from investment income		6,044,708.39	15,911,109.12
Net cash receipts from the disposal of fixed assets, intangible assets and other long-term assets		1,639,312.60	844,224.12
Net cash receipts from the disposal of subsidiaries & other business units			
Other cash receipts related to investing activities	3	2,111,780,536.70	4,860,758,018.50
Subtotal of cash inflows from investing activities		2,119,464,557.69	4,877,813,351.74
Cash payments for the acquisition of fixed assets, intangible assets and other long-term assets		478,689,311.80	467,001,142.02
Cash payments for investments			
Net increase of pledged borrowings			
Net cash payments for the acquisition of subsidiaries & other business units		14,829,962.48	21,346,742.38
Other cash payments related to investing activities	4	2,632,000,260.17	5,003,100,000.00
Subtotal of cash outflows from investing activities		3,125,519,534.45	5,491,447,884.40
Net cash flows from investing activities		-1,006,054,976.76	-613,634,532.66
<b>III. Cash flows from financing activities:</b>			
Cash receipts from absorbing investments		6,680,000.00	3,469,999,986.27
Including: Cash received by subsidiaries from non-controlling shareholders as investments		6,680,000.00	
Cash receipts from borrowings		2,270,609,469.72	1,384,073,999.02
Cash receipts from issuing of bonds			
Other cash receipts related to financing activities	5	30,000,000.00	9,381,936.00
Subtotal of cash inflows from financing activities		2,307,289,469.72	4,863,455,921.29
Cash payments for the repayment of borrowings		2,435,207,752.16	3,647,160,880.20
Cash payments for distribution of dividends or profits and for interest expenses		776,811,036.39	715,752,038.92
Including: Cash paid by subsidiaries to non-controlling shareholders as dividend or profit		49,469,600.00	18,644,162.05
Other cash payments related to financing activities	6	7,370,892.07	42,982,664.87
Subtotal of cash outflows from financing activities		3,219,389,680.62	4,405,895,583.99
Net cash flows from financing activities		-912,100,210.90	457,560,337.30
<b>IV. Effect of foreign exchange rate changes on cash &amp; cash equivalents</b>			
<b>V. Net increase in cash and cash equivalents</b>			
Add: Opening balance of cash and cash equivalents		2,629,856,148.78	1,438,967,536.32
<b>VI. Closing balance of cash and cash equivalents</b>			
		2,372,819,624.82	2,629,856,148.78

# Huadong Medicine Co., Ltd.

## Parent company cash flow statement for the year ended December 31, 2017

(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
<b>I. Cash flows from operating activities:</b>			
Cash receipts from sale of goods and rendering of services		18,239,074,180.23	17,836,439,977.66
Receipts of tax refund			
Other cash receipts related to operating activities		75,508,886.15	24,432,209.78
Subtotal of cash inflows from operating activities		18,314,583,066.38	17,860,872,187.44
Cash payments for goods purchased and services received		17,412,889,174.15	17,233,166,626.45
Cash paid to and on behalf of employees		174,244,699.01	169,770,519.67
Cash payments for taxes and rates		227,400,210.88	210,682,199.02
Other cash payments related to operating activities		302,411,627.09	246,712,555.69
Subtotal of cash outflows from operating activities		18,116,945,711.13	17,860,331,900.83
Net cash flows from operating activities		197,637,355.25	540,286.61
<b>II. Cash flows from investing activities:</b>			
Cash receipts from withdrawal of investments			
Cash receipts from investment income		1,053,470,511.08	921,424,001.32
Net cash receipts from the disposal of fixed assets, intangible assets and other long-term assets		597,439.22	83,377.80
Net cash receipts from the disposal of subsidiaries & other business units			
Other cash receipts related to investing activities		2,817,448,162.10	5,554,961,750.47
Subtotal of cash inflows from investing activities		3,871,516,112.40	6,476,469,129.59
Cash payments for the acquisition of fixed assets, intangible assets and other long-term assets		49,355,632.13	16,709,070.72
Cash payments for investments		59,100,000.00	729,000,000.00
Net cash payments for the acquisition of subsidiaries & other business units		24,720,000.00	21,681,900.00
Other cash payments related to investing activities		3,301,242,679.42	6,112,000,000.00
Subtotal of cash outflows from investing activities		3,434,418,311.55	6,879,390,970.72
Net cash flows from investing activities		437,097,800.85	-402,921,841.13
<b>III. Cash flows from financing activities:</b>			
Cash receipts from absorbing investments			3,469,999,986.27
Cash receipts from borrowings		1,286,419,956.27	514,689,361.40
Other cash receipts related to financing activities		409,465,515.20	828,000,000.00
Subtotal of cash inflows from financing activities		1,695,885,471.47	4,812,689,347.67
Cash payments for the repayment of borrowings		1,286,419,956.27	2,047,081,860.07
Cash payments for distribution of dividends or profits and for interest expenses		704,590,227.10	671,828,090.18
Other cash payments related to financing activities		414,473,915.84	815,881,244.95
Subtotal of cash outflows from financing activities		2,405,484,099.21	3,534,791,195.20
Net cash flows from financing activities		-709,598,627.74	1,277,898,152.47
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>			
<b>V. Net increase in cash and cash equivalents</b>			
		-74,863,471.64	875,516,597.95
<b>Add: Opening balance of cash and cash equivalents</b>			
		1,665,869,581.49	790,352,983.54
<b>VI. Closing balance of cash and cash equivalents</b>			
		1,591,006,109.85	1,665,869,581.49



# Huadong Medicine Co., Ltd.

## Consolidated statement of changes in equity for the year ended December 31, 2017

(Expressed in Renminbi Yuan)

Items	Current period cumulative												Non-controlling interest	Total equity
	Equity attributable to parent company													
	Share capital/ Paid-in capital	Other equity instruments			Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit			
	Preferred shares	Perpetual bonds	Others											
I. Balance at the end of prior year	486,058,208.00				3,436,248,298.06				357,328,881.15		2,998,888,532.03	363,317,043.88	7,641,840,963.12	
Add: Cumulative changes of accounting policies														
Error correction of prior period														
Business combination under common control														
Others														
II. Balance at the beginning of current year	486,058,208.00				3,436,248,298.06				357,328,881.15		2,998,888,532.03	363,317,043.88	7,641,840,963.12	
III. Current period increase (or less: decrease)	486,058,208.00				-494,663,096.88				134,925,893.36		988,424,872.84	52,276,080.38	1,167,021,957.70	
(I) Total comprehensive income											1,779,506,061.59	108,709,631.62	1,888,215,693.21	
(II) Capital contributed or withdrawn by owners												4,791,448.76	4,791,448.76	
1. Capital contributed by owners												6,680,000.00	6,680,000.00	
2. Capital contributed by holders of other equity instruments														
3. Amount of share-based payment included in equity														
4. Others												-1,888,551.24	-1,888,551.24	
(III) Profit distribution									134,925,893.36		-791,104,474.16	-61,225,000.00	-717,403,580.80	
1. Appropriation of surplus reserve									134,925,893.36		-134,925,893.36			
2. Appropriation of general risk reserve														
3. Appropriation of profit to owners											-656,178,580.80	-61,225,000.00	-717,403,580.80	
4. Others														
(IV) Internal carry-over within equity	486,058,208.00				-486,058,208.00									
1. Transfer of capital reserve to capital	486,058,208.00				-486,058,208.00									
2. Transfer of surplus reserve to capital														
3. Surplus reserve to cover losses														
4. Others														
(V) Special reserve														
1. Appropriation of current period														
2. Application of current period														
(VI) Others					-8,604,888.88						23,285.41		-8,581,603.47	
IV. Balance at the end of current period	972,116,416.00				2,941,585,201.18				492,254,774.51		3,987,313,404.87	415,593,124.26	8,808,862,920.82	

# Huadong Medicine Co., Ltd.

Consolidated statement of changes in equity for the year ended December 31, 2017 (continued)

(Expressed in Renminbi Yuan)

Items	Preceding period comparative												
	Equity attributable to parent company											Non-controlling interest	Total equity
	Share capital/ Paid-in capital	Other equity instruments			Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit		
	Preferred shares	Perpetual bonds	Others										
I. Balance at the end of prior year	434,059,991.00				19,798,527.01				244,714,789.26		2,272,483,685.44	272,291,394.38	3,243,348,387.09
Add: Cumulative changes of accounting policies													
Error correction of prior period													
Business combination under common control													
Others													
II. Balance at the beginning of current year	434,059,991.00				19,798,527.01				244,714,789.26		2,272,483,685.44	272,291,394.38	3,243,348,387.09
III. Current period increase (or less: decrease)	51,998,217.00				3,416,449,771.05				112,614,091.89		726,404,846.59	91,025,649.50	4,398,492,576.03
(I) Total comprehensive income											1,446,591,698.47	88,818,566.30	1,535,410,264.77
(II) Capital contributed or withdrawn by owners	51,998,217.00				3,416,449,771.05							20,851,245.25	3,489,299,233.30
1. Capital contributed by owners	51,998,217.00				3,416,449,771.05								3,468,447,988.05
2. Capital contributed by holders of other equity instruments													
3. Amount of share-based payment included in equity													
4. Others												20,851,245.25	20,851,245.25
(III) Profit distribution									112,614,091.89		-720,186,851.88	-18,644,162.05	-626,216,922.04
1. Appropriation of surplus reserve									112,614,091.89		-112,614,091.89		
2. Appropriation of general risk reserve													
3. Appropriation of profit to owners											-607,572,759.99	-18,644,162.05	-626,216,922.04
4. Others													
(IV) Internal carry-over within equity													
1. Transfer of capital reserve to capital													
2. Transfer of surplus reserve to capital													
3. Surplus reserve to cover losses													
4. Others													
(V) Special reserve													
1. Appropriation of current period													
2. Application of current period													
(VI) Others													
IV. Balance at the end of current period	486,058,208.00				3,436,248,298.06				357,328,881.15		2,998,888,532.03	363,317,043.88	7,641,840,963.12

# Huadong Medicine Co., Ltd.

## Parent company statement of changes in equity for the year ended December 31, 2017

(Expressed in Renminbi Yuan)

Items	Current period cumulative										
	Share capital/ Paid-in capital	Other equity instruments			Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	Total equity
		Preferred shares	Perpetual bonds	Others							
I. Balance at the end of prior year	486,058,208.00				432,202,868.01				435,184,640.59	2,091,615,223.14	6,445,060,939.74
Add: Cumulative changes of accounting policies											
Error correction of prior period											
Others											
II. Balance at the beginning of current year	486,058,208.00				3,432,202,868.01				435,184,640.59	2,091,615,223.14	6,445,060,939.74
III. Current period increase (or less: decrease)	486,058,208.00				-486,058,208.00				134,925,893.36	558,154,459.45	693,080,352.81
(I) Total comprehensive income										1,349,258,933.61	1,349,258,933.61
(II) Capital contributed or withdrawn by owners											
1. Capital contributed by owners											
2. Capital contributed by holders of other equity instruments											
3. Amount of share-based payment included in equity											
4. Others											
(III) Profit distribution									134,925,893.36	-791,104,474.16	-656,178,580.80
1. Appropriation of surplus reserve									134,925,893.36	-134,925,893.36	
2. Appropriation of profit to owners										-656,178,580.80	-656,178,580.80
3. Others											
(IV) Internal carry-over within equity	486,058,208.00				-486,058,208.00						
1. Transfer of capital reserve to capital	486,058,208.00				-486,058,208.00						
2. Transfer of surplus reserve to capital											
3. Surplus reserve to cover losses											
4. Others											
(V) Special reserve											
1. Appropriation of current period											
2. Application of current period											
(VI) Others											
IV. Balance at the end of current period	972,116,416.00				2,946,144,660.01				570,110,533.95	2,649,769,682.59	7,138,141,292.55

# Huadong Medicine Co., Ltd.

## Parent company statement of changes in equity for the year ended December 31, 2017 (continued)

(Expressed in Renminbi Yuan)

Items	Preceding period comparative										
	Share capital/ Paid-in capital	Other equity instruments			Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	Total equity
		Preferred shares	Perpetual bonds	Others							
I. Balance at the end of prior year	434,059,991.00				15,753,096.96				322,570,548.70	1,685,661,156.11	2,458,044,792.77
Add: Cumulative changes of accounting policies											
Error correction of prior period											
Others											
II. Balance at the beginning of current year	434,059,991.00				15,753,096.96				322,570,548.70	1,685,661,156.11	2,458,044,792.77
III. Current period increase (or less: decrease)	51,998,217.00				3,416,449,771.05				112,614,091.89	405,954,067.03	3,987,016,146.97
(I) Total comprehensive income										1,126,140,918.91	1,126,140,918.91
(II) Capital contributed or withdrawn by owners	51,998,217.00				3,416,449,771.05						3,468,447,988.05
1. Capital contributed by owners	51,998,217.00				3,416,449,771.05						3,468,447,988.05
2. Capital contributed by holders of other equity instruments											
3. Amount of share-based payment included in equity											
4. Others											
(III) Profit distribution									112,614,091.89	-720,186,851.88	-607,572,759.99
1. Appropriation of surplus reserve									112,614,091.89	-112,614,091.89	
2. Appropriation of profit to owners										-607,572,759.99	-607,572,759.99
3. Others											
(IV) Internal carry-over within equity											
1. Transfer of capital reserve to capital											
2. Transfer of surplus reserve to capital											
3. Surplus reserve to cover losses											
4. Others											
(V) Special reserve											
1. Appropriation of current period											
2. Application of current period											
(VI) Others											
IV. Balance at the end of current period	486,058,208.00				3,432,202,868.01				435,184,640.59	2,091,615,223.14	6,445,060,939.74

\_\_\_\_\_  
[Name]  
[Legal representative]  
(Signature and stamp)

\_\_\_\_\_  
[Name]  
[Officer in charge of accounting]  
(Signature and stamp)

\_\_\_\_\_  
[Name]  
[Head of accounting department]  
(Signature and stamp)

## **Huadong Medicine Co., Ltd.**

### **Notes to Financial Statements**

For the year ended December 31, 2017

Monetary unit: RMB Yuan

#### **I. Company profile**

Huadong Medicine Co., Ltd. (the “Company”), formerly known as Hangzhou Medicine Station Co., Ltd., was established in March 1993. It was registered at Zhejiang Administration for Industry and Commerce on March 31, 1993. The headquarters is located in Hangzhou, Zhejiang Province. The Company now holds a business license with a unified social credit code of 93130000143083157E, with registered capital of 972,116,416.00 yuan and a total of 972,116,416 shares (each with par value of one yuan), of which, 103,996,434 shares are restricted outstanding A shares, and 868,119,982 shares are unrestricted outstanding A shares. The Company’s shares were listed at Shenzhen Stock Exchange on January 27, 2000.

The Company belongs to pharmaceutical industry and is mainly engaged in manufacturing and sale of pharmaceuticals.

The financial statements were approved and authorized for issue by the 11<sup>th</sup> meeting of the eighth session of the Board of Directors dated March 28, 2018.

The Company has brought 38 subsidiaries including 杭州中美华东制药有限公司 (Hangzhou Sino-US Pharmacy Co., Ltd. <sup>†</sup>), 华东宁波医药有限公司 (Huadong Ningbo Medicine Co., Ltd.\*), 华东医药温州有限公司 (Huadong Medicine Wenzhou Co., Ltd.\*), 杭州华东中药饮片有限公司 (Hangzhou Huadong Chinese Medicine Co., Ltd.\*), etc. into the consolidation scope. Please refer to notes to changes in the consolidation scope and interest in other entities for details.

#### **II. Preparation basis of the financial statements**

##### **(I) Preparation basis**

The financial statements have been prepared on the basis of going concern.

##### **(II) Assessment of the ability to continue as a going concern**

The Company has no events or conditions that may cast significant doubts upon the Company’s ability to continue as a going concern within the 12 months after the balance sheet date.

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<sup>†</sup> The English names are for identification purpose only.

### **III. Significant accounting policies and estimates**

Important note:

The Company has set up accounting policies and estimates on transactions or events such as provision for bad debts of receivables, depreciation of fixed assets, amortization of intangible assets, and revenue recognition, etc. based on the Company's actual production and operation features.

#### **(I) Statement of compliance**

The financial statements have been prepared in accordance with the requirements of China Accounting Standards for Business Enterprises (CASBEs), and present truly and completely the financial position, results of operations and cash flows of the Company.

#### **(II) Accounting period**

The accounting year of the Company runs from January 1 to December 31 under the Gregorian calendar.

#### **(III) Operating cycle**

The Company has a relatively short operating cycle for its business, an asset or a liability is classified as current if it is expected to be realized or due within 12 months.

#### **(IV) Functional currency**

The Company's functional currency is Renminbi (RMB) Yuan.

#### **(V) Accounting treatments of business combination under and not under common control**

##### **1. Accounting treatment of business combination under common control**

Assets and liabilities arising from business combination are measured at carrying amount of the combined party included in the consolidated financial statements of the ultimate controlling party at the combination date. Difference between carrying amount of the equity of the combined party included in the consolidated financial statements of the ultimate controlling party and that of the combination consideration or total par value of shares issued is adjusted to capital reserve, if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

##### **2. Accounting treatment of business combination not under common control**

When combination cost is in excess of the fair value of identifiable net assets obtained from the acquiree at the acquisition date, the excess is recognized as goodwill; otherwise, the fair value of identifiable assets, liabilities and contingent liabilities, and the measurement of the combination cost are reviewed, then the difference is recognized in profit or loss.

#### **(VI) Compilation method of consolidated financial statements**

The parent company brings all its controlled subsidiaries into its consolidation scope. The consolidated financial statements are compiled by the parent company according to "CASBE 33 - Consolidated Financial Statements", based on relevant information and the financial statements of

the parent company and its subsidiaries.

(VII) Classification of joint arrangements and accounting treatment of joint operations

1. Joint arrangements include joint operations and joint ventures.

2. When the Company is a joint operator of a joint operation, it recognizes in relation to its interest in a joint operation:

(1) its assets, including its share of any assets held jointly;

(2) its liabilities, including its share of any liabilities incurred jointly;

(3) its revenue from the sale of its share of the output arising from the joint operation;

(4) its share of the revenue from the sales of the output by the joint operation; and

(5) its expenses, including its share of any expenses incurred jointly.

(VIII) Recognition criteria of cash and cash equivalents

Cash as presented in cash flow statement refers to cash on hand and deposit on demand for payment. Cash equivalents refer to short-term, highly liquid investments that can be readily converted to cash and that are subject to an insignificant risk of changes in value.

(IX) Foreign currency translation

Transactions denominated in foreign currency are translated into RMB yuan at the spot exchange rate at the transaction date at initial recognition. At the balance sheet date, monetary items denominated in foreign currency are translated at the spot exchange rate at the balance sheet date with difference, except for those arising from the principal and interest of exclusive borrowings eligible for capitalization, included in profit or loss; non-cash items carried at historical costs are translated at the spot exchange rate at the transaction date, with its RMB amount unchanged; non-cash items carried at fair value in foreign currency are translated at the spot exchange rate at the date when the fair value was determined, with difference included in profit or loss or other comprehensive income.

(X) Financial instruments

1. Classification of financial assets and financial liabilities

Financial assets are classified into the following four categories when initially recognized: financial assets at fair value through profit or loss (including held-for-trading financial assets and financial assets designated at initial recognition as at fair value through profit or loss), held-to-maturity investments, loans and receivables, and available-for-sale financial assets.

Financial liabilities are classified into the following two categories when initially recognized: financial liabilities at fair value through profit or loss (including held-for-trading financial liabilities and financial liabilities designated at initial recognition as at fair value through profit or loss), and other financial liabilities.

## 2. Recognition criteria, measurement method and derecognition condition of financial assets and financial liabilities

When the Company becomes a party to a financial instrument, it is recognized as a financial asset or financial liability. The financial assets and financial liabilities initially recognized by the Company are measured at fair value; for the financial assets and liabilities at fair value through profit or loss, the transaction expenses thereof are directly included in profit or loss; for other categories of financial assets and financial liabilities, the transaction expenses thereof are included into the initially recognized amount.

The Company measures its financial assets at fair value subsequent to initial recognition, and does not deduct the transaction expenses that may occur when it disposes of the said financial asset in the future. However, those under the following circumstances are excluded: (1) the held-to-maturity investments, loans and receivables are measured at amortized costs using effective interest method; (2) the equity instrument investments for which there is no quotation in the active market and whose fair value cannot be measured reliably, and the derivative financial assets which are connected with the said equity instrument and must be settled by the delivery of the said equity instrument are measured at their costs.

The Company measures its financial liabilities at the amortized costs using effective interest method, with the exception of those under the following circumstances: (1) for the financial liabilities at fair value through profit or loss, they are measured at fair value, and none of the transaction expenses may be deducted, which may occur when the financial liabilities are settled in the future; (2) for the derivative financial liabilities, which are connected to the equity instrument for which there is no quotation in the active market and whose fair value cannot be reliably measured, and which must be settled by the delivery of the equity instrument, they are measured at their costs; (3) for the financial guarantee contracts which are not designated as a financial liability at fair value through profit or loss, and for the commitments to grant loans which are not designated as at fair value through profit or loss and which will enjoy an interest rate lower than that of the market, they are measured subsequent to initial recognition at the higher of the following two items 1) The amount as determined according to “CASBE13 - Contingencies”; 2) the surplus after accumulative amortization as determined according to “CASBE14 - Revenues”.

The gains or losses arising from changes in fair value of financial assets or financial liabilities, if not related to hedging, are measured with the following methods: (1) Gains or losses, arising from the changes in fair value of financial asset or liability at its fair value through profit or loss, is included in gains or losses on changes in fair value; interests or cash dividends gained during the asset-holding period are recognized as investment income; when disposing of the assets, investment income is recognized at the difference between the actual amount received and the initial recorded amount, at the same time, gains or losses on changes in fair value are adjusted accordingly. (2) For available-for-sale financial asset, changes in fair value are recorded as other



comprehensive income during the holding period, interests measured at effective interest method are recorded as investment income; cash dividends from available-for-sale equity instrument investment are recognized as investment income at the date of dividend declaration; when disposing of the assets, investment income is recognized at the difference between the actual amount received and the book value deducting the accumulative amount of changes in fair value originally included in other comprehensive.

Financial assets are derecognized when the contractual rights for collecting the cash flow of the said financial assets expire or substantially all risks and rewards related to the said financial assets have been transferred. Only when the underlying present obligations of a financial liability are relieved totally or partly may the financial liability be derecognized accordingly.

### 3. Recognition criteria and measurement method of financial assets transfer

Where the Company has transferred substantially all of the risks and rewards related to the ownership of the financial asset to the transferee, it derecognizes the financial asset. If it retained substantially all of the risks and rewards related to the ownership of the financial asset, it continues recognizing the financial asset, and the consideration received is recognized as a financial liability. Where the Company does not transfer or retain substantially all of the risks and rewards related to the ownership of a financial asset, it is dealt with according to the circumstances as follows respectively: (1) if the Company gives up its control over the financial asset, it derecognizes the financial asset; (2) if the Company does not give up its control over the financial asset, according to the extent of its continuing involvement in the transferred financial asset, it recognizes the related financial asset and recognizes the relevant liability accordingly.

If the transfer of an entire financial asset satisfies the conditions for derecognition, the difference between the amounts of the following two items are included in profit or loss: (1) the book value of the transferred financial asset; (2) the sum of consideration received from the transfer, and the accumulative amount of the changes of the fair value originally included in equity. If the transfer of financial asset partially satisfies the conditions to derecognition, the entire book value of the transferred financial asset is, between the portion which is derecognized and the portion which is not, apportioned according to their respective relative fair value, and the difference between the amounts of the following two items are included into profit or loss: (1) the book value of the portion which is derecognized; (2) the sum of consideration of the portion which is derecognized, and the portion of the accumulative amount of the changes in the fair value originally included in equity which is corresponding to the portion which is derecognized.

### 4. Fair value determination method of financial assets and liabilities

The Company use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value. The inputs to valuation techniques used to measure fair value are arranged in the following hierarchy and used accordingly:

(1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities

that the Company can access at the measurement date.

(2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability, for example, interest rates and yield curves observable at commonly quoted intervals; market-corroborated inputs;

(3) Level 3 inputs are unobservable inputs for the asset or liability. Level 3 inputs include interest rate that is not observable and cannot be corroborated by observable market data at commonly quoted intervals, historical volatility, future cash flows to be paid to fulfill the disposal obligation assumed in business combination, and financial forecast developed using the Company's own data, etc.

#### 5. Impairment test and provision for impairment loss of financial assets

(1) An impairment test is carried out at the balance sheet date on the financial assets other than those at fair value through profit or loss, and provisions for impairment loss should be made if there is objective evidence indicating impairment loss.

(2) For held-to-maturity investments, borrowings, and receivables, an impairment test is made on an individual basis on financial assets of individually significant amount; with regard to the financial assets of individually insignificant amount, they may be included in a portfolio of financial assets with similar credit risk features so as to carry out an impairment-related test; where, upon the impairment test on an individual basis, the financial asset (including those financial assets of individually significant amount and of individually insignificant amount) is not impaired, it is included in a portfolio of financial assets with similar credit risk features so as to conduct further impairment test. Where a financial asset is impaired, the carrying amount of the said financial asset is written down to the present value of the predicted future cash flow.

#### (3) Available-for-sale financial assets

1) Objective evidence indicating that available-for-sale debt instrument investments may be impaired includes:

- a. significant financial difficulties in the debtor;
- b. breach of contract by the debtor, such as principal or interest past due or default;
- c. concessions made to debtors with financial difficulties considering economic and legal factors;
- d. it is highly probable that the debtor is going to dissolve or going through other terms of financial restructuring;
- e. owing to significant financial difficulties occurred to the debtor, the debt instrument is

discontinued to trade in active market; or

f. Other circumstances indicating that available-for-sale debt instrument may be impaired.

2) Evidence indicating that available-for-sale equity instrument investment may be impaired includes the fair value of equity instrument investment is suffered from significant or non-temporary decline and the technical, market, economic, or legal environment in which the investee operates has significant adverse changes under which the Company may not be able to recover its investment cost.

When an available-for-sale financial asset at fair value is impaired, the cumulative loss arising from decline in fair value that has been recognized directly in other comprehensive income is reclassified to impairment loss. If, after an impairment loss has been recognized on available-for-sale debt instrument investment, there is objective evidence of a recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. Subsequent fair value increase in available-for-sale debt instrument investment whose impairment loss has been recognized is directly recognized in other comprehensive income.

When an available-for-sale equity instrument at cost is impaired, impairment loss on such equity instrument investment is recognized at any excess of its carrying amount over the present value of future cash flows, and such impairment loss is not reversed upon recognition.

(XI) Receivables

1. Receivables of individually significant amount and with provision made on an individual basis

Judgement basis or amount criteria of individually significant amount	Receivables accounting for more than 10% (inclusive) of the total book balance of receivables
Provision method for receivables of individually significant amount and with provision made on an individual basis	Provisions are made on the difference between the lower of present value of future cash flow and their carrying amount based on impairment testing on an individual basis.

2. Receivables with provision made on a collective basis using portfolios with similar credit risk features

(1) Specific portfolios and provision method

Provision method of provision being made on collective basis using portfolios with similar credit risk features:	
Portfolio grouped with age	Age analysis method

(2) Age analysis method

Ages	Proportion of provision for accounts receivable (%)	Proportion of provision for other receivables (%)
Within 1 year (inclusive, the same hereinafter)	5	5
1-2 years	10	10
2-3 years	20	20

Ages	Proportion of provision for accounts receivable (%)	Proportion of provision for other receivables (%)
3-4 years	50	50
4-5 years	80	80
Over 5 years	100	100

3. Receivables of individually insignificant amount but with provision made on an individual basis

Reasons for provision made on an individual basis	There is concrete evidence of impairment.
Provision method	Provisions are made on the difference between the lower of present value of future cash flow and their carrying amount based on impairment testing on an individual basis.

For other receivables such as notes receivable, interest receivable and long-term receivable, etc., provision for bad debts is made at the difference between the present value of future cash flow and the carrying amount.

(XII) Inventories

1. Classification of inventories

Inventories include finished goods or goods held for sale in the ordinary course of business, work in process in the process of production, and materials or suppliers etc. to be consumed in the production process or in the rendering of services.

2. Accounting method for dispatching inventories:

Inventories dispatched from storage are accounted for with weighted average method at the end of each month.

3. Basis for determining net realizable value

At the balance sheet date, inventories are measured at the lower of cost or net realizable value; provisions for inventory write-down are made on the excess of its cost over the net realizable value. The net realizable value of inventories held for sale is determined based on the amount of the estimated selling price less the estimated selling expenses and relevant taxes and surcharges in the ordinary course of business; the net realizable value of materials to be processed is determined based on the amount of the estimated selling price less the estimated costs of completion, selling expenses and relevant taxes and surcharges in the ordinary course of business; at the balance sheet date, when only part of the same item of inventories have agreed price, their net realizable value is determined separately and is compared with their costs to set the provision for inventory write-down to be made or reversed.

4. Inventory system

Perpetual inventory method is adopted.

5. Amortization method of low-value consumables and packages

(1) Low-value consumables

Low-value consumables are amortized with one-off method.

## (2) Packages

Packages are amortized with one-off method.

## (XIII) Long-term equity investments

### 1. Judgement of joint control and significant influence

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of these policies.

### 2. Determination of investment cost

(1) For business combination under common control, if the consideration of the combining party is that it makes payment in cash, transfers non-cash assets, assumes its liabilities or issues equity securities, on the date of combination, it regards the share of the carrying amount of the equity of the combined party included in the consolidated financial statements of the ultimate controlling party as the initial cost of the investment. The difference between the initial cost of the long-term equity investments and the carrying value of the combination consideration paid or the par value of shares issued offsets capital reserve; if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

When long-term equity investments are obtained through business combination under common control achieved in stages, the Company determines whether it is a “bundled transaction”.

If it is a “bundled transaction”, stages as a whole are considered as one transaction in accounting treatment. If it is not a “bundled transaction”, investment cost is initially recognized at the share of the carrying amount of net assets of the combined party included in the consolidated financial statements of the ultimate controlling party. The difference between the acquisition-date investment cost of long-term equity investments and the carrying amount of the previously held long-term equity investments plus the carrying amount of the consideration paid for the newly acquired equity is adjusted to capital reserve; if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

(2) For business combination not under common control, investment cost is initially recognized at the acquisition-date fair value of considerations paid.

When long-term equity investments are obtained through business combination not under common control achieved in stages, the Company determines whether they are stand-alone financial statements or consolidated financial statements in accounting treatment:

1) In the case of stand-alone financial statements, investment cost is initially recognized at the carrying amount of the previously held long-term equity investments plus the carrying amount of

the consideration paid for the newly acquired equity.

2) In the case of consolidated financial statements, the Company determines whether it is a “bundled transaction”.

If it is a “bundled transaction”, stages as a whole are considered as one transaction in accounting treatment. If it is not a “bundled transaction”, the carrying value of the acquirer’s previously held equity interest in the acquire is re-measured at the acquisition-date fair value, and the difference between the fair value and the carrying amount is recognized in investment income; when the acquirer’s previously held equity interest in the acquire involves other comprehensive income under equity method, the related other comprehensive income is reclassified as income for the acquisition period, excluding other comprehensive income arising from changes in net liabilities or assets from re-measurement of defined benefit plan of the acquiree.

(3) Long-term equity investments obtained through ways other than business combination: the initial cost of long-term equity investments obtained by making payment in cash is the purchase cost which is actually paid; that obtained on the basis of issuing equity securities is the fair value of the equity securities issued; that obtained through debt restructuring is determined according to “CASBE12 - Debt Restructuring”; and that obtained through non-cash assets exchange is determined according to “CASBE7 - Non-cash Assets Exchange”.

3. Subsequent measurement and recognition method of gain or loss

For long-term equity investments with control relationship, it is accounted for with cost method; for long-term equity investments with joint control or significant influence relationship, it is accounted for with equity method.

4. Disposal of a subsidiary in stages resulting in the Company’s loss of control

(1) Stand-alone financial statements

The difference between the carrying amount of the disposed equity and the consideration obtained thereof is recognized in profit or loss. If the disposal does not result in the Company’s loss of significant influence or joint control, the remained equity is accounted for with equity method; however, if the disposal results in the Company’s loss of control, joint control, or significant influence, the remained equity is reclassified as available-for-sale financial assets, and accounted for according to CASBE 22 - Financial Instruments: Recognition and Measurement.

(2) Consolidated financial statements

1) Disposal of a subsidiary in stages not qualified as “bundled transaction” resulting in the Company’s loss of control

Before the Company’s loss of control, the difference between the disposal consideration and the proportionate share of net assets in the disposed subsidiary from acquisition date or combination date to the disposal date is adjusted to capital reserve (capital premium), if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

When the Company loses control, the remained equity is re-measured at the loss-of-control-date fair value. The aggregated value of disposal consideration and the fair value of the remained equity, less the share of net assets in the disposed subsidiary held before the disposal from the acquisition date or combination date to the disposal date is recognized in investment income in the period when the Company loses control over such subsidiary, and meanwhile goodwill is offset correspondingly. Other comprehensive income related to equity investments in former subsidiary is reclassified as investment income upon the Company’s loss of control.

2) Disposal of a subsidiary in stages qualified as “bundled transaction” resulting in the Company’s loss of control

In case of “bundled transaction”, stages as a whole are considered as one transaction resulting in loss of control in accounting treatment. Before the Company loses control, the difference between the disposal consideration at each stage and the proportionate share of net assets in the disposed subsidiary is recognized as other comprehensive income at the consolidated financial statements and reclassified as profit or loss in the period when the Company loses control over such subsidiary.

(XIV) Investment property

1. Investment property includes land use right of rent-out property and of property held for capital appreciation and buildings that have been leased out.

2. The initial measurement of investment property is based on its cost, and subsequent measurement is made using the cost model, the depreciation or amortization method is the same as that of fixed assets and intangible assets.

(XV) Fixed assets

1. Recognition principles of fixed assets

Fixed assets are tangible assets held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and expected to be used during more than one accounting year. Fixed assets are recognized if, and only if, it is probable that future economic benefits associated with the assets will flow to the Company and the cost of the assets can be measured reliably.

2. Depreciation method of different categories of fixed assets

Categories	Depreciation method	Useful life (years)	Estimated residual value proportion (%)	Annual depreciation rate (%)
Buildings and structures	Straight-line method	20-50	3, 5	4.85-1.90
General equipment	Straight-line method	5-20	3, 5	19.40-4.75
Special equipment	Straight-line method	5-20	3, 5	19.40-4.75
Transport facilities	Straight-line	5-10	3, 5	19.40-9.50

Categories	Depreciation method	Useful life (years)	Estimated residual value proportion (%)	Annual depreciation rate (%)
	method			
Other equipment	Straight-line method	5-12	3, 5	19.40-7.92

(XVI) Construction in progress

1. Construction in progress is recognized if, and only if, it is probable that future economic benefits associated with the item will flow to the Company, and the cost of the item can be measured reliably. Construction in progress is measured at the actual cost incurred to reach its designed usable conditions.

2. Construction in progress is transferred into fixed assets at its actual cost when it reaches its designed usable conditions. When the construction completion cost reaches final estimating and auditing of the construction in progress was not finished while it reaching the designed usable conditions, it is transferred to fixed assets using estimated value first, and then adjusted accordingly when the actual cost is settled, but the accumulated depreciation is not to be adjusted retrospectively.

(XVII) Borrowing costs

1. Recognition principle of borrowing costs capitalization

Where the borrowing costs incurred to the Company can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, it is capitalized and included in the costs of relevant assets; other borrowing costs are recognized as expenses on the basis of the actual amount incurred, and are included in profit or loss.

2. Borrowing costs capitalization period

(1) The borrowing costs are not capitalized unless they following requirements are all met: 1) the asset disbursements have already incurred; 2) the borrowing costs have already incurred; and 3) the acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started.

(2) Suspension of capitalization: where the acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs is suspended; the borrowing costs incurred during such period are recognized as expenses, and are included in profit or loss, till the acquisition and construction or production of the asset restarts.

(3) Ceasing of capitalization: when the qualified asset under acquisition and construction or production is ready for the intended use or sale, the capitalization of the borrowing costs is ceased.

3. Capitalization rate and capitalized amount of borrowing costs

For borrowings exclusively for the acquisition and construction or production of assets eligible for



capitalization, the to-be-capitalized amount of interests is determined in light of the actual interest expenses incurred (including amortization of premium or discount based on effective interest method) of the special borrowings at the present period minus the income of interests earned on the unused borrowings as a deposit in the bank or as a temporary investment; where a general borrowing is used for the acquisition and construction or production of assets eligible for capitalization, the Company calculates and determines the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the general borrowing by the capitalization rate of the general borrowing used.

(XVIII) Intangible assets

1. Intangible asset includes land use right, patent right and non-patented technology etc. The initial measurement of intangible asset is based its cost.

2. For intangible assets with finite useful lives, its amortization amount is amortized within its useful lives systematically and reasonably, if it is unable to determine the expected realization pattern reliably, intangible assets are amortized by the straight-line method with details as follows:

Items	Amortization period (years)
Land use right	8.25-50
Non-patent technology	5-12
Software	5
Trademark/franchise right	10-20

3. Expenditures on the research phase of an internal project are recognized as profit or loss when it is incurred. An intangible asset arising from the development phase of an internal project is recognized if the Company can demonstrate all of the following: (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 probable future economic benefits. Among other things, the Company 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.

(XIX) Impairment of part of non-current assets

For non-current assets such as long-term equity investments, investment property at cost model, fixed assets, construction in progress, intangible assets with finite useful life, etc., if at the balance sheet date there is indication of impairment, the recoverable amount is estimated. For goodwill recognized in business combination and intangible assets with indefinite useful life, no matter

whether there is indication of impairment, impairment test is performed annually. Impairment test on goodwill is performed on related group of assets or a portfolio of groups of assets.

When the recoverable amount of such non-current assets is lower than their carrying amount, the difference is recognized as assets impairment loss through profit or loss.

(XX) Long-term prepayments

Long-term prepayments are expenses that have been recognized but with amortization period over one year (excluding one year). They are recorded with actual cost, and evenly amortized within its beneficiary period or stipulated period. If items of long-term prepayments fail to be beneficial to the following accounting periods, residual values of such items are included in profit or loss.

(XXI) Employee benefits

1. Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits.

2. Short-term employee benefits

The Company recognizes, in the accounting period in which an employee provides service, short-term employee benefits actually incurred as liabilities, with a corresponding charge to profit or loss or the cost of a relevant asset.

3. Post-employment benefits

The Company classifies post-employment benefit plans as either defined contribution plans or defined benefit plans.

(1) The Company recognizes in the accounting period in which an employee provides service the contribution payable to a defined contribution plan as a liability, with a corresponding charge to profit or loss or the cost of a relevant asset.

(2) Accounting treatment by the Company for defined benefit plan usually involves the following steps:

1) In accordance with the projected unit credit method, using unbiased and mutually compatible actuarial assumptions to estimate related demographic variables and financial variables, measure the obligations under the defined benefit plan, and determine the periods to which the obligations are attributed. The Company discounts obligations under the defined benefit plan using the discount rate to determine the present value of the defined benefit plan obligations and the current service cost;

2) When a defined benefit plan has assets, the Company recognizes the deficit or surplus by deducting the present value of the defined benefit plan obligation from the fair value of defined benefit plan assets as a net defined benefit plan liability or net defined benefit plan asset. When a defined benefit plan has a surplus, the Company measures the net defined benefit plan asset at the lower of the surplus in the defined benefit plan and the asset ceiling;

3) At the end of reporting period, the Company recognizes the following components of employee benefits cost arising from defined benefit plan: a. service cost; b. net interest on the net defined benefit plan liability (asset); and c. Changes as a result of re-measurement of the net defined benefit liability (asset). Item a and item b are recognized in profit or loss or the cost of a relevant asset. Item c is recognized in other comprehensive income and is not to be reclassified subsequently to profit or loss. However, the Company may transfer those amounts recognized in other comprehensive income within equity.

#### 4. Termination benefits

Termination benefits provided to employees are recognized as an employee benefit liability for termination benefits, with a corresponding charge to profit or loss at the earlier of the following dates: a. when the Company cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment proposal; or b. when the Company recognizes cost or expenses related to a restructuring that involves the payment of termination benefits.

#### 5. Other long-term employee benefits

When other long-term employee benefits provided by the Company to the employees satisfied the conditions for classifying as a defined contribution plan, those benefits are accounted for in accordance with the requirements relating to defined contribution plan. The Company recognizes and measures the net liability or net asset of other long-term employee benefits in accordance with the requirements relation to defined benefit plan. At the end of the reporting period, the Company recognizes the components of cost of employee benefits arising from other long-term employee benefits as the followings: a. service cost; b. net interest on the net liability or net assets of other long-term employee benefits; and c. changes as a result of re-measurement of the net liability or net assets of other long-term employee benefits. As a practical expedient, the net total of the aforesaid amounts is recognized in profit or loss or included in the cost of a relevant asset.

#### (XXII) Provisions

1. Provisions are recognized when fulfilling the present obligations arising from contingencies such as providing guarantee for other parties, litigation, products quality guarantee, onerous contract, etc., may cause the outflow of the economic benefit and such obligations can be reliably measured.
2. The initial measurement of provisions is based on the best estimated expenditures required in fulfilling the present obligations, and its carrying amount is reviewed at the balance sheet date.

#### (XXIII) Share-based payment

##### 1. Types of share-based payment

Share-based payment consists of equity-settled share-based payment and cash-settled share-based payment.

##### 2. Accounting treatment for settlements, modifications and cancellations of share-based payment

terms and conditions

(1) Equity-settled share-based payment

For equity-settled share-based payment transaction with employees, if the equity instruments granted vest immediately, the fair value of those equity instruments is measured at grant date and recognized as transaction cost or expense, with a corresponding adjustment in capital reserve; if the equity instruments granted do not vest until the counterparty completes a specified period of service, at the balance sheet date within the vesting period, the fair value of those equity instruments measured at grant date based on the best estimate of the number of equity instruments expected to vest is recognized as transaction cost or expense, with a corresponding adjustment in capital reserve.

For equity-settled share-based payment transaction with parties other than employees, if the fair value of the goods or services received can be measured reliably, the fair value is measured at the date the Company obtains the goods or the counterparty renders service; if the fair value of the goods or services received cannot be measured reliably, the fair value of the equity instruments granted measured at the date the Company obtains the goods or the counterparty renders service is referred to, and recognized as transaction cost or expense, with a corresponding increase in equity.

(2) Cash-settled share-based payment

For cash-settled share-based payment transactions with employees, if share appreciation rights vest immediately, the fair value of the liability incurred as the acquisition of goods or services is measured at grant date and recognized as transaction cost or expense, with a corresponding increase in liabilities; if share appreciation rights do not vest until the employees have completed a specified period of service, the liability is measured, at each balance sheet date until settled, at the fair value of the share appreciation rights measured at grant date based on the best estimate of the number of share appreciation right expected to vest.

(3) Modifications and cancellations of share-based payment terms and conditions

If the modification increases the fair value of the equity instruments granted, measured immediately before and after the modification, the Company includes the incremental fair value granted in the measurement of the amount recognized for services received as consideration for the equity instruments granted; similarly, if the modification increases the number of equity instruments granted, the Company includes the fair value of the additional equity instruments granted, measured at the date of the modification, in the measurement of the amount recognized for services received as consideration for the equity instruments granted; if the Company modifies the vesting conditions in a manner that is beneficial to the employee, the Company takes the modified vesting conditions into account.

If the modification reduces the fair value of the equity instruments granted, measured immediately before and after the modification, the Company does not take into account that decrease in fair value and continue to measure the amount recognized for services received as consideration for

the equity instruments based on the grant date fair value of the equity instruments granted; if the modification reduces the number of equity instruments granted to an employee, that reduction is accounted for as a cancellation of that portion of the grant; if the Company modifies the vesting conditions in a manner that is not beneficial to the employee, the Company does not take the modified vesting conditions into account.

If the Company cancels or settles a grant of equity instruments during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), the Company accounts for the cancellation or settlement as an acceleration of vesting, and therefore recognizes immediately the amount that otherwise would have been recognized for services received over the remainder of the vesting period.

#### (XXIV) Revenue

##### 1. Revenue recognition principles

###### (1) Sale of goods

Revenue from sale of goods is recognized if, and only if, the following conditions are all satisfied: a) significant risks and rewards of ownership of the goods is transferred to the buyer; b) the Company retains neither continuing managerial involvement of ownership nor effective control over the goods sold; c) the amount of revenue can be measured reliably; d) it is probable that the economic benefits of the transaction will flow to the Company; and e) the costs of the transaction incurred and to be incurred can be measured reliably.

###### (2) Rendering of services

When the outcome of the transaction can be estimated reliably (the amount of revenue can be measured reliably, it is probable that the economic benefits will flow to the Company, the percentage of completion of the transaction can be determined reliably, and the costs of the transaction incurred and to be incurred can be measured reliably), revenue from rendering of services is recognized using the percentage of completion method, and the stage of completion is determined at measurement of completed work. When the outcome of the transaction cannot be estimated reliably at the balance sheet date, revenue is recognized based on the amount of the costs incurred and the costs incurred are charged off at the same amount when the costs incurred are expected to be recoverable; and no revenue is recognized and the costs incurred are charged off as an expense of the period when the costs incurred are not expected to be recovered.

###### (3) Revenue arising from use by others of assets

Revenue arising from use by others of assets is recognized if, and only if, it is probable that economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably. Interest income is recognized based on the length of time for which the Company's cash is used by others and the effective interest rate; and royalties are recognized according to the period and method of charging as specified in relevant contract or agreement.

## 2. Revenue recognition method adopted by the Company

The Company's main products are all kinds of medicines.

Revenue from domestic sales is recognized if, and only if, the following conditions are all met: the Company has delivered goods to the purchaser based on contractual agreements; sales revenue is determined; goods payment has been collected or the Company has obtained receipts invoices and it is probable that economic benefits associated with the transaction will flow to the Company; and the costs of the transaction incurred and to be incurred can be measured reliably.

Revenue from overseas sales is recognized if, and only if, the Company has declared goods to the customs based on contractual agreements; the Company has obtained a bill of lading; sales revenue is determined; goods payment has been collected or the Company has obtained receipts invoices and it is probable that economic benefits associated with the transaction will flow to the Company; and the costs of the transaction incurred and to be incurred can be measured reliably.

### (XXV) Government grants

#### 1. Government grants related to assets

Government grants related to assets are government grants, with which the Company purchase, construct or otherwise acquire non-current assets. They offset carrying amount of relevant assets or recognized as deferred income. If recognized as deferred income, they are included in profit or loss on a systematic basis over the useful lives of the relevant assets. Those measured at notional amount is directly included into profit or loss. For assets sold, transferred, disposed or damaged within the useful lives, balance of unamortized deferred income is transferred into profit or loss of the year in which the disposal occurred.

#### 2. Government grants related to income

Government grants related to income are government grants other than those related to assets. For government grants that contain both parts related to assets and parts related to income, in which those two parts are blurred and thus collectively classified as government grants related to income. Government grants related to income used for compensating the related future cost, expenses or losses of the Company are recognized as deferred income and are included in profit or loss or offset relevant cost during the period in which the relevant cost, expenses or losses are recognized; for government grants related to income used for compensating the related cost, expenses or losses incurred to the Company, they are directly included in profit or loss or directly offset relevant cost.

3. Government grants related to the ordinary course of business shall be included into other income or offset relevant cost based on business nature, while those not related to the ordinary course of business shall be included into non-operating revenue or expenditures.

#### 4. Policy interest subvention

(1) In the circumstance that government appropriates interest subvention to lending bank, who provides loans for the Company with a policy subsidised interest rate, borrowings are carried at

the amount received, with relevant borrowings cost computed based on the principal and the policy subsidised interest rate.

(2) In the circumstance that government directly appropriates interest subvention to the Company, the subsidised interest shall offset relevant borrowing cost.

(XXVI) Deferred tax assets/Deferred tax liabilities

1. Deferred tax assets or deferred tax liabilities are calculated and recognized based on the difference between the carrying amount and tax base of assets and liabilities (and the difference of the carrying amount and tax base of items not recognized as assets and liabilities but with their tax base being able to be determined according to tax laws) and in accordance with the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.

2. A deferred tax asset is recognized 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. At the balance sheet date, if there is any exact evidence that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized, the deferred tax assets unrecognized in prior periods are recognized.

3. At the balance sheet date, the carrying amount of deferred tax assets is reviewed. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilized. Such reduction is subsequently reversed to the extent that it becomes probable that sufficient taxable income will be available.

4. The income tax and deferred tax for the period are treated as income tax expenses or income through profit or loss, excluding those arising from the following circumstances: (a) business combination; and (b) the transactions or items directly recognized in equity.

(XXVII) Operating leases

When the Company is the lessee, lease payments are recognized as cost or profit or loss with straight-line method over the lease term. Initial expenses are recognized directly into profit or loss. Contingent rents are charged as profit or loss in the periods in which they are incurred.

When the Company is the lessor, lease income is recognized as profit or loss with straight-line method over the lease term. Initial expenses, other than those with material amount and eligible for capitalization which are recognized as profit or loss by installments, are recognized directly as profit or loss. Contingent rents are charged as profit or loss in the periods in which they are incurred.

(XXVIII) Segment reporting

Reportable segments are identified based on operating segments which are determined based on

the structure of the Company’s internal organization, management requirements and internal reporting system. An operating segment is a component of the Company that:

- (1) engages in business activities from which it may earn revenues and incur expenses;
- (2) whose financial performance are regularly reviewed by Management to make decisions about resource to be allocated to the segment and assess its performance; and
- (3) for which financial information regarding financial position, financial performance and cash flows is available.

(XXIX) Significant changes in accounting policies

Changes in accounting policies arising from changes in CASBEs

1. The Company has adopted “CASBE 42 - Non-current Assets and Disposal Groups Held for Sale and Discontinued Operations” promulgated by Ministry of Finance of PRC since May 28, 2017, and has adopted “CASBE 16 - Government Grants” revised by Ministry of Finance of PRC since June 12, 2017. The change is applicable to prospective application method.

2. The Company prepared the financial statements for the year ended December 31, 2017 in accordance with “Notice of the Ministry of Finance on Revising and Issuing Financial Statement Templates for General Enterprises” (numbered Cai Kuai [2017] 30), and gains and losses on disposal of non-current assets and gains and losses on trading of non-cash assets which originally presented under the items “Non-operating revenue” and “Non-operating expenditures” were presented under the item “Gains on asset disposal”. As this change is applicable to retrospective application method, non-operating revenue and non-operating expenditures of 2016 are respectively decreased by 27,509.96 yuan and 2,129,261.49 yuan, while gains on asset disposal are increased by -2,101,751.53 yuan.

**IV. Taxes**

(I) Main taxes and tax rates

Taxes	Tax bases	Tax rates
Value-added tax (VAT)	The taxable revenue from sales of goods or rendering of services	17%, 13%, 11%, 6%, 5%, 3% and 0%; export goods enjoy the “exemption, credit and refund” preferential policies, with the refund rate of 15% or 13% [Note].
Housing property tax	For housing property levied on the basis of price, housing property tax is levied at the rate of 1.2% of the balance after deducting 30% of the cost; for housing property levied on the basis of rent, housing property tax is levied at the rate of 12% of rent revenue.	1.2%, 12%



Taxes	Tax bases	Tax rates
Urban maintenance and construction tax	Turnover tax payable	7%, 5%
Education surcharge	Turnover tax payable	3%
Local education surcharge	Turnover tax payable	2%
Enterprise income tax	Taxable income	25%, 15%

Note: Sales income from birth control products is exempted from VAT, and medical services provided by medical institutions are exempted from VAT.

Different enterprise income tax rates applicable to different taxpayers:

Taxpayers	Income tax rate
Hangzhou Sino-US Pharmacy Co., Ltd.	15%
江苏九阳生物制药有限公司 (Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd.)	15%
Taxpayers other than the above-mentioned	25%

## (II) Tax preferential policies

1. According to the Reply on the Filing of the First Batch of High-tech Enterprises in Zhejiang Province in 2017 (Guo Ke Huo Zi [2017] No. 201) issued by the Torch High Technology Industry Development Center of the Ministry of Science and Technology, the subsidiary Hangzhou Sino-US Pharmacy Co., Ltd. was re-identified as a high-tech enterprise. Therefore, the enterprise income tax for 2017 is levied at the reduced tax rate of 15%.

2. The subsidiary Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd. was identified as a high-tech enterprise in December 2013 and re-identified as a high-tech enterprise on November 30, 2016. Therefore, the enterprise income tax for 2017 is levied at the reduced tax rate of 15%.

3. According to the Notice of the Ministry of Finance and the State Administration of Taxation on the Issuance of the Scope of Primary Processing of Agricultural Products Applicable to the Enterprise Income Tax Preferential Policy (Trial) (Cai Shui [2008] No. 149), and the Supplementary Notice on the Scope of the Primary Processing of Agricultural Products Applicable to the Enterprise Income Tax Preferential Policy (Cai Shui [2011] No. 26), the income from the primary processing of agricultural products of the subsidiary Hangzhou Huadong Chinese Medicine Co., Ltd. is exempted from enterprise income tax.

<sup>-</sup> The English name is for identification purpose only.

## V. Notes to items of consolidated financial statements

### (I) Notes to items of the consolidated balance sheet

#### 1. Cash and bank balances

##### (1) Details

Items	Closing balance	Opening balance
Cash on hand	206,325.41	429,517.01
Cash in bank	2,371,790,765.10	2,639,226,932.71
Other cash and bank balances	133,073,022.98	21,664,769.90
Total	2,505,070,113.49	2,661,321,219.62

##### (2) Other remarks

Closing balance of other cash and bank balances includes deposit for L/C of 59,876,000.00 yuan, deposit for bank acceptance of 71,811,735.67 yuan, deposit for e-commerce platform of 410,000.00 yuan, performance bond of 152,753.00 yuan, balance of Alipay account of 822,478.81 yuan and balance of WeChat account of 55.50 yuan.

#### 2. Notes receivable

##### (1) Details

Items	Closing balance			Opening balance		
	Book balance	Provision for bad debts	Carrying amount	Book balance	Provision for bad debts	Carrying amount
Bank acceptance	797,855,532.08		797,855,532.08	776,836,558.63		776,836,558.63
Trade acceptance	168,113,576.57		168,113,576.57	179,999,936.34		179,999,936.34
Total	965,969,108.65		965,969,108.65	956,836,494.97		956,836,494.97

##### (2) Pledged notes

Items	Closing balance of pledged notes
Bank acceptance	124,350,637.77
Subtotal	124,350,637.77

##### (3) Endorsed or discounted but undue notes at the balance sheet date

Items	Closing balance derecognized	Closing balance not yet derecognized
Bank acceptance	456,016,116.46	
Subtotal	456,016,116.46	

Due to the fact that the acceptor of bank acceptance is commercial bank, which is of high credit level, there is very little possibility of failure in recoverability when it is due. Based on this fact, the Company derecognized the endorsed or discounted bank acceptance. However, if any bank acceptance is not recoverable when it is due, the Company still holds joint liability on such acceptance, according to the China Commercial Instrument Law.

### 3. Accounts receivable

#### (1) Details

##### 1) Details on categories

Categories	Closing balance				
	Book balance		Provision for bad debts		Carrying amount
	Amount	% to total	Amount	Provision proportion (%)	
Receivables with provision made on a collective basis using portfolios with similar credit risk features	5,148,607,905.49	100.00	263,680,049.99	5.12	4,884,927,855.50
Receivable of individually insignificant amount but with provision made on an individual basis	185,878.80	0.00	185,878.80	100.00	
Total	5,148,793,784.29	100.00	263,865,928.79	5.12	4,884,927,855.50

(Continued)

Categories	Opening balance				
	Book balance		Provision for bad debts		Carrying amount
	Amount	% to total	Amount	Provision proportion (%)	
Receivables with provision made on a collective basis using portfolios with similar credit risk features	4,704,631,018.47	99.99	238,485,252.43	5.07	4,466,145,766.04
Receivable of individually insignificant amount but with provision made on an individual basis	241,751.95	0.01	241,751.95	100.00	
Total	4,704,872,770.42	100.00	238,727,004.38	5.07	4,466,145,766.04

##### 2) Accounts receivable of individually insignificant amount but with provision made on an individual basis

Debtors	Book balance	Provision for bad debts	Provision proportion (%)	Reasons
河北恒祥医药集团有限公司 (Hebei Hengxiang Medicine Co., Ltd.*)	136,378.80	136,378.80	100.00	Expected to be irrecoverable
安阳乾康医药有限公司 (Anyang Qiankang Medicine Co., Ltd.*)	49,500.00	49,500.00	100.00	Expected to be irrecoverable
Subtotal	185,878.80	185,878.80	100.00	

##### 3) In portfolios, accounts receivable with provision made on a collective basis with age analysis method

Ages	Closing balance		
	Book balance	Provision for bad debts	Provision proportion (%)
Within 1 year	5,085,277,730.08	254,263,886.51	5.00

\* The English names are for identification purpose only.

Ages	Closing balance		
	Book balance	Provision for bad debts	Provision proportion (%)
1-2 years	52,685,595.18	5,268,559.53	10.00
2-3 years	7,302,768.65	1,460,553.74	20.00
3-4 years	768,984.34	384,492.17	50.00
4-5 years	1,351,345.99	1,081,076.79	80.00
Over 5 years	1,221,481.25	1,221,481.25	100.00
Subtotal	5,148,607,905.49	263,680,049.99	5.12

(2) Provisions made, collected or reversed in current period

Provision for bad debts made in current period totaled 22,053,873.04 yuan, and collected or reversed in current period totaled 79,329.62 yuan. Due to the acquisition of 华东医药存德(舟山)有限公司 (Huadong Medicine Cunde (Zhoushan) Co., Ltd.\*), 舟山存德堂医药零售有限公司 (Zhoushan Cundetang Medicine Retail Co., Ltd.\*) and 华东医药岱山有限公司 (Huadong Medicine Daishan Co., Ltd.\*) in the current period, the Company brought these three companies into consolidation scope and increased provision for bad debts by 4,058,560.81 yuan.

(3) Accounts receivable written off in current period

Accounts receivable actually written off in current period totaled 1,052,839.06 yuan.

(4) Details of the top 5 debtors with largest balances

Debtors	Book balance	Proportion to the total balance of accounts receivable (%)	Provision for bad debts
Client A1	80,814,217.09	1.57	4,040,710.85
杭州健生医药有限公司 (Hangzhou Jiansheng Medicine Co., Ltd.*)	77,522,270.00	1.51	3,876,113.50
Client A2	54,051,960.04	1.05	2,702,598.00
Client A3	46,819,547.47	0.91	2,340,977.37
Client A4	45,915,279.58	0.89	2,295,763.98
Subtotal	305,123,274.18	5.93	15,256,163.70

4. Advances paid

(1) Age analysis

Ages	Closing balance			
	Book balance	% to total	Provision for bad debts	Carrying amount
Within 1 year	234,366,394.40	96.32		234,366,394.40
1-2 years	3,124,083.07	1.28		3,124,083.07

\* The English names are for identification purpose only.

Ages	Closing balance			
	Book balance	% to total	Provision for bad debts	Carrying amount
2-3 years	2,432,969.93	1.00		2,432,969.93
Over 3 years	3,416,038.96	1.40		3,416,038.96
Total	243,339,486.36	100.00		243,339,486.36

(Continued)

Ages	Opening balance			
	Book balance	% to total	Provision for bad debts	Carrying amount
Within 1 year	308,412,090.39	97.08		308,412,090.39
1-2 years	5,341,882.91	1.68		5,341,882.91
2-3 years	2,018,255.94	0.63		2,018,255.94
Over 3 years	1,932,629.62	0.61		1,932,629.62
Total	317,704,858.86	100.00		317,704,858.86

(2) Details of the top 5 debtors with largest balances

Debtors	Book balance	Proportion to the total balance of advances paid (%)
Supplier B1	32,849,043.43	13.50
Supplier B2	22,871,081.41	9.40
Supplier B3	12,143,274.92	4.99
Supplier B4	7,072,996.94	2.91
Supplier B5	6,589,030.00	2.71
Subtotal	81,525,426.70	33.51

(3) Advances paid written off in current period

Advances paid actually written off in current period totaled 113,049.50 yuan.

#### 5. Dividend receivable

Items	Closing balance	Opening balance
杭州汤养元医药有限公司 (Hangzhou Tangyangyuan Medicine Co., Ltd.*)	780,000.00	240,000.00
Total	780,000.00	240,000.00

#### 6. Other receivables

(1) Details

1) Details on categories

Categories	Closing balance

\* The English name is for identification purpose only.

	Book balance		Provision for bad debts		Carrying amount
	Amount	% to total	Amount	Provision proportion (%)	
Receivables with provision made on a collective basis using portfolios with similar credit risk features	58,057,588.11	100.00	11,817,638.42	20.36	46,239,949.69
Total	58,057,588.11	100.00	11,817,638.42	20.36	46,239,949.69

(Continued)

Categories	Opening balance				
	Book balance		Provision for bad debts		Carrying amount
	Amount	% to total	Amount	Provision proportion (%)	
Receivables with provision made on a collective basis using portfolios with similar credit risk features	37,949,173.74	100.00	8,130,844.41	21.43	29,818,329.33
Total	37,949,173.74	100.00	8,130,844.41	21.43	29,818,329.33

2) In portfolios, other receivables with provision made on a collective basis with age analysis method

Ages	Closing balance		
	Book balance	Provision for bad debts	Provision proportion (%)
Within 1 year	37,698,800.88	1,884,940.06	5.00
1-2 years	4,809,732.94	480,973.32	10.00
2-3 years	3,440,697.66	688,139.55	20.00
3-4 years	5,398,637.01	2,699,318.51	50.00
4-5 years	3,227,263.22	2,581,810.58	80.00
Over 5 years	3,482,456.40	3,482,456.40	100.00
Subtotal	58,057,588.11	11,817,638.42	20.36

(2) Provisions made, collected or reversed in current period

Provisions for bad debts made in current period totaled 3,130,128.03 yuan. Due to acquisition of Huadong Medicine Cunde (Zhoushan) Co., Ltd., Zhoushan Cundetang Medicine Retail Co., Ltd., and Huadong Medicine Daishan Co., Ltd., the Company brought these three companies into consolidation scope and increased provision for bad debts by 1,433,458.09 yuan.

(3) Other receivables written off in current period

Other receivables actually written off in current period totaled 876,792.11 yuan.

(4) Other receivables categorized by nature

Nature of receivables	Closing balance	Opening balance
Deposit as security	34,572,669.63	14,374,889.31
Temporary advance payment receivable	14,449,111.84	19,965,857.46
Others	9,035,806.64	3,608,426.97

Nature of receivables	Closing balance	Opening balance
Total	58,057,588.11	37,949,173.74

(5) Details of the top 5 debtors with largest balances

Debtors	Nature of receivables	Book balance	Ages	Proportion to the total balance of other receivables (%)	Provision for bad debts
Shaoxing Shangyu People's Hospital	Deposit as security	4,300,000.00	Within 1 year	7.41	215,000.00
Dongyang People's Hospital	Deposit as security	2,600,000.00	Within 1 year	4.48	130,000.00
Chinese Medicine Hospital, Shangyu, Shaoxing	Deposit as security	2,170,000.00	Within 1 year	3.74	108,500.00
北京九和药业有限公司 (Beijing Jiuhe Pharmacy Co., Ltd. *)	Deposit as security	2,067,200.00	Within 1 year	3.56	103,360.00
Shaoxing Shangyu No.2 People's Hospital	Deposit as security	2,000,000.00	Within 1 year	3.44	100,000.00
Affiliated Hospital of Shaoxing University	Deposit as security	2,000,000.00	Within 1 year	3.44	100,000.00
Subtotal		15,137,200.00		26.07	756,860.00

7. Inventories

(1) Details

Items	Closing balance		
	Book balance	Provision for write-down	Carrying amount
Raw materials	204,348,367.93		204,348,367.93
Work in process	60,295,446.77		60,295,446.77
Finished goods	542,892,960.72		542,892,960.72
Goods on hand	2,580,285,117.03	14,668.37	2,580,270,448.66
Materials on consignment for further processing	1,594,920.55		1,594,920.55
Packages	16,974,128.87		16,974,128.87
Total	3,406,390,941.87	14,668.37	3,406,376,273.50

(Continued)

Items	Opening balance		
	Book balance	Provision for write-down	Carrying amount
Raw materials	157,937,090.34		157,937,090.34

\* The English name is for identification purpose only.

Items	Opening balance		
	Book balance	Provision for write-down	Carrying amount
Work in process	125,843,813.72		125,843,813.72
Finished goods	345,034,386.58	197,951.19	344,836,435.39
Goods on hand	2,435,646,615.29	14,668.37	2,435,631,946.92
Materials on consignment for further processing	3,067,461.34		3,067,461.34
Packages	17,103,975.72		17,103,975.72
Total	3,084,633,342.99	212,619.56	3,084,420,723.43

(2) Provision for inventory write-down

Items	Opening balance	Increase		Decrease		Closing balance
		Accrual	Others	Reversal or written-off	Others	
Finished goods	197,951.19			197,951.19		
Goods on hand	14,668.37					14,668.37
Subtotal	212,619.56			197,951.19		14,668.37

8. Other current assets

Items	Closing balance	Opening balance
Bank financial products	680,000,000.00	150,000,000.00
Input VAT to be deducted	57,800,725.12	42,251,005.64
Prepaid enterprise income tax	2,132,731.87	145,898.83
Taxes prepaid for rental income	85,256.66	84,218.70
Total	740,018,713.65	192,481,123.17

9. Available-for-sale financial assets

(1) Details

Items	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Available-for-sale equity instrument	91,111,431.20		91,111,431.20	91,111,431.20		91,111,431.20
Including: At cost	91,111,431.20		91,111,431.20	91,111,431.20		91,111,431.20
Total	91,111,431.20		91,111,431.20	91,111,431.20		91,111,431.20

(2) Available-for-sale financial assets at cost

Investees	Book balance			
	Opening balance	Increase	Decrease	Closing balance
宁波东海银行股份有限公司 (Ningbo Donghai Bank Co.,	81,031,431.20			81,031,431.20



Investees	Book balance			
	Opening balance	Increase	Decrease	Closing balance
Ltd.*)				
杭州君澜医药贸易有限公司 (Hangzhou Junlan Medicine Trade Co., Ltd.*)	10,080,000.00			10,080,000.00
Subtotal	91,111,431.20			91,111,431.20

(Continue)

Investees	Provision for impairment				Holding proportion in investees (%)	Cash dividend in current period
	Opening balance	Increase	Decrease	Closing balance		
Ningbo Donghai Bank Co., Ltd.					9.657	
Hangzhou Junlan Medicine Trade Co., Ltd.					10.07	
Subtotal						

## 10. Long-term equity investments

### (1) Categories

Items	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Investments in associates	74,905,765.70		74,905,765.70	64,557,786.62		64,557,786.62
Total	74,905,765.70		74,905,765.70	64,557,786.62		64,557,786.62

### (2) Details

Investees	Opening balance	Increase/Decrease			
		Investments increased	Investments decreased	Investment income recognized under equity method	Adjustment in other comprehensive income
Associates					
杭州九源基因工程有限公司 (Hangzhou Jiuyuan Gene Engineering Co., Ltd.*)	59,178,366.80			12,387,779.49	
Hangzhou Tangyangyuan Medicine Co., Ltd.	5,379,419.82			1,808,599.59	
Total	64,557,786.62			14,196,379.08	

(Continued)

Investees	Increase/Decrease				Closing balance	Closing balance of provision for impairment
	Changes in other equity	Cash dividend/profit declared for distribution	Provision for impairment	Others		

\* The English names are for identification purpose only.

Investees	Increase/Decrease				Closing balance	Closing balance of provision for impairment
	Changes in other equity	Cash dividend/profit declared for distribution	Provision for impairment	Others		
Associates						
Hangzhou Jiuyuan Gene Engineering Co., Ltd.		2,948,400.00			68,617,746.29	
Hangzhou Tangyangyuan Medicine Co., Ltd.		900,000.00			6,288,019.41	
Total		3,848,400.00			74,905,765.70	

## 11. Investment property

### (1) Details

Items	Buildings and structures	Land use right	Total
<b>Cost</b>			
Opening balance	24,187,170.99	1,874,726.33	26,061,897.32
Increase	16,480,660.82		16,480,660.82
1) Acquisition			
2) Transferred in from fixed assets	16,480,660.82		16,480,660.82
<b>Decrease</b>			
1) Disposal			
Closing balance	40,667,831.81	1,874,726.33	42,542,558.14
<b>Accumulated depreciation and amortization</b>			
Opening balance	11,603,381.99	647,683.44	12,251,065.43
Increase	4,854,070.31	37,945.16	4,892,015.47
1) Accrual or amortization	1,213,622.40	37,945.16	1,251,567.56
2) Transferred in from fixed assets	3,640,447.91		3,640,447.91
<b>Decrease</b>			
1) Disposal			
Closing balance	16,457,452.30	685,628.60	17,143,080.90
<b>Carrying amount</b>			
Closing balance	24,210,379.51	1,189,097.73	25,399,477.24
Opening balance	12,583,789.00	1,227,042.89	13,810,831.89

## 12. Fixed assets

### (1) Details

Items	Buildings and structures	General equipment	Special equipment
<b>Cost</b>			

Items	Buildings and structures	General equipment	Special equipment
Opening balance	1,018,154,740.89	147,453,600.38	1,238,023,455.65
Increase	131,265,191.65	16,675,343.76	119,911,133.47
1) Acquisition	90,999,267.11	12,923,008.16	30,090,992.62
2) Transferred in from construction in progress	32,934,532.98	1,116,660.26	89,218,541.27
3) Transferred in from others [Note 1]	7,331,391.56	2,635,675.34	601,599.58
Decrease	25,162,014.08	8,533,024.23	28,349,315.31
1) Disposal/scrap	8,681,353.26	8,524,424.23	28,226,145.31
2) Transferred out to investment property	16,480,660.82		
3) Transferred out to others [Note 2]		8,600.00	123,170.00
Closing balance	1,124,257,918.46	155,595,919.91	1,329,585,273.81
Accumulated depreciation			
Opening balance	232,110,913.80	88,404,213.53	360,102,285.24
Increase	40,353,366.93	14,196,102.04	113,084,076.78
1) Accrual	40,063,166.03	12,777,806.87	112,829,655.87
2) Transferred in from others [Note 1]	290,200.90	1,418,295.17	254,420.91
Decrease	10,485,627.20	7,807,096.88	21,017,603.76
1) Disposal/scrap	6,845,179.29	7,805,190.50	21,002,654.19
2) Transferred out to investment property	3,640,447.91		
3) Transferred out to others [Note 2]		1,906.38	14,949.57
Closing balance	261,978,653.53	94,793,218.69	452,168,758.26
Carrying amount			
Closing balance	862,279,264.93	60,802,701.22	877,416,515.55
Opening balance	786,043,827.09	59,049,386.85	877,921,170.41

(Continued)

Items	Transport facilities	Other equipment	Total
Cost			
Opening balance	67,081,336.17	194,063,685.30	2,664,776,818.39
Increase	5,308,071.69	87,916,249.05	361,075,989.62
1) Acquisition	3,667,880.72	17,714,459.93	155,395,608.54
2) Transferred in from construction in progress		70,201,789.12	193,471,523.63
3) Transferred in from others [Note 1]	1,640,190.97		12,208,857.45

Items	Transport facilities	Other equipment	Total
Decrease	3,887,917.27	7,992,677.81	73,924,948.70
1) Disposal/scrap	3,887,917.27	7,992,677.81	57,312,517.88
2) Transferred out to investment property			16,480,660.82
3) Transferred out to others [Note 2]			131,770.00
Closing balance	68,501,490.59	273,987,256.54	2,951,927,859.31
Accumulated depreciation			
Opening balance	38,237,134.44	95,432,594.24	814,287,141.25
Increase	9,053,544.15	34,084,835.83	210,771,925.73
1) Accrual	7,805,387.79	34,084,835.83	207,560,852.39
2) Transferred in from others [Note 1]	1,248,156.36		3,211,073.34
Decrease	3,447,067.15	7,509,823.02	50,267,218.01
1) Disposal/scrap	3,447,067.15	7,509,823.02	46,609,914.15
2) Transferred out to investment property			3,640,447.91
3) Transferred out to others [Note 2]			16,855.95
Closing balance	43,843,611.44	122,007,607.05	974,791,848.97
Carrying amount			
Closing balance	24,657,879.15	151,979,649.49	1,977,136,010.34
Opening balance	28,844,201.73	98,631,091.06	1,850,489,677.14

Note 1: Current increase of cost amounting to 12,208,857.45 yuan is due to the acquisition of Zhoushan Cundetang Medicine Retail Co., Ltd., Huadong Medicine Cunde (Zhoushan) Co., Ltd. and Huadong Medicine Daishan Co., Ltd., which are brought into consolidation scope.

Current increase of accumulated depreciation amounting to 3,211,073.34 yuan is due to the acquisition of Zhoushan Cundetang Medicine Retail Co., Ltd., Huadong Medicine Cunde (Zhoushan) Co., Ltd. and Huadong Medicine Daishan Co., Ltd., which are brought into consolidation scope.

Note 2: Current decrease of cost amounting to 131,770.00 yuan is due to the disposal of 宁波雅致医疗美容诊所有限公司 (Ningbo Yazhi Medical Cosmetology Clinic Co., Ltd.\*), which is excluded from consolidation scope.

Current decrease of accumulated depreciation amounting to 16,855.95 yuan is due to the disposal of Ningbo Yazhi Medical Cosmetology Clinic Co., Ltd., which is excluded from consolidation scope.

(2) Fixed assets with certificate of titles being unsettled

\* The English name is for identification purpose only.

Items	Carrying amount	Reasons for unsettlement
Buildings and structures	188,992,277.51	Final account of project hasn't been finished, or finished but in the process of handling certificate of titles
Subtotal	188,992,277.51	

### 13. Construction in progress

#### (1) Details

Projects	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Process layout of Pharmaceutical Preparation Building 1	3,052,802.72		3,052,802.72	20,075,053.84		20,075,053.84
Comprehensive pilot project development platform project phase I				11,407,486.92		11,407,486.92
Corbrin capsule expansion and transformation phase II	1,431,467.32		1,431,467.32	75,471.70		75,471.70
Pilot center project of small molecule drugs in pilot center construction project phase I	21,654,683.65		21,654,683.65	1,012,159.90		1,012,159.90
Pilot center project of microbial drugs in pilot center construction project phase I	30,518,039.10		30,518,039.10	671,698.11		671,698.11
Pilot center project of solid preparation in pilot center construction project phase I	9,881,033.77		9,881,033.77	186,792.46		186,792.46
Huadong new biomacromolecule laboratory	1,901,309.32		1,901,309.32	185,010.40		185,010.40
Transfer and new GMP transformation project of cyclosporine and tacrolimus product	24,084,666.98		24,084,666.98	13,675.21		13,675.21
Workshop expansion project of Chinese herbal decoction pieces	1,249,209.62		1,249,209.62	1,057,536.20		1,057,536.20
Huadong Medicine Biomedical Science Park phase I						
Huadong Medicine Biomedical Science Park phase II	76,882,911.66		76,882,911.66	7,349,339.59		7,349,339.59
Other piecemeal projects	30,770,979.84		30,770,979.84	38,041,449.59		38,041,449.59
Total	201,427,103.98		201,427,103.98	80,075,673.92		80,075,673.92

#### (2) Changes in significant projects

Projects	Budgets	Opening balance	Increase	Transferred to fixed assets	Other decrease	Closing balance
Process layout of Pharmaceutical Preparation Building 1	105.00 million	20,075,053.84	2,172,703.18	19,194,954.30		3,052,802.72
Comprehensive pilot project development platform project phase I	43.90 million	11,407,486.92	4,085,150.53	15,492,637.45		
Corbrin capsule expansion and transformation phase II	33.00 million	75,471.70	23,290,106.60	21,934,110.98		1,431,467.32
Pilot center project of small molecule drugs in pilot center construction project phase I	50.00 million	1,012,159.90	32,390,103.24	11,747,579.49		21,654,683.65
Pilot center project of microbial drugs in pilot center construction project phase I	94.00 million	671,698.11	59,036,999.20	29,190,658.21		30,518,039.10

Projects	Budgets	Opening balance	Increase	Transferred to fixed assets	Other decrease	Closing balance
Pilot center project of solid preparation in pilot center construction project phase I	56.00 million	186,792.46	25,129,292.58	15,435,051.27		9,881,033.77
Huadong new biomacromolecule laboratory	28.30 million	185,010.40	20,056,453.65	18,340,154.73		1,901,309.32
Transfer and new GMP transformation project of cyclosporine and tacrolimus product	51.00 million	13,675.21	24,070,991.77			24,084,666.98
Workshop expansion project of Chinese herbal decoction pieces	67.80 million	1,057,536.20	583,772.52	392,099.10		1,249,209.62
Huadong Medicine Biomedical Science Park phase I	779.40 million		16,707,783.30	16,707,783.30		
Huadong Medicine Biomedical Science Park phase II	2.805 billion	7,349,339.59	69,533,572.07			76,882,911.66
Other piecemeal projects		38,041,449.59	39,527,635.72	45,036,494.80	1,761,610.67	30,770,979.84
Subtotal		80,075,673.92	316,584,564.36	193,471,523.63	1,761,610.67	201,427,103.98

(Continued)

Projects	Accumulated investment to budget (%)	Completion percentage (%)	Accumulated amount of borrowing cost capitalization	Amount of borrowing cost capitalization in current period	Annual capitalization rate (%)	Fund source
Process layout of Pharmaceutical Preparation Building I	89.47	100.00				Self-raised
Comprehensive pilot project development platform project phase I	90.70	100.00				Self-raised
Corbrin capsule expansion and transformation phase II	90.13	100.00				Self-raised
Pilot center project of small molecule drugs in pilot center construction project phase I	77.50	99.00				Self-raised
Pilot center project of microbial drugs in pilot center construction project phase I	63.57	85.00				Self-raised
Pilot center project of solid preparation in pilot center construction project phase I	53.11	77.00				Self-raised
Huadong new biomacromolecule laboratory	81.36	89.00				Self-raised
Transfer and new GMP transformation project of cyclosporine and tacrolimus product	47.22	50.00	166,282.58	166,282.58	3.33	Self-raised
Workshop expansion project of Chinese herbal decoction pieces	92.84	98.00				Self-raised
Huadong Medicine Biomedical Science Park phase I	88.25	100.00				Self-raised
Huadong Medicine Biomedical Science Park phase II	2.74					Self-raised
Other piecemeal projects						
Subtotal						

#### 14. Intangible assets

##### (1) Details

Items	Land use right	Non-patent technology	Software	Trademark, franchise right	Total
Cost					
Opening balance	192,684,731.13	516,526,737.76	13,553,512.09	63,263,635.00	786,028,615.98

Items	Land use right	Non-patent technology	Software	Trademark, franchise right	Total
Increase	118,673,247.50	30,000,000.00	1,347,199.03	32,323,627.34	182,344,073.87
1) Acquisition	117,649,610.00	30,000,000.00	1,347,199.03	32,323,627.34	181,320,436.37
2) Transferred in from others [Note]	1,023,637.50				1,023,637.50
Decrease	1,755,281.10				1,755,281.10
1) Disposal	1,755,281.10				1,755,281.10
Closing balance	309,602,697.53	546,526,737.76	14,900,711.12	95,587,262.34	966,617,408.75
Accumulated amortization					
Opening balance	35,946,976.77	227,788,151.95	7,392,053.22	24,023,124.35	295,150,306.29
Increase	5,869,514.01	46,060,565.81	1,823,290.95	9,194,369.85	62,947,740.62
1) Accrual	5,792,741.20	46,060,565.81	1,823,290.95	9,194,369.85	62,870,967.81
2) Transferred in from others [Note]	76,772.81				76,772.81
Decrease	1,319,486.42				1,319,486.42
1) Disposal	1,319,486.42				1,319,486.42
Closing balance	40,497,004.36	273,848,717.76	9,215,344.17	33,217,494.20	356,778,560.49
Carrying amount					
Closing balance	269,105,693.17	272,678,020.00	5,685,366.95	62,369,768.14	609,838,848.26
Opening balance	156,737,754.36	288,738,585.81	6,161,458.87	39,240,510.65	490,878,309.69

Note: Current increase of cost amounting to 1,023,637.50 yuan is due to the acquisition of Huadong Medicine Daishan Co., Ltd., which is brought into consolidation scope.

Current increase of accumulated depreciation amounting to 76,772.81 yuan is due to the acquisition of Huadong Medicine Daishan Co., Ltd., which is brought into consolidation scope.

(2) Land use right with certificate of titles being unsettled

Items	Carrying amount	Reasons for unsettlement
Land use right for Yangdai Village, Jinnan Subdistrict, Lin'an	37,125,833.34	In process
Subtotal	37,125,833.34	

15. Goodwill

(1) Cost

Investees or events resulting in goodwill	Opening balance	Due to business combination in current period	Decrease	Closing balance
			Disposal	
华东医药德清天润有限公司 (Huadong Medicine Deqing Tianrui Co., Ltd.*)	2,005,449.91			2,005,449.91
Huadong Ningbo Medicine Co., Ltd.	825,735.49			825,735.49

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Investees or events resulting in goodwill	Opening balance	Due to business combination in current period	Decrease	Closing balance
			Disposal	
陕西九州制药有限责任公司 (Shaanxi Jiuzhou Pharmacy Co., Ltd.*)	1,997,548.79			1,997,548.79
华东医药宁波销售有限公司 (Huadong Medicine Ningbo Sales Co., Ltd.*)	3,746,598.98			3,746,598.98
华东医药温州有限公司 (Huadong Medicine Wenzhou Co., Ltd.*)	4,535,290.74			4,535,290.74
华东医药绍兴有限公司 (Huadong Medicine Shaoxing Co., Ltd.*)	439,283.58			439,283.58
华东医药丽水有限公司 (Huadong Medicine Lishui Co., Ltd.*)	2,069,036.56			2,069,036.56
杭州华东医药化学试剂有限公司 (Hangzhou Huadong Medicine Chemical Reagent Co., Ltd.*)	658,583.99			658,583.99
杭州培元堂诊所有限公司 (Hangzhou Peiyuantang Clinic Co., Ltd.*)	635,250.35			635,250.35
Huadong Medicine Daishan Co., Ltd.		7,777,770.06		7,777,770.06
Huadong Medicine Cunde (Zhoushan) Co., Ltd.		17,823,651.36		17,823,651.36
Zhoushan Cundetang Medicine Retail Co., Ltd.		3,725,483.62		3,725,483.62
Total	16,912,778.39	29,326,905.04		46,239,683.43

(2) Provision for impairment

Investees or events resulting in goodwill	Opening balance	Increase	Decrease	Closing balance
		Accrual	Disposal	
Shaanxi Jiuzhou Pharmacy Co., Ltd.	1,997,548.79			1,997,548.79
Hangzhou Huadong Medicine and Chemical Reagent Co., Ltd.	658,583.99			658,583.99
Hangzhou Peiyuantang Clinic Co., Ltd.		635,250.35		635,250.35
Subtotal	2,656,132.78	635,250.35		3,291,383.13

(3) Impairment test process, parameters, and recognition method of goodwill impairment loss

1) Hangzhou Huadong Medicine Chemical Reagent Co., Ltd. plans to cancel the registration due to its poor operating performance. Therefore, provision for impairment of goodwill has been made in full amount.

2) Provision for impairment of Shaanxi Jiuzhou Pharmacy Co., Ltd. refers to the provision for impairment of goodwill fully made on Shaanxi Jiuzhou Pharmacy Co., Ltd. by 西安博华制药有限公司 (Xi'an Bohua Pharmacy Co., Ltd.\*) when the Company acquired equity of Xi'an

\* The English names are for identification purpose only.



Bohua Pharmacy Co., Ltd. in previous years.

3) Due to the poor performance of Hangzhou Peiyuantang Clinic Co., Ltd., provision for goodwill impairment has been made in full amount.

#### 16. Long-term prepayments

Items	Opening balance	Increase	Amortization	Other decreases	Closing balance
Decoration fees [Note]	13,646,193.23	4,674,527.30	6,340,629.33	362,461.68	11,617,629.52
Rental fees	451,500.00	1,359,275.39	988,854.74		821,920.65
Technical service fees	415,094.30	1,410,171.28	622,765.94		1,202,499.64
Total	14,512,787.53	7,443,973.97	7,952,250.01	362,461.68	13,642,049.81

Note: Due to the acquisition of Zhoushan Cundetang Medicine Retail Co., Ltd. and Huadong Medicine Cunde (Zhoushan) Co., Ltd., the Company brought these two companies into consolidation scope and increased long-term prepayments for decoration fees by 53,846.24 yuan and 1,809,039.68 yuan respectively.

#### 17. Deferred tax assets

##### (1) Deferred tax assets before offset

Items	Closing balance		Opening balance	
	Deductible temporary difference	Deferred tax asset	Deductible temporary difference	Deferred tax asset
Provision for impairment of assets	254,271,534.55	58,871,811.16	235,226,218.49	55,042,720.78
Unrealized profit from internal transactions	63,431,163.74	9,915,477.37	22,251,346.18	3,447,889.08
Deferred income	61,940,194.25	14,130,682.71		
Total	379,642,892.54	82,917,971.24	257,477,564.67	58,490,609.86

##### (2) Details of unrecognized deferred tax assets

Items	Closing balance	Opening balance
Deductible losses	104,756,825.99	94,542,550.53
Provision for bad debts for accounts receivable	9,594,394.24	3,500,785.89
Provision for bad debts for other receivables	11,817,638.42	8,130,844.41
Deferred income	11,323,487.84	
Provision for inventory write-down	14,668.37	212,619.56
Subtotal	137,507,014.86	106,386,800.39

##### (3) Maturity years of deductible losses of unrecognized deferred tax assets

Maturity years	Closing balance	Opening balance	Remarks
Year 2017		10,393,471.77	
Year 2018	19,878,759.46	17,573,144.89	
Year 2019	17,903,298.94	17,968,681.08	
Year 2020	26,190,265.59	30,747,211.91	
Year 2021	22,611,550.45	17,860,040.88	
Year 2022	18,172,951.55		
Subtotal	104,756,825.99	94,542,550.53	

18. Other non-current assets

Items	Closing balance	Opening balance
Prepayment for acquisition of equipment	45,422,302.55	47,076,427.96
Prepayment for transfer of technology	28,400,000.00	22,200,000.00
Payment for purchase of emission right	1,235,776.00	
Total	75,058,078.55	69,276,427.96

19. Short-term borrowings

(1) Details

Items	Closing balance	Opening balance
Pledged borrowings	119,000,000.00	215,000,000.00
Mortgaged borrowings	28,000,000.00	47,446,050.00
Secured borrowings	113,940,000.00	129,470,000.00
Credit borrowings	77,630,000.00	24,200,612.44
Mortgaged and secured borrowings	37,000,000.00	38,000,000.00
Trade acceptance discount		19,000,000.00
Total	375,570,000.00	473,116,662.44

(2) No balance overdue but unpaid.

20. Notes payable

(1) Details

Items	Closing balance	Opening balance
Trade acceptance	110,073,901.07	63,853,630.67
Bank acceptance	263,594,338.30	401,707,596.67
Total	373,668,239.37	465,561,227.34

(2) No balance due but unpaid.

## 21. Accounts payable

### (1) Details

Items	Closing balance	Opening balance
Payment for goods	3,283,110,338.66	3,193,754,782.51
Payment for acquisition of long-term assets	169,121,442.78	159,281,361.03
Total	3,452,231,781.44	3,353,036,143.54

(2) No significant balance with age over one year.

## 22. Advances received

### (1) Details

Items	Closing balance	Opening balance
Advanced drug sales	73,254,070.04	40,339,543.16
Advanced rental fees	708,062.86	672,483.81
Total	73,962,132.90	41,012,026.97

(2) No significant balance with age over one year.

## 23. Employee benefits payable

### (1) Details

Items	Opening balance	Increase	Decrease	Closing balance
Short-term employee benefits	31,311,584.85	1,203,769,303.29	1,189,909,583.67	45,171,304.47
Post-employment benefits - defined benefit plan	10,945,156.16	72,604,195.00	73,663,937.05	9,885,414.11
Termination benefits		360,808.17	360,808.17	
Total	42,256,741.01	1,276,734,306.46	1,263,934,328.89	55,056,718.58

### (2) Details of short-term employee benefits

Items	Opening balance	Increase	Decrease	Closing balance
Wage, bonus, allowance and subsidy	22,230,955.03	949,732,209.13	938,649,999.68	33,313,164.48
Employee welfare fund		136,230,820.48	136,230,820.48	
Social insurance premium	6,299,955.12	42,476,320.08	41,360,827.17	7,415,448.03
Including: Medicare premium	5,460,736.59	37,476,451.79	36,470,510.78	6,466,677.60
Occupational injuries premium	159,602.32	1,885,750.73	1,899,678.12	145,674.93
Maternity premium	679,616.21	3,114,117.56	2,990,638.27	803,095.50
Housing provident fund	134,522.30	40,975,855.67	41,001,595.44	108,782.53
Trade union fund and employee education fund	2,492,368.93	29,179,267.41	27,337,726.91	4,333,909.43
Labor cost	153,783.47	5,174,830.52	5,328,613.99	
Subtotal	31,311,584.85	1,203,769,303.29	1,189,909,583.67	45,171,304.47

### (3) Details of defined benefit plan

Items	Opening balance	Increase	Decrease	Closing balance
Basic endowment insurance premium	10,398,761.85	69,479,229.43	70,607,047.00	9,270,944.28
Unemployment insurance premium	546,394.31	3,124,965.57	3,056,890.05	614,469.83
Subtotal	10,945,156.16	72,604,195.00	73,663,937.05	9,885,414.11

#### 24. Taxes and rates payable

Items	Closing balance	Opening balance
VAT	346,340,216.39	259,268,935.55
Enterprise income tax	220,828,086.80	112,013,031.48
Individual income tax withheld for tax authorities	33,896,316.92	16,439,840.99
Urban maintenance and construction tax	7,109,749.61	11,820,856.95
Housing property tax	5,052,392.31	1,872,981.74
Land use tax	1,370,933.54	638,326.69
Education surcharge	3,073,195.28	5,077,772.02
Local education surcharge	1,965,748.44	3,305,662.03
Stamp duty	595,508.99	724,795.18
Local water conservancy fund	12,890.52	10,375,835.62
Price regulation fund	529,088.09	529,088.09
Security fund for the disabled	209,704.62	49,264.92
Total	620,983,831.51	422,116,391.26

#### 25. Interest payable

Items	Closing balance	Opening balance
Interest of long-term borrowings with payment of interest by installments and principal at the maturity date		330,620.77
Corporate bonds	29,230,137.01	29,230,136.98
Short-term borrowings	505,477.18	1,654,696.30
Total	29,735,614.19	31,215,454.05

#### 26. Dividend payable

##### (1) Details

Items	Closing balance	Opening balance
Dividend of ordinary shares	9,382,619.60	224,219.60
Total	9,382,619.60	224,219.60

##### (2) Significant dividend payable with age over one year

Items	Amount unpaid	Reasons for being unpaid
Dividend of corporate shares	224,219.60	Unpayable due to change of shareholder's information
Subtotal	224,219.60	

27. Other payables

(1) Details

Items	Closing balance	Opening balance
Deposits	166,519,074.04	28,877,302.24
Call loans	33,637,380.63	28,654,838.65
Temporary receipts payable	872,066,800.17	819,759,719.38
Others	49,724,868.86	47,664,909.54
Total	1,121,948,123.70	924,956,769.81

(2) No significant balance with age over one year.

28. Non-current liabilities due within one year

Items	Closing balance	Opening balance
Long-term borrowings due within one year		28,471,620.00
Total		28,471,620.00

29. Long-term borrowings

Items	Closing balance	Opening balance
Secured borrowings		21,280,000.00
Total		21,280,000.00

30. Bonds payable

(1) Details

Items	Closing balance	Opening balance
15 Huadong Bond	992,440,873.26	989,495,117.70
Total	992,440,873.26	989,495,117.70

(2) Movements of bonds payable

Bonds	Par value	Issuing date	Maturity	Amount outstanding
15 Huadong Bond	1,000,000,000.00	May 19, 2015	5 years	985,000,000.00

(Continued)

Opening balance	Current period issuance	Par value interest	Premium/ discount amortization	Current period repayment	Closing balance
989,495,117.70			2,945,755.56		992,440,873.26

### 31. Deferred income

#### (1) Details

Items	Opening balance	Increase	Decrease	Closing balance	Reasons for balance
Government grants	21,845,360.00	58,849,000.50	7,430,678.41	73,263,682.09	
Total	21,845,360.00	58,849,000.50	7,430,678.41	73,263,682.09	

#### (2) Details of government grants

Items	Opening balance	Increase	Grants included into profit or loss [Note]	Closing balance	Related to assets/income
Subsidy for heat supply renovation project	2,987,341.50		663,853.66	2,323,487.84	Related to assets
Subsidy for national generic chemical drug development project	5,200,000.00		1,300,000.00	3,900,000.00	Related to assets
Production project of cordyceps fungus powder with annual output of 1,300 tons	6,000,000.00		900,000.00	5,100,000.00	Related to assets
Compensation for demolition	7,658,018.50	43,659,000.50	2,920,483.29	48,396,535.71	Related to assets
Subsequent subsidy for national generic chemical drug development project		13,500,000.00	1,646,341.46	11,853,658.54	Related to assets
Internationalization research project of generic technology of oral solid high-end preparation		1,690,000.00		1,690,000.00	Related to income
Subtotal	21,845,360.00	58,849,000.50	7,430,678.41	73,263,682.09	

Note: Please refer to notes to government grants for details on grants included into profit or loss.

### 32. Share capital

#### (1) Details

Items	Opening balance	Movements					Closing balance
		Issue of new shares	Bonus shares	Reserve transferred to shares	Others	Subtotal	
Total shares	486,058,208.00			486,058,208.00		486,058,208.00	972,116,416.00

#### (2) Other remarks

Pursuant to the resolution of the Shareholders' Meeting of 2016, based on the total share of 486,058,208 shares, the Company increases share capital totaling 486,058,208.00 yuan by converting capital reserve to all shareholders at the rate of 10 shares per 10 shares. Such capital increase had been verified by Pan-China Certified Public Accountants LLP, and a capital verification report numbered PCCPACVR [2017] 190 was issued thereon. The Company has registered such change on June 26, 2017.

### 33. Capital reserve

#### (1) Details

Items	Opening balance	Increase	Decrease	Closing balance
Capital premium	3,416,622,021.65	13,584.36	494,676,681.24	2,921,958,924.77
Other capital reserve	19,626,276.41			19,626,276.41
Total	3,436,248,298.06	13,584.36	494,676,681.24	2,941,585,201.18

#### (2) Other remarks

Current increase is due to the acquisition of 5% equity of 杭州悦可医疗美容诊所有限公司 (Hangzhou Yoco Medical Cosmetology Clinic Co., Ltd. \* ). The difference between the consideration of newly acquired long-term equity investments and the proportionate share of net identifiable assets in such subsidiary from combination date amounting to 13,584.36 yuan is included into capital reserve.

Please refer to section V (I) 32 for details on current decrease of 486,058,208.00 yuan; current decrease of 2,147,603.23 yuan is due to the acquisition of non-controlling interest of Huadong Medicine Shaoxing Co., Ltd. The difference between the consideration of newly acquired long-term equity investments and the proportionate share of net identifiable assets in such subsidiary from combination date amounting to 2,147,603.23 yuan offsets capital reserve; current decrease of 6,470,870.01 yuan is due to the unilateral capital increase amounting to 100 million yuan of Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd. by 杭州中美华东制药有限公司 (Hangzhou Sino-US Pharmacy Co., Ltd.\*), whose investment proportion is increased from 79.61% to 89.76%. Difference of share of net identifiable assets attributable to Hangzhou Sino-US Pharmacy Co., Ltd. arising from such change in holding proportion amounts to 6,470,870.01 yuan and offsets capital reserve.

### 34. Surplus reserve

#### (1) Details

Items	Opening balance	Increase	Decrease	Closing balance
Statutory surplus reserve	357,328,881.15	134,925,893.36		492,254,774.51
Total	357,328,881.15	134,925,893.36		492,254,774.51

#### (2) Other remarks

Current increase of 134,925,893.36 yuan is due to the appropriation of statutory surplus reserve at 10% of net profit generated by parent company in 2017.

### 35. Undistributed profit

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\* The English names are for identification purpose only.

(1) Details

Items	Current period cumulative	Preceding period comparative
Opening balance	2,998,888,532.03	2,272,483,685.44
Add: Net profit attributable to owners of the parent company	1,779,506,061.59	1,446,591,698.47
Others	23,285.41	
Less: Appropriation of statutory surplus reserve	134,925,893.36	112,614,091.89
Dividend payable on ordinary shares	656,178,580.80	607,572,759.99
Closing balance	3,987,313,404.87	2,998,888,532.03

(2) Other remarks

Pursuant to the profit distribution plan of 2016 passed by the Shareholders' Meeting of 2016, the Company distributes cash dividend of 13.5 yuan per 10 shares. Dividend on ordinary shares distributed totals 656,178,580.80 yuan.

Other increase amounts to 23,285.41 yuan, of which, 350,986.41 yuan is due to the acquisition of the subsidiary Hangzhou Yoco Medical Cosmetology Clinic Co., Ltd. with the consideration of 0.00 yuan and retained earnings should be recognized at the difference between the acquisition cost and carrying amount of net assets of Hangzhou Yoco Medical Cosmetology Clinic Co., Ltd. according to CASBEs; and -327,701.00 yuan is due to the acquisition of 10% equity of 华东医药 (武汉) 药业有限公司 (Huadong Medicine Wuhan Pharmaceutical Co., Ltd. \*) with the consideration of 59,014.00 yuan and retained earnings should be offset by the difference between the acquisition cost and carrying amount of net assets of Huadong Medicine Wuhan Pharmaceutical Co., Ltd. according to CASBEs.

(II) Notes to items of the consolidated income statement

1. Operating revenue/Operating cost

Items	Current period cumulative		Preceding period comparative	
	Revenue	Cost	Revenue	Cost
Main operations	27,797,001,223.92	20,542,770,250.91	25,345,870,024.02	19,201,130,699.62
Other operations	34,821,924.15	18,948,026.86	33,797,478.86	17,974,826.49
Total	27,831,823,148.07	20,561,718,277.77	25,379,667,502.88	19,219,105,526.11

2. Taxes and surcharge for operations

Items	Current period cumulative	Preceding period comparative
Business tax		330,272.72
Urban maintenance and construction tax	83,190,687.62	70,171,449.89

\* The English name is for identification purpose only.



Items	Current period cumulative	Preceding period comparative
Education surcharge	35,723,908.10	30,143,672.07
Local education surcharge	23,816,547.15	20,009,131.99
Stamp duty [Note]	7,769,221.86	4,979,644.97
Housing property tax [Note]	9,353,474.33	4,419,362.52
Land use tax [Note]	3,089,010.47	1,624,914.87
Vehicle and vessel use tax [Note]	113,484.54	67,530.95
Total	163,056,334.07	131,745,979.98

Note: Pursuant to Provisions on Accounting Treatment of Value-Added Tax (numbered Cai Kuai [2016] 22) and Interpretation about Provisions on Accounting Treatment of Value-Added Tax that issued by Ministry of Finance, amounts of housing property tax, land use tax, vehicle and vessel use tax and stamp duty for the period from May to December 2016 and the year ended December 31, 2017 are listed in “taxes and surcharge for operations”, while those for the period prior to May 2016 are listed in “administrative expenses”.

### 3. Selling expenses

Items	Current period cumulative	Preceding period comparative
Travelling expenses	798,733,645.12	797,692,568.28
Promotion and market maintenance expenses	736,367,158.88	663,863,971.86
Employee benefits	631,717,448.98	511,900,412.19
Office expenses	492,783,264.62	474,829,260.27
Freight charges	629,582,352.36	574,790,546.16
Advertising and publicity expenses	39,510,492.19	21,992,533.49
Others	400,216,894.17	253,554,353.94
Total	3,728,911,256.32	3,298,623,646.19

### 4. Administrative expenses

Items	Current period cumulative	Preceding period comparative
Employee benefits	245,478,023.55	168,944,936.87
R&D expenses	461,753,573.48	264,094,606.80
Amortization of intangible assets	45,865,335.34	53,256,380.80
Depreciation expenses	22,795,657.12	18,194,942.36
Office expenses	24,170,081.74	27,908,917.14
Business entertainment	21,337,714.60	20,509,597.64
Travelling expenses	65,687,322.69	58,675,353.22

Items	Current period cumulative	Preceding period comparative
Rental expenses	22,947,939.57	23,563,319.46
Taxes [Note]	1,360,802.65	8,461,309.34
Others	156,556,080.03	115,702,653.69
Total	1,067,952,530.77	759,312,017.32

Note: Please refer to notes to taxes and surcharges for operation for details.

#### 5. Financial expenses

Items	Current period cumulative	Preceding period comparative
Interest expenditures	74,467,341.88	78,026,672.86
Interest income	-31,884,905.70	-28,899,433.23
Handling charges	5,325,536.34	4,191,688.94
Discount expenses		19,108,513.12
Losses on exchange	2,051,895.73	14,745,784.11
Gains on exchange	-4,701,512.38	-1,127,592.74
Cash discount	2,220,119.68	8,046,890.28
Total	47,478,475.55	94,092,523.34

#### 6. Assets impairment loss

Items	Current period cumulative	Preceding period comparative
Bad debts loss	25,297,050.57	46,138,812.09
Inventory write-down loss	-197,951.19	108,598.92
Impairment loss of goodwill	635,250.35	658,583.99
Total	25,734,349.73	46,905,995.00

#### 7. Investment income

Items	Current period cumulative	Preceding period comparative
Investment income from long-term equity investments under equity method	14,196,379.08	13,403,988.12
Gains on disposal of available-for-sale financial assets		30,000.00
Investment income from bank financial products	2,575,905.01	13,176,814.68
Gains on disposal of long-term equity investments	878,225.98	
Total	17,650,510.07	26,610,802.80

#### 8. Gains on asset disposal

Items	Current period cumulative	Preceding period comparative	Amount included in non-recurring profit or loss
Gains on disposal of fixed assets	-1,343,706.28	-2,101,751.53	-1,343,706.28
Total	-1,343,706.28	-2,101,751.53	-1,343,706.28

#### 9. Other income

Items	Current period cumulative	Preceding period comparative	Amount included in non-recurring profit or loss
Government grants	87,996,713.69		87,996,713.69
Total	87,996,713.69		87,996,713.69

Please refer to notes to government grants for details on grants included into other income.

#### 10. Non-operating revenue

##### (1) Details

Items	Current period cumulative	Preceding period comparative	Amount included in non-recurring profit or loss
Gains on damage or retirement of non-current assets	66,158.68	53,261.88	66,158.68
Gains on debt restructuring	2,439,066.31		2,439,066.31
Government grants		49,236,117.29	
Tax reduction and exemption		9,144,326.46	
Indemnity income	62,510.33	200,000.00	62,510.33
Unpayable fund	2,736,570.65	160,950.82	2,736,570.65
The surplus of share of fair value of net identifiable assets acquired over the acquisition cost under business combination not under common control		20,416.48	
Others	1,041,468.66	715,880.70	1,041,468.66
Total	6,345,774.63	59,530,953.63	6,345,774.63

##### (2) Government grants

Items	Current period cumulative	Preceding period comparative	Related to assets/income	Remarks
1) Parent company				
Fiscal subsidy for Hangzhou medical supplies reserve		606,000.00	Related to income	Pursuant to the document numbered Hang Cai Qi [2016] 88
Subsidy fund for provincial medical circulation reserve of 2016 in Tianshui Subdistrict		1,170,000.00	Related to income	Pursuant to the document numbered Zhe Cai Qi [2016] 15
Policy support fund for significant projects in Tianshui Subdistrict		3,292,900.00	Related to income	Pursuant to the document numbered Xia Da Ji Yao [2014] 4

Subsidy for college students practical training		418,203.00	Related to income	
Subsidy for stable employment		1,510,997.14	Related to income	Pursuant to the document numbered Hang Ren She Fa [2015] 307
Reward for key backbone enterprises in sales in Tianshui Subdistrict		500,000.00	Related to income	Pursuant to the document numbered Qu Wei Fa [2016] 11
Subtotal		7,498,100.14		

2) Hangzhou Sino-US Pharmacy Co., Ltd.

Post-doctoral research funds		100,000.00	Related to income	
Subsidy for heat supply renovation project		663,853.66	Related to assets	Pursuant to the document numbered Hang Zheng Ban Han [2008] 233
Research and development of anticoagulant fondaparinux sodium		6,900,000.00	Related to income	Pursuant to the document numbered Hang Cai Qi [2013] 1550
Project fund for 迈华替尼 (Mefatinib*)		8,524,000.00	Related to income	Pursuant to the document numbered Guo Wei Ke (2014) 69-102001/(2014) 70-102001001
Subsidy for stable employment		2,868,035.01	Related to income	Pursuant to the document numbered Hang Ren She (2015) 307
Subsidy for famous trademark of Hangzhou of 2014		440,000.00	Related to income	Pursuant to the document numbered Hang Cai Hang [2015] 69
Special fund for supporting the first batch of provincial small and medium-sized technology-based enterprises and the development of science and technology of 2016		100,000.00	Related to income	Pursuant to the documents numbered Hang Ke Ji [2016] 40 and Hang Cai Jiao Kuai [2016] 13
Entrepreneurship and innovation fund for Hangzhou enterprises of 2015		300,000.00	Related to income	Pursuant to the document numbered Gong Zheng Ban [2016] 34
Subsidy for national generic chemical drug development project		1,300,000.00	Related to assets	Pursuant to the document numbered Zhe Cai Qi [2012] 402
Other small subsidies		53,007.00	Related to income	
Subtotal		21,248,895.67		

3) 华东医药（西安）博华制药有限公司 (Huadong Medicine (Xi'an) Bohua Pharmacy Co., Ltd.\*)

Reward for new enterprise above designated size of 2016 from Industry and Information Technology Department		300,000.00	Related to income	Pursuant to the document numbered Shi Gong Xin Fa [2016] 86
Other small subsidies		10,000.00	Related to income	
Subtotal		310,000.00		

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4) 杭州华东武林大药房有限公司 (Hangzhou Huadong Wulin Large Pharmacy Co., Ltd.)

Subsidy for employment from employment special account		59,300.00	Related to income	Pursuant to the document numbered Hang Ren She Fa [2016] 25
Subsidy for social insurance and stable employment from Hangzhou Employment Management Service Bureau		43,311.98	Related to income	
Subtotal		102,611.98		

5) 华东医药（杭州）百令生物科技有限公司 (Huadong Medicine (Hangzhou) Bailing Biotechnology Co., Ltd.)\*

Subsidy for social insurance and stable employment from Hangzhou Employment Management Service Bureau		20,856.19	Related to income	Hangzhou Employment Administration Service Bureau
Reward for advanced entities with effective investment of 2015		200,000.00	Related to income	Hangzhou Dajiangdong Management Committee
Subtotal		220,856.19		

6) Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd.

International market development fund		20,000.00	Related to income	
Subsidy for science and technology innovation from Bureau of Finance		23,300.00	Related to income	
Fund for international market development for SMEs of 2015		16,800.00	Related to income	Pursuant to the document numbered She Shang Wu Han [2015] 10
Subsidy for three items of technology		20,000.00	Related to income	
Special fund for patent		8,000.00	Related to income	
Subsidy for talent introduction from Bureau of Finance		28,160.98	Related to income	
Special fund for promotion of foreign trade growth of 2016 from the Bureau of Finance		115,000.00	Related to income	Pursuant to the document numbered She Zheng Ban Fa [2016] 33
Other small subsidies		5,000.00	Related to income	
Subtotal		236,260.98		

7) Huadong Ningbo Medicine Co., Ltd.

Special fund for promotion of industrial restructuring		16,790,000.00	Related to income	Pursuant to the document numbered Lun Shang Wu [2016] 31
Reward from local taxation bureau		186,644.24	Related to income	
VAT withheld for tax authorities and enterprise income tax refund		125,269.45	Related to income	
Subtotal		17,101,913.69		

8) Huadong Medicine Wenzhou Co., Ltd.

Reward for service leading enterprise from Bureau of		100,000.00	Related to income	Pursuant to the document numbered
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\* The English names are for identification purpose only.

Commerce				Zhe Shang Wu Lian Fa [2015] 18
Other small subsidies		19,149.00	Related to income	
Subtotal		119,149.00		
9) 华东医药湖州有限公司 (Huadong Medicine Huzhou Co., Ltd.)				
Subsidy for stable employment		17,140.17	Related to income	Pursuant to the document numbered Hu Ren She Fa [2016] 63
Subtotal		17,140.17		
10) Hangzhou Huadong Chinese Medicine Co., Ltd.				
Reward for service leading enterprise in Lin'an		450,000.00	Related to income	Pursuant to the documents numbered Lin Nong Chan Ban [2016] 6 and Lin Cai Nong Kuai [2016] 41
Other small subsidies		80,000.00	Related to income	
Subtotal		530,000.00		
11) 华东医药供应链管理(杭州)有限公司 (Huadong Medicine Supply Chain Management (Hangzhou) Co., Ltd.)*				
Subsidy for stable employment		160,489.47	Related to income	Pursuant to the document numbered Hang Ren She Fa [2015] 307
Special subsidy for modern logistics		440,000.00	Related to income	Pursuant to the document numbered Hang Jing Kai Jing [2015] 356
Fiscal contribution award of 2015		116,700.00	Related to income	Pursuant to the document numbered Hang Jing Kai Guan Fa [2016] 147
Fiscal contribution award of 2015 in Baiyang Subdistrict		25,800.00	Related to income	
Subtotal		742,989.47		
12) Huadong Medicine Lishui Co., Ltd.				
Government policy reward		258,200.00	Related to income	Pursuant to the document numbered Long Zheng Fa [2013] 113
Reward for new commercial enterprises above designated size from Bureau of Economy and Trade		30,000.00	Related to income	Pursuant to the document numbered Long Cai Guo Qi [2016] 217
Special fund for supporting the development of service industry of 2015		10,000.00	Related to income	Pursuant to the document numbered Long Cai Guo Qi [2016] 202
Subtotal		298,200.00		
13) Hangzhou Yoco Medical Cosmetology Clinic Co., Ltd.				
Construction project of Yoco Medical Cosmetology		375,000.00	Related to income	Pursuant to the document numbered Xia Fa Gai (2016) 43
Subtotal		375,000.00		

\* The English names are for identification purpose only.

14) 杭州悦行优品健康管理有限公司 (Hangzhou Yuexing Youpin Health Management Co., Ltd. <sup>□</sup> )				
Receipt of special fund for the development of healthcare industry of 2015		423,000.00	Related to income	Pursuant to the document numbered Xia Fa Gai (2016) 43
Subtotal		423,000.00		
15) 华东医药(杭州)生物制品有限公司 (Huadong Medicine (Hangzhou) Biological Product Co., Ltd. <sup>*</sup> )				
Subsidy from Integrated Service Center of Ziyang Subdistrict, Shangcheng District, Hangzhou		12,000.00	Related to income	
Subtotal		12,000.00		
Total		49,236,117.29		

## 11. Non-operating expenditures

### (1) Details

Items	Current period cumulative	Preceding period comparative	Amount included in non-recurring profit or loss
Losses on damage or retirement of non-current assets	6,996,416.54	13,853,718.35	6,996,416.54
Donation expenditures	19,521,636.63	7,507,800.00	19,521,636.63
Penalty expenditures and surcharge for overdue tax payment	1,684,256.06	6,297,140.10	1,684,256.06
Local water conservancy fund	-8,130,824.96	3,883,845.88	-8,239,454.78
Irrecoverable funds	2,854,984.13		2,854,984.13
Others	316,558.48	106,339.09	316,558.48
Total	23,243,026.88	31,648,843.42	23,134,397.06

### (2) Other remarks

Pursuant to the document numbered Hang Di Shui Xia You Pi [2017] 21957 issued by Hangzhou Local Taxation Bureau, Xiacheng Taxation Branch, the Company was entitled to enjoy an 80% exemption for local water conservancy fund in 2016, totaling 8,239,454.78 yuan.

## 12. Income tax expenses

Items	Current period cumulative	Preceding period comparative
Current period income tax expenses	460,589,857.26	359,660,614.67
Deferred income tax expenses	-24,427,361.38	-12,797,903.02
Total	436,162,495.88	346,862,711.65

### (2) Reconciliation of accounting profit to income tax expenses

Items	Current period cumulative	Preceding period comparative
Profit before tax	2,324,378,189.09	1,882,272,976.42

<sup>□</sup> The English names are for identification purpose only.

Items	Current period cumulative	Preceding period comparative
Income tax expenses based on tax rate adopted by the parent company	581,094,547.27	470,568,244.11
Effect of different tax rate applicable to subsidiaries	-159,258,970.33	-129,354,962.85
Effect of prior income tax reconciliation	4,121,931.63	-293,537.11
Effect of non-taxable income	-2,779,873.32	-3,168,933.99
Effect of non-deductible costs, expenses and losses	36,548,624.36	27,996,022.10
Utilization of deductible losses not previously recognized as deferred income tax assets	-979,548.63	-7,484,333.24
Effect of deductible temporary differences or deductible losses not recognized as deferred income tax assets	5,787,931.70	4,304,760.89
Effect of plus deduction of R&D expenses	-25,917,388.92	-12,825,178.65
Effect of plus deduction of wages of the disabled workers	-159,941.19	-199,910.89
Tax exemption for primary processing of agricultural products	-2,106,589.56	-2,674,354.60
Others	-188,227.13	-5,104.12
Income tax expenses	436,162,495.88	346,862,711.65

(III) Notes to items of the consolidated cash flow statement

1. Other cash receipts related to operating activities

Items	Current period cumulative	Preceding period comparative
Receipts of deposit for L/C and notes	234,085,069.99	92,738,209.32
Government grants	73,825,512.14	40,372,263.63
Interest income from bank deposits	31,884,905.70	28,899,433.23
Rental income	6,063,027.25	4,167,943.37
Deposits	137,641,771.80	8,117,488.16
Others	44,889,810.26	24,272,897.84
Total	528,390,097.14	198,568,235.55

2. Other cash payments related to operating activities

Items	Current period cumulative	Preceding period comparative
Travelling expenses	856,001,656.41	752,727,649.52
Deposit for L/C and notes	344,870,487.82	67,242,019.43
Promotion and market maintenance expenses	705,568,483.13	604,744,809.17
Office expenses	511,599,526.88	437,905,617.57
Vehicle and transportation expenses	505,333,880.78	518,523,383.55
R&D expenses	347,989,315.02	190,870,530.51



Items	Current period cumulative	Preceding period comparative
Others	593,295,391.57	475,531,523.81
Total	3,864,658,741.61	3,047,545,533.56

3. Other cash receipts related to investing activities

Items	Current period cumulative	Preceding period comparative
Redemption of financial products	2,102,000,000.00	4,853,100,000.00
Compensation for demolition	9,780,536.70	7,658,018.50
Total	2,111,780,536.70	4,860,758,018.50

4. Other cash payments related to investing activities

Items	Current period cumulative	Preceding period comparative
Purchase of financial products	2,632,000,000.00	5,003,100,000.00
Cash and cash equivalents held by subsidiaries on which the Company lost control	260.17	
Total	2,632,000,260.17	5,003,100,000.00

5. Other cash receipts related to financing activities

Items	Current period cumulative	Preceding period comparative
Receipts of call loans	20,000,000.00	8,800,000.00
Receipts of deposit for bank borrowings	10,000,000.00	581,936.00
Total	30,000,000.00	9,381,936.00

6. Other cash payments related to financing activities

Items	Current period cumulative	Preceding period comparative
Call loans and interest	1,662,374.85	31,430,666.65
Acquisition of non-controlling interest of subsidiary	5,708,517.22	
Deposit for bank borrowings		10,000,000.00
Agency fees for private placement of shares		1,551,998.22
Total	7,370,892.07	42,982,664.87

7. Supplement information to the cash flow statement

(1) Supplement information to the cash flow statement

Supplement information	Current period cumulative	Preceding period comparative
(1) Reconciliation of net profit to cash flow from operating activities:		
Net profit	1,888,215,693.21	1,535,410,264.77

Supplement information	Current period cumulative	Preceding period comparative
Add: Provision for assets impairment loss	25,734,349.73	46,905,995.00
Depreciation of fixed assets, oil and gas assets, productive biological assets	208,774,474.79	155,625,081.68
Amortization of intangible assets	62,908,912.97	54,441,901.64
Amortization of long-term prepayments	7,952,250.01	6,714,330.06
Loss on disposal of fixed assets, intangible assets and other non-current assets (Less: gains)	1,343,706.28	2,101,751.53
Fixed assets retirement loss (Less: gains)	6,930,257.86	13,800,456.47
Losses on changes in fair value (Less: gains)		
Financial expenses (Less: gains)	74,467,341.88	78,026,672.86
Investments losses (Less: gains)	-17,650,510.07	-26,610,802.80
Decrease of deferred tax assets (Less: increase)	-24,427,361.38	-12,797,903.02
Increase of deferred tax liabilities (Less: decrease)		
Decrease in inventories (Less: increase)	-303,456,375.25	-661,003,471.15
Decrease in operating receivables (Less: increase)	-633,626,687.38	-850,151,374.45
Increase of operating payables (Less: decrease)	384,095,685.22	1,004,520,321.71
Others	-20,143,074.17	-20,416.48
Net cash flow from operating activities	1,661,118,663.70	1,346,962,807.82
(2) Significant investing and financing activities not related to cash receipts and payments:		
Conversion of debt into share capital		
Convertible bonds due within one year		
Fixed assets rented in under finance leases		
(3) Net changes in cash and cash equivalents:		
Cash at the end of the period	2,372,819,624.82	2,629,856,148.78
Less: Cash at the beginning of the period	2,629,856,148.78	1,438,967,536.32
Add: Cash equivalents at the end of the period		
Less: Cash equivalents at the beginning of the period		
Net increase of cash and cash equivalents	-257,036,523.96	1,190,888,612.46

(2) Net cash payment for acquisition of subsidiaries in current period

Items	Current period cumulative
Cash and cash equivalents paid in current period as consideration for business combination in current period	17,600,000.00
Including: Huadong Medicine Cunde (Zhoushan) Co., Ltd.	13,600,000.00
Zhoushan Cundetang Medicine Retail Co., Ltd.	4,000,000.00

Items	Current period cumulative
Huadong Medicine Daishan Co., Ltd.	
Less: Cash and cash equivalents held by subsidiaries at the acquisition date	2,770,037.52
Including: Huadong Medicine Cunde (Zhoushan) Co., Ltd.	1,375,541.65
Zhoushan Cundetang Medicine Retail Co., Ltd.	485,897.53
Huadong Medicine Daishan Co., Ltd.	908,598.34
Net cash payment for acquisition of subsidiaries in current period	14,829,962.48

(3) Net cash receipts for disposal of subsidiaries in current period

Items	Current period cumulative
Cash and cash equivalents received in current period for subsidiary disposal in current period	
Including: Ningbo Yazhi Medical Cosmetology Clinic Co., Ltd.	
Less: Cash and cash equivalents held by subsidiaries on which the Company lost control	260.17
Including: Ningbo Yazhi Medical Cosmetology Clinic Co., Ltd.	260.17
Other cash payment related to investing activities	260.17

(4) Cash and cash equivalents

Items	Closing balance	Opening balance
1) Cash	2,372,819,624.82	2,629,856,148.78
Including: Cash on hand	206,325.41	429,517.01
Cash in bank on demand for payment	2,371,790,765.10	2,629,226,932.71
Other cash and bank balances on demand for payment	822,534.31	199,699.06
Central bank deposit on demand for payment		
Deposit in other banks		
Loans to other banks		
2) Cash equivalents		
Including: Bond investments maturing within three months		
3) Cash and cash equivalents at the end of the period	2,372,819,624.82	2,629,856,148.78
Including: Cash and cash equivalents of parent company or subsidiaries with use restrictions		

(5) Remarks on supplement information to the cash flow statement

Details on monetary items that are not cash and cash equivalents

Time point	Accounting title	Amount	Difference
December 31, 2017	Other cash and bank balances	59,876,000.00	Deposit for L/C
		71,811,735.67	Deposit for notes

		562,753.00	Other deposits
	Subtotal	132,250,488.67	
December 31, 2016	Cash in bank	10,000,000.00	Pledged time deposit
	Other cash and bank balances	14,730,000.00	Deposit for L/C
		6,181,317.84	Deposit for notes
		553,753.00	Other deposits
	Subtotal	31,465,070.84	

(6) Amount of endorsed commercial acceptance not involving cash receipts and payments

Items	Current period cumulative	Preceding period comparative
Amount of endorsed commercial acceptance	1,237,809,406.43	1,037,123,356.47
Including: Payment for goods	1,180,380,910.64	992,669,455.86
Payment for acquisition of long-term assets, such as fixed-assets	57,428,495.79	44,453,900.61

(IV) Others

1. Assets with title or use right restrictions

Items	Closing carrying amount	Reasons for restrictions
Cash and bank balances	132,250,488.67	Deposits
Notes receivable	124,350,637.77	Pledged notes
Accounts receivable	42,259,402.79	Pledged guarantee for borrowings
Investment properties	5,406,584.01	Mortgaged guarantee for borrowings
Fixed assets	34,976,215.63	Mortgaged guarantee for borrowings
Intangible assets	1,993,067.78	Mortgaged guarantee for borrowings
Total	341,236,396.65	

2. Monetary items in foreign currencies

Items	Closing balance in foreign currencies	Exchange rate	RMB equivalent
Cash and bank balances			
Including: USD	779,600.74	6.5342	5,094,067.16
Accounts receivable			
Including: USD	1,481,458.00	6.5342	9,680,142.86
Accounts payable			
Including: USD	8,354,491.00	6.5342	54,589,915.09

3. Government grants

## (1) Details

## 1) Government grants related to assets

Items	Opening balance of deferred income	Increase	Amortization	Closing balance of deferred income	Amortization presented under	Remarks
Subsidy for heat supply renovation project	2,987,341.50		663,853.66	2,323,487.84	Other income	Pursuant to the document numbered Hang Zheng Ban Han [2008] 233
Subsidy for national generic chemical drug development project	5,200,000.00		1,300,000.00	3,900,000.00	Other income	Pursuant to the document numbered Zhe Cai Qi [2012] 402
Production project of cordyceps fungus powder with annual output of 1,300 tons	6,000,000.00		900,000.00	5,100,000.00	Other income	Pursuant to the document numbered Hang Cai Qi [2015] 52
Compensation for demolition	7,658,018.50	43,659,000.50	2,920,483.29	48,396,535.71	Other income	
Subsequent subsidy for national generic chemical drug development project		13,500,000.00	1,646,341.46	11,853,658.54	Other income	Pursuant to the document numbered Zhe Cai Qi [2017] 52
Subtotal	21,845,360.00	57,159,000.50	7,430,678.41	71,573,682.09		

## 2) Government grants related to income and used to compensate future relevant costs, expenses or losses

Items	Opening balance of deferred income	Increase	Amounts carried forward	Closing balance of deferred income	Amounts carried forward presented under	Remarks
Internationalization research project of generic technology of oral solid high-end preparation		1,690,000.00		1,690,000.00		
Subtotal		1,690,000.00		1,690,000.00		

## 3) Government grants related to income and used to compensate incurred relevant costs, expenses or losses

Items	Amounts	Presented under	Remarks
① Parent company			
Compensation for No.601 Jiaogong Road and interest	4,628,253.89	Other income	Pursuant to the document numbered Fu Ban Jian Fu [2015] 1357
Subsidy for stable employment	607,291.11	Other income	Pursuant to the document numbered Hang Ren She Fa [2015] 307
Provincial special fund for the development of industry and information of Tianshui Subdistrict of 2017	1,432,100.00	Other income	Pursuant to the document numbered Hang Cai Qi [2017] 9
Subsidy for provincial medical reserve of 2017 in Hangzhou	660,000.00	Other income	Pursuant to the document numbered Hang Cai Qi [2017] 53
Policy support fund for significant projects in	1,452,000.00	Other income	

Tianshui Subdistrict			
Reward for Hangzhou Advanced and Outstanding Enterprises in Science and Technology Innovation	50,000.00	Other income	Pursuant to the document numbered Shi Wei Ban Fa [2017] 51
Award for the management team	150,000.00	Other income	
Compensation for demolition	20,143,484.13	Other income	
Subtotal	29,123,129.13		
② Hangzhou Sino-US Pharmacy Co., Ltd.			
Special fund for industrialization of enterprise inventions of Gongshu District of 2016	200,000.00	Other income	Pursuant to the document numbered Gong Ke [2017] 13
Fund for supporting provincial small and medium-sized technology-based enterprises of 2017	3,150,000.00	Other income	Pursuant to the document numbered Zhe Cai Jiao [2016] 100
Fund for quality reward of People's Government of Gongshu District of 2016	200,000.00	Other income	Pursuant to the document numbered Gong Shi Jian [2017] 30
Hangzhou policy quality reward	500,000.00	Other income	H Pursuant to the document numbered ang Zheng Ban Han [2017] 55
Subsidy for stable employment	1,193,569.31	Other income	Pursuant to the document numbered Hang Ren She Fa [2015] 307
Subsidy fund for scientific and technological innovation coupon of Gongshu District in 2017	37,452.00	Other income	Pursuant to the document numbered Gong Ke [2017] 60
Subsidy for the third batch of patent in Hangzhou of 2017	250,000.00	Other income	Pursuant to the document numbered Hang Ke Zhe [2017] 94
Special fiscal fund for the development of industry and information of Hangzhou in 2017	1,240,000.00	Other income	Pursuant to the document numbered Hang Cai Qi [2017] 85
Subsidy for college students practical training	6,000.00	Other income	Pursuant to the document numbered Gong Ren She [2017] 79
Refund of land use tax	487,344.00	Other income	Pursuant to the document numbered Hang Di Shui Gong Tong [2017] 42565
Subtotal	7,264,365.31		
③ Huadong Medicine (Xi'an) Bohua Pharmacy Co., Ltd.			
Subsidy for stable employment of 2016	57,000.00	Other income	Bureau of Human Resources and Social Security of Weinan Municipality
Subsidy for stable employment of 2017	55,100.00	Other income	
Subtotal	112,100.00		
④ Huadong Medicine (Hangzhou) Bailing Biotechnology Co., Ltd.			
Subsidy for stable employment	149,521.59	Other income	
Pilot subsidy for substituting machine for man	933,000.00	Other income	Pursuant to the document numbered Da Jiang Dong Cai Zheng [2017] 28

Fund from municipal Bureau of Industry and Information – subsidy for automatic production project	800,000.00	Other income	Pursuant to the document numbered Hang Jing Xin Wu Lian [2016] 139
Subtotal	1,882,521.59		
⑤ Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd.			
Subsidy for talent introduction of 2016 from Bureau of Finance	18,860.32	Other income	Pursuant to the document numbered Su Cai Jiao [2017] 89
Reward for cultivating scientific and technological enterprises of 2015	150,000.00	Other income	Pursuant to the document numbered Yan Zheng Fa [2013] 251
Subsidy for social insurance of employed graduates from Bureau of Finance	15,463.80	Other income	Pursuant to the document numbered Su Cai Jiao [2017] 89
Fund for international market development for small and medium-sized enterprises of the second half of 2016	19,700.00	Other income	Pursuant to the document numbered She Zheng Ban Fa [2016] 33
Incentive fund for commercial reward of 2016	40,000.00	Other income	Pursuant to the document numbered She Zheng Ban Fa [2016] 33
Special fund for stabilizing growth of foreign trade of 2017	60,000.00	Other income	Pursuant to the document numbered She Shang Wu [2017] 59
Provincial natural science fund	100,000.00	Other income	Pursuant to the document numbered She Zheng Fa [2017] 69
Bounty for Bureau of Science and Technology of Sheyang County	4,000.00	Other income	
Subtotal	408,024.12		
⑥ Hangzhou Huadong Wulin Large Pharmacy Co., Ltd.			
Subsidy for employment from special account	66,179.01	Other income	
Subsidy for social insurance and stable employment from Hangzhou Employment Management Service Bureau	9,600.00	Other income	
Subtotal	75,779.01		
⑦ Huadong Ningbo Medicine Co., Ltd.			
Refund of local water conservancy fund	840,328.24	Other income	
Special fund for promoting industrial restructuring	35,850,000.00	Other income	Pursuant to the document numbered Lun Shang Wu [2017] 21
Subtotal	36,690,328.24		
⑧ Huadong Medicine Ningbo Sales Co., Ltd.			
Special fund for stabilizing growth and promoting restructuring	21,400.00	Other income	Pursuant to the document numbered Hai Zheng Ban Fa [2016] 48
Subtotal	21,400.00		
⑨ Huadong Medicine Huzhou Co., Ltd.			

Refund of local water conservancy fund	178,042.45	Other income	Pursuant to the document numbered Zhe Cai Zong [2012] 130
Special fund of Wuxing District of 2016 for the development of service industry	259,650.00	Other income	Pursuant to the document numbered Hu Cai Jian [2016] 382
Special fund of Wuxing District for the development of service industry	50,000.00	Other income	General Office of People's Government of Wuxing District [2017] 54
Subsidy for stable employment of 2016	17,773.55	Other income	Pursuant to the document numbered Hu Ren She Fa [2016] 63
Subtotal	505,466.00		

⑩ Hangzhou Huadong Chinese Medicine Co., Ltd.

Subsidy for elimination and renovation project of small boiler	225,000.00	Other income	Pursuant to the document numbered Lin Jing Xin Neng Yuan [2015] 162
Subsidy for elimination and renovation project of small boiler	60,000.00	Other income	Pursuant to the document numbered Lin Cai Qi [2016] 334
Subsidy for optimal land utilization and multistory factory	228,100.00	Other income	Pursuant to the document numbered Lin Cai Qi [2017] 243
Land use tax refund of 2016	106,749.34	Other income	Pursuant to the document numbered Lin An Di Shui Tong [2017] 524
Land use tax refund of 2017	34,215.01	Other income	Pursuant to the document numbered Lin An Di Shui Tong [2017] 2745
Subtotal	654,064.35		

⑪ Huadong Medicine Supply Chain Management (Hangzhou) Co., Ltd.

Subsidy for stable employment	114,341.58	Other income	Pursuant to the document numbered Hang Ren She Fa [2015] 307
Land use tax refund of 2016	97,340.00	Other income	
Fiscal subsidy for the first batch of pilot projects of logistics standardization	740,000.00	Other income	Pursuant to the document numbered Hang Cai Qi [2016] 150
Quality award from the district government of 2015	200,000.00	Other income	Pursuant to the document numbered Hang Shi Guan Kai Lian Fa [2017] 01
Refund of local water conservancy fund	53,444.75	Other income	
Subtotal	1,205,126.33		



⑫ Huadong Medicine Lishui Co., Ltd.

Government policy reward fund	430,600.00	Other income	Pursuant to the document numbered Long Zheng Fa [2013] 113
Special support fund of 2016 for the development of service industry	150,000.00	Other income	Pursuant to the document numbered Long Zheng Guo Qi [2017] 200
Refund of local water conservancy fund	181,660.44	Other income	Pursuant to the document numbered Zhe Di Shui Fa [2007] 63
Subtotal	762,260.44		

⑬ Hangzhou Yuexing Youpin Health Management Co., Ltd.

Subsidy for innovative economic development project of Xiacheng District of 2017	155,400.00	Other income	
Subtotal	155,400.00		

⑭ Huadong Medicine (Hangzhou) Biological Product Co., Ltd.

Refund of local water conservancy fund	101,579.71	Other income	
Subtotal	101,579.71		

⑮ 杭州采薇坊香文化创意有限公司 (Hangzhou Caiweifangxiang Cultural Creativity Co., Ltd.\*)

Fund for cultivating 10 potential industries with characteristics of 2016	73,020.00	Other income	Pursuant to the document numbered Xia Jing Lyu [2017] 4
Fund for cultivating 10 potential industries with characteristics of 2017	63,000.00	Other income	
Subtotal	136,020.00		

⑯ Huadong Medicine Wenzhou Co., Ltd.

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Special fund award form Bureau of Commerce	100,000.00	Other income	
Special fund of 2016 for the development of modern service industry	440,000.00	Other income	
Refund of local water conservancy fund	804,197.40	Other income	
Other small subsidies	3,973.65	Other income	
Subtotal	1,348,171.05		

⑰ 杭州杏联医疗管理有限公司 (Hangzhou Xinlian Health Care Management Co., Ltd.\*)

Enterprise subsidy from the People's Government of Tianshui Subdistrict, Xiacheng District, Hangzhou	120,300.00	Other income	
Subtotal	120,300.00		

(2) In the current period, government grants included into profit or loss total 87,996,713.69 yuan.

## VI. Changes in the consolidation scope

(I) Business combination not under common control

1. Business combination not under common control in current period

Basic information

Acquirees	Equity acquisition date	Equity acquisition cost	Proportion of equity acquired (%)	Equity acquisition method
Huadong Medicine Cunde (Zhoushan) Co., Ltd.	July 31, 2017	13,600,000.00	80.00	Equity acquisition
Zhoushan Cundetang Medicine Retail Co., Ltd.	July 31, 2017	4,000,000.00	80.00	Equity acquisition
Huadong Medicine Daishan Co., Ltd.	August 31, 2017		67.40	Equity acquisition

(Continued)

Acquirees	Acquisition date	Determine basis for acquisition date	Acquiree's income from acquisition date to period end	Acquiree's net profit from acquisition date to period end
Huadong Medicine Cunde (Zhoushan) Co., Ltd.	July 31, 2017	Obtain of actual control	96,367,258.73	-1,375,787.87
Zhoushan Cundetang Medicine Retail Co., Ltd.	July 31, 2017	Obtain of actual control	2,199,212.01	188,278.08
Huadong Medicine Daishan Co., Ltd.	August 31, 2017	Obtain of actual control	18,070,998.17	-1,463.57

## 2. Combination costs and goodwill

Items	Huadong Medicine Cunde (Zhoushan) Co., Ltd.	Zhoushan Cundetang Medicine Retail Co., Ltd.	Huadong Medicine Daishan Co., Ltd.
Combination costs	13,600,000.00	4,000,000.00	
Cash	13,600,000.00	4,000,000.00	
Total combination costs	13,600,000.00	4,000,000.00	
Less: Share of fair value of net identifiable assets acquired	-4,223,651.36	274,516.38	-7,777,770.06
Goodwill	17,823,651.36	3,725,483.62	7,777,770.06

## 3. Acquisition-date identifiable assets and liabilities of acquirees

### (1) Details

Items	Huadong Medicine Cunde (Zhoushan) Co., Ltd.	
	Acquisition-date fair value	Acquisition-date carrying amount
Assets		
Cash and bank balances	1,375,541.65	1,375,541.65
Accounts receivable	44,133,455.98	44,133,455.98
Advances paid	2,874,105.65	2,874,105.65
Other receivables	2,549,430.72	2,549,430.72
Inventories	18,529,999.39	18,529,999.39
Fixed assets	1,533,261.42	1,533,261.42
Long-term prepayments	1,809,039.68	1,809,039.68
Liabilities		
Accounts payable	76,207,375.76	76,207,375.76
Advances received	92,089.38	92,089.38
Employee benefits payable	636,428.00	636,428.00
Taxes payable	41,641.58	41,641.58
Other payables	1,106,863.97	1,106,863.97
Net assets	-5,279,564.20	-5,279,564.20
Less: Non-controlling interest		
Net assets acquired	-5,279,564.20	-5,279,564.20

(Continued)

Items	Zhoushan Cundetang Medicine Retail Co., Ltd.	
	Acquisition-date fair value	Acquisition-date carrying amount
Assets		
Cash and bank balances	485,897.53	485,897.53
Accounts receivable	24,836.13	24,836.13

Items	Zhoushan Cundetang Medicine Retail Co., Ltd.	
	Acquisition-date fair value	Acquisition-date carrying amount
Other receivables	24,963.09	24,963.09
Inventories	1,650,678.57	1,650,678.57
Other current assets	68,217.96	68,217.96
Fixed assets	110,835.44	110,835.44
Long-term prepayments	53,846.24	53,846.24
Liabilities		
Accounts payable	1,928,186.05	1,928,186.05
Advances received	11,155.30	11,155.30
Employee benefits payable	76,669.52	76,669.52
Taxes payable	586.61	586.61
Other payables	59,532.00	59,532.00
Net assets	343,145.48	343,145.48
Less: Non-controlling interest		
Net assets acquired	343,145.48	343,145.48
(Continued)		
Items	Huadong Medicine Daishan Co., Ltd.	
	Acquisition-date fair value	Acquisition-date carrying amount
Assets		
Cash and bank balances	908,598.34	908,598.34
Accounts receivable	17,306,182.51	17,306,182.51
Advances paid	1,170,497.01	1,170,497.01
Other receivables	590,630.00	590,630.00
Inventories	5,219,314.49	5,219,314.49
Fixed assets	7,353,687.25	7,353,687.25
Intangible assets	946,864.69	946,864.69
Liabilities		
Short-term borrowings	17,300,000.00	17,300,000.00
Accounts payable	27,074,750.50	27,074,750.50
Advances received	36,582.00	36,582.00
Taxes payable	318,192.38	318,192.38
Interest payable	36,129.77	36,129.77
Other payables	269,837.83	269,837.83
Net assets	-11,539,718.19	-11,539,718.19
Less: Non-controlling interest		

Items	Huadong Medicine Daishan Co., Ltd.	
	Acquisition-date fair value	Acquisition-date carrying amount
Net assets acquired	-11,539,718.19	-11,539,718.19

(2) Fair value determination method on identifiable assets and liabilities

The acquisition-date carrying amount of identifiable assets and liabilities of Huadong Medicine Cunde (Zhoushan) Co., Ltd., Zhoushan Cundetang Medicine Retail Co., Ltd. and Huadong Medicine Daishan Co., Ltd. are taken as the fair value.

(II) Disposal of subsidiaries

One-time disposal involving loss of control over a subsidiary

Subsidiaries	Equity disposal consideration	Equity disposal proportion (%)	Equity disposal method	Loss of control date	Determination basis for loss of control date	Difference between disposal consideration and net assets attributable to the Company at the consolidated financial statements level
Ningbo Yazhi Medical Cosmetology Clinic Co., Ltd.	0	100	Equity transfer	August 31, 2017	Completion of equity transfer procedure	878,225.98

(Continued)

Subsidiaries	Proportion of remaining equity at the loss of control date	Carrying amount of remaining equity at the loss of control date	Fair value of remaining equity at the loss of control date	Gains/losses on fair value re-measurement of remaining equity	Determination method and significant assumption on fair value of remaining equity at the loss of control date	Changes in other comprehensive income/equity related to former subsidiary's equity investment transferred to investment income
Ningbo Yazhi Medical Cosmetology Clinic Co., Ltd.						

(III) Changes in consolidation scope due to other reasons

Entities brought into the consolidation scope

Entities	Equity acquisition method	Equity acquisition date	Capital contribution	Capital contribution proportion (%)
华东医药医疗器械科技（杭州）有限公司 (Huadong Medicine Medical Device Technology Co., Ltd.*)	Subsidiary newly set up	January 9, 2017	5,100,000.00	51%

**VII. Interest in other entities**

(I) Interest in significant subsidiaries

1. Significant subsidiaries

(1) Basis information

Subsidiaries	Main operating place	Place of registration	Business nature	Holding proportion (%)		Acquisition method
				Direct	Indirect	

Subsidiaries	Main operating place	Place of registration	Business nature	Holding proportion (%)		Acquisition method
				Direct	Indirect	
Hangzhou Sino-US Pharmacy Co., Ltd.	Hangzhou, Zhejiang	Hangzhou, Zhejiang	Manufacturing	100.00		Business combination under common control
Huadong Medicine (Xi'an) Bohua Pharmacy Co., Ltd.	Xi'an, Shaanxi	Xi'an, Shaanxi	Manufacturing		100.00 [Note 1]	Business combination under common control
Shaanxi Jiuzhou Pharmacy Co., Ltd.	Xi'an, Shaanxi	Xi'an, Shaanxi	Manufacturing		65.00 [Note 2]	Business combination not under common control
陕西大华九州置业有限公司 (Shaanxi Dahua Jiuzhou Real Estate Co., Ltd.*)	Xi'an, Shaanxi	Xi'an, Shaanxi	Service		100.00 [Note 3]	Set up
Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd.	Yancheng, Jiangsu	Yancheng, Jiangsu	Manufacturing		89.76 [Note 1]	Business combination not under common control
Huadong Medicine (Hangzhou) Bailing Biotechnology Co., Ltd.	Hangzhou, Zhejiang	Hangzhou, Zhejiang	Manufacturing		100.00 [Note 1]	Set up
华东医药(烟台)制药有限公司 (Huadong Medicine (Yantai) Pharmaceutical Co., Ltd.*)	Yantai, Shandong	Yantai, Shandong	Manufacturing		51.00 [Note 1]	Business combination not under common control
Hangzhou Huadong Chinese Medicine Co., Ltd.	Lin'an, Zhejiang	Lin'an, Zhejiang	Manufacturing	60.00		Business combination not under common control
Hangzhou Huadong Wulin Large Pharmacy Co., Ltd.	Hangzhou, Zhejiang	Hangzhou, Zhejiang	Commerce	100.00		Business combination not under common control
Hangzhou Peiyuantang Clinic Co., Ltd.	Hangzhou, Zhejiang	Hangzhou, Zhejiang	Medical service		100.00 [Note 4]	Business combination not under common control
Huadong Ningbo Medicine Co., Ltd.	Ningbo, Zhejiang	Ningbo, Zhejiang	Commerce	51.00		Business combination not under common control
宁波惊尘冷链物流有限公司 (Ningbo Jingchen Cold Chain Logistics Co., Ltd.*)	Ningbo, Zhejiang	Ningbo, Zhejiang	Service		100.00 [Note 5]	Set up
宁波幸福缪斯医疗投资管理有限公司 (Ningbo Happiness Muse Medical Investment Management Co., Ltd.*)	Ningbo, Zhejiang	Ningbo, Zhejiang	Commerce		100.00 [Note 5]	Set up
Huadong Medicine Wuhan Pharmaceutical Co., Ltd.	Wuhan, Hubei	Wuhan, Hubei	Commerce		100.00 [Note 5]	Set up
Huadong Medicine Ningbo Sales Co., Ltd.	Ningbo, Zhejiang	Ningbo, Zhejiang	Commerce	100.00		Business combination not under common control
Huadong Medicine Wenzhou Co., Ltd.	Ruian, Zhejiang	Ruian, Zhejiang	Commerce	40.00		Business combination not under common control

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Subsidiaries	Main operating place	Place of registration	Business nature	Holding proportion (%)		Acquisition method
				Direct	Indirect	
华东医药供应链管理(温州)有限公司 (Huadong Medicine Supply Chain Management (Wenzhou) Co., Ltd.*)	Wenzhou, Zhejiang	Wenzhou, Zhejiang	Warehousing service		100.00 [Note 6]	Business combination not under common control
浙江惠仁医药连锁有限公司 (Zhejiang Huiren Medicine Chain Co., Ltd.*)	Ruian, Zhejiang	Ruian, Zhejiang	Commerce		100.00 [Note 7]	Business combination not under common control
杭州杏国健康管理有限公司 (Hangzhou Xingguo Health Management Co., Ltd.*)	Hangzhou, Zhejiang	Hangzhou, Zhejiang	Commerce	100.00		Set up
Hangzhou Xinlian Health Care Management Co., Ltd.	Hangzhou, Zhejiang	Hangzhou, Zhejiang	Commerce		100.00 [Note 8]	Set up
杭州华晟投资管理有限公司 (Hangzhou Huasheng Investment Management Co., Ltd.*)	Hangzhou, Zhejiang	Hangzhou, Zhejiang	Business service	100.00		Set up
Huadong Medicine Deqing Tianrui Co., Ltd.	Deqing, Zhejiang	Deqing, Zhejiang	Lease and business service	62.85	32.67 [Note 9]	Business combination not under common control
杭州华东大药房连锁有限公司 (Hangzhou Huadong Medicine Chain Co., Ltd.*)	Hangzhou, Zhejiang	Hangzhou, Zhejiang	Commerce	86.33	13.67 [Note 10]	Set up
Huadong Medicine Investment Holding (US) Inc	Delaware, USA	Delaware, USA	Commerce		100.00 [Note 11]	Set up
Huadong Medicine Supply Chain Management (Hangzhou) Co., Ltd.	Hangzhou, Zhejiang	Hangzhou, Zhejiang	Warehousing service	100.00		Business combination not under common control
Huadong Medicine Shaoxing Co., Ltd.	Shaoxing, Zhejiang	Shaoxing, Zhejiang	Commerce	100.00		Business combination not under common control
Huadong Medicine Lishui Co., Ltd.	Longquan, Zhejiang	Longquan, Zhejiang	Commerce	60.00		Business combination not under common control
华东医药广东药业有限公司 (Huadong Medicine Guangdong Pharmaceutical Co., Ltd.*)	Guangzhou, Guangdong	Guangzhou, Guangdong	Commerce	100.00		Set up
Huadong Medicine Huzhou Co., Ltd.	Huzhou, Zhejiang	Huzhou, Zhejiang	Commerce	100.00		Set up
Hangzhou Yuexing Youpin Health Management Co., Ltd.	Hangzhou, Zhejiang	Hangzhou, Zhejiang	Commerce	100.00		Set up
Huadong Medicine (Hangzhou) Biological Product Co., Ltd.	Hangzhou, Zhejiang	Hangzhou, Zhejiang	Commerce	100.00		Set up
Hangzhou Yoco Medical Cosmetology Clinic Co., Ltd.	Hangzhou, Zhejiang	Hangzhou, Zhejiang	Medical beauty service	100.00		Set up
Hangzhou Caiweifangxiang Cultural Creativity Co., Ltd.	Hangzhou, Zhejiang	Hangzhou, Zhejiang	Commerce	100.00		Set up
Hangzhou Huadong Medicine Chemical Reagent Co., Ltd.	Hangzhou, Zhejiang	Hangzhou, Zhejiang	Warehousing service	100.00		Business combination not under common control

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Subsidiaries	Main operating place	Place of registration	Business nature	Holding proportion (%)		Acquisition method
				Direct	Indirect	
Huadong Medicine Cunde (Zhoushan) Co., Ltd.	Zhoushan, Zhejiang	Zhoushan, Zhejiang	Commerce	80.00		Business combination not under common control
Zhoushan Cundetang Medicine Retail Co., Ltd.	Zhoushan, Zhejiang	Zhoushan, Zhejiang	Commerce	80.00		Business combination not under common control
Huadong Medicine Daishan Co., Ltd.	Daishan, Zhejiang	Daishan, Zhejiang	Commerce	67.40		Business combination not under common control
Huadong Medicine Medical Device Technology Co., Ltd.	Hangzhou, Zhejiang	Hangzhou, Zhejiang	Commerce	51.00		Set up

Note 1: The subsidiary Hangzhou Sino-US Pharmacy Co., Ltd. holds 100% equity of Huadong Medicine (Xi'an) Bohua Pharmacy Co., Ltd., 89.76% equity of Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd., 100% equity of Huadong Medicine (Hangzhou) Bailing Biotechnology Co., Ltd. and 51% equity of Huadong Medicine (Yantai) Pharmaceutical Co., Ltd.

Huadong Medicine (Yantai) Pharmaceutical Co., Ltd. is formerly known as 中美华东（烟台）有限公司 (Sino-US Huadong (Yantai) Co., Ltd.\*), and renamed in the current period.

Note 2: The subsidiary Huadong Medicine (Xi'an) Bohua Pharmacy Co., Ltd. holds its 65% equity.

Note 3: Huadong Medicine (Xi'an) Bohua Pharmacy Co., Ltd. holds its 76.50% equity and Shaanxi Jiuzhou Pharmacy Co., Ltd. holds its 23.50% equity.

Note 4: The subsidiary Hangzhou Huadong Wulin Large Pharmacy Co., Ltd. holds its 100% equity.

Note 5: The subsidiary Huadong Ningbo Medicine Co., Ltd. holds 100% equity of Ningbo Jingchen Cold Chain Logistics Co., Ltd., 100% equity of Ningbo Happiness Muse Medical Investment Management Co., Ltd. and 100% equity of Huadong Medicine Wuhan Pharmaceutical Co., Ltd.

Note 6: The subsidiary Huadong Medicine Wenzhou Co., Ltd. holds its 100% equity.

Note 7: Zhejiang Huiren Medicine Chain Co., Ltd. is formerly known as 温州济众医药连锁有限公司 (Wenzhou Jizhong Medicine Chain Co., Ltd.\*), and renamed in the current period. The subsidiary Huadong Medicine Wenzhou Co., Ltd. holds its 100% equity.

Note 8: The subsidiary Hangzhou Xingguo Health Management Co., Ltd. holds its 100% equity.

Note 9: The Company holds its 62.85% equity, and the subsidiary Hangzhou Huasheng

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\* The English names are for identification purpose only.



Investment Management Co., Ltd. holds its 32.67% equity.

Note 10: The Company holds its 86.33% equity, and the subsidiary Hangzhou Huasheng Investment Management Co., Ltd. holds its 13.67% equity.

Note 11: The subsidiary Hangzhou Huasheng Investment Management Co., Ltd. holds its 100% equity.

(2) Basis for the control of a consolidated subsidiary while holding its half or less than half voting rights

The Company holds 40% equity of Huadong Medicine Wenzhou Co., Ltd. and designates two board members, and Ruian People's Hospital holds 60% equity of Huadong Medicine Wenzhou Co., Ltd. and designates three board members. Pursuant to the resolution of the General Shareholders' Meeting, Ruian People's Hospital agrees that one of the board members it designates will vote with the board member designated by the Company in the voting of Board of Directors, which means the Company can take an actual control over Huadong Medicine Wenzhou Co., Ltd.

## 2. Significant not wholly-owned subsidiaries

Subsidiaries	Holding proportion of non-controlling interest (%)	Profit or loss attributable to non-controlling interest	Dividend declared to non-controlling interest	Closing balance of non-controlling interest
Hangzhou Huadong Chinese Medicine Co., Ltd.	40.00	4,389,904.78	1,200,000.00	43,216,038.94
Huadong Ningbo Medicine Co., Ltd.	49.00	100,383,094.89	60,025,000.00	225,579,115.78
Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd.	10.24	-2,145,594.00		14,979,313.79
Huadong Medicine Wenzhou Co., Ltd.	60.00	6,707,033.69		100,165,894.40
Huadong Medicine Lishui Co., Ltd.	40.00	1,308,581.61		10,089,919.69
Huadong Medicine Cunde (Zhoushan) Co., Ltd.	20.00	-275,157.57		68,929.59
Huadong Medicine Daishan Co., Ltd.	32.60	-477.12		-3,762,425.25
Huadong Medicine Medical Device Technology Co., Ltd.	49.00	-629,990.39		4,270,009.61

## 3. Main financial information of significant not wholly-owned subsidiaries

### (1) Assets and liabilities

Subsidiaries	Closing balance		
	Current assets	Non-current assets	Total assets
Hangzhou Huadong Chinese Medicine Co., Ltd.	144,678,898.02	75,232,986.34	219,911,884.36
Huadong Ningbo Medicine Co., Ltd.	874,186,056.92	162,650,908.79	1,036,836,965.71
Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd.	35,146,764.33	176,289,727.53	211,436,491.86

Subsidiaries	Closing balance		
	Current assets	Non-current assets	Total assets
Huadong Medicine Wenzhou Co., Ltd.	654,758,048.12	140,353,169.87	795,111,217.99
Huadong Medicine Lishui Co., Ltd.	291,092,205.64	3,679,241.83	294,771,447.47
Huadong Medicine Cunde (Zhoushan) Co., Ltd.	117,308,984.67	3,133,881.99	120,442,866.66
Huadong Medicine Daishan Co., Ltd.	28,148,927.90	8,211,771.73	36,360,699.63
Huadong Medicine Medical Device Technology Co., Ltd.	8,067,265.06	812,488.47	8,879,753.53

(Continued)

Subsidiaries	Closing balance		
	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou Huadong Chinese Medicine Co., Ltd.	111,871,787.03		111,871,787.03
Huadong Ningbo Medicine Co., Ltd.	579,747,187.79		579,747,187.79
Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd.	65,173,464.41		65,173,464.41
Huadong Medicine Wenzhou Co., Ltd.	628,168,060.64		628,168,060.64
Huadong Medicine Lishui Co., Ltd.	269,546,648.25		269,546,648.25
Huadong Medicine Cunde (Zhoushan) Co., Ltd.	120,098,218.73		120,098,218.73
Huadong Medicine Daishan Co., Ltd.	47,901,881.39		47,901,881.39
Huadong Medicine Medical Device Technology Co., Ltd.	165,448.20		165,448.20

(Continued)

Subsidiaries	Opening balance		
	Current assets	Non-current assets	Total assets
Hangzhou Huadong Chinese Medicine Co., Ltd.	125,086,705.36	77,815,793.95	202,902,499.31
Huadong Ningbo Medicine Co., Ltd.	689,827,777.45	119,990,179.35	809,817,956.80
Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd.	31,500,870.07	162,843,956.05	194,344,826.12
Huadong Medicine Wenzhou Co., Ltd.	733,399,566.38	147,921,591.14	881,321,157.52
Huadong Medicine Lishui Co., Ltd.	271,460,286.51	3,785,059.36	275,245,345.87

(Continued)

Subsidiaries	Opening balance		
	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou Huadong Chinese Medicine Co., Ltd.	81,557,163.93	21,280,000.00	102,837,163.93
Huadong Ningbo Medicine Co., Ltd.	435,332,954.24		435,332,954.24
Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd.	142,086,264.98		142,086,264.98
Huadong Medicine Wenzhou Co., Ltd.	725,556,389.65		725,556,389.65
Huadong Medicine Lishui Co., Ltd.	253,292,000.68		253,292,000.68

(2) Profit or loss and cash flows

Subsidiaries	Current period cumulative			
	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Hangzhou Huadong Chinese Medicine Co., Ltd.	346,768,226.87	10,974,761.95	10,974,761.95	35,943,153.78
Huadong Ningbo Medicine Co., Ltd.	1,642,331,144.62	205,163,789.36	205,163,789.36	243,770,219.87
Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd.	71,537,394.19	-5,995,533.69	-5,995,533.69	13,286,500.21
Huadong Medicine Wenzhou Co., Ltd.	2,088,353,189.79	11,178,389.48	11,178,389.48	-133,364,805.12
Huadong Medicine Lishui Co., Ltd.	719,700,115.28	3,271,454.03	3,271,454.03	26,198,691.37
Huadong Medicine Cunde (Zhoushan) Co., Ltd.	96,367,258.73	-1,375,787.87	-1,375,787.87	-39,998,142.92
Huadong Medicine Daishan Co., Ltd.	18,070,998.17	-1,463.57	-1,463.57	-3,503,608.00
Huadong Medicine Medical Device Technology Co., Ltd.	69,227.44	-1,285,694.67	-1,285,694.67	-1,247,026.83

(Continued)

Subsidiaries	Preceding period comparative			
	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Hangzhou Huadong Chinese Medicine Co., Ltd.	311,143,779.58	13,483,246.69	13,483,246.69	17,371,380.69
Huadong Ningbo Medicine Co., Ltd.	1,456,562,764.82	149,388,239.51	149,388,239.51	101,232,160.35
Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd.	48,136,899.44	-11,513,502.26	-11,513,502.26	-2,353,486.07
Huadong Medicine Wenzhou Co., Ltd.	2,049,756,830.33	14,188,737.54	14,188,737.54	-35,265,232.73
Huadong Medicine Lishui Co., Ltd.	698,003,472.57	5,107,273.31	5,107,273.31	-60,000,673.91

(II) Transactions resulting in changes in subsidiaries' equity but without losing control

## 1. Changes in subsidiaries' equity

Subsidiaries	Date of change	Holding proportion before change	Holding proportion after change
Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd.	Oct. 30, 2017	79.61%	89.76% [Note]
Huadong Medicine Shaoxing Co., Ltd.	Dec. 31, 2017	60%	100%
Hangzhou Yoco Medical Cosmetology Clinic Co., Ltd.	Aug. 31, 2017	85%	100%
Huadong Medicine Wuhan Pharmaceutical Co., Ltd.	Feb. 28, 2017	90%	100%

Note: Please refer to section V (I) 33 for details.

## 2. Effect of transactions on non-controlling interest and equity attributable to parent company

Items	Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd.	Huadong Medicine Shaoxing Co., Ltd.	Hangzhou Yoco Medical Cosmetology Clinic Co., Ltd.	Huadong Medicine Wuhan Pharmaceutical Co., Ltd.
Acquisition costs		5,500,000.00	161,908.84	59,014.00
Cash		5,500,000.00	161,908.84	59,014.00
Total acquisition costs		5,500,000.00	161,908.84	59,014.00
Less: Share in subsidiaries' net assets based on acquired		3,352,396.77	526,479.61	-268,687.00
Balance		2,147,603.23	364,570.77	327,701.00
Including: Capital reserve adjusted		-2,147,603.23	13,584.36	
Surplus reserve adjusted				
Undistributed profit adjusted			350,986.41	-327,701.00

## (III) Interest in joint venture or associates

### 1. Significant associates

#### (1) Basic information

Joint ventures or associates	Main operating place	Place of registration	Business nature	Holding proportion (%)		Accounting treatment
				Direct	Indirect	
Hangzhou Jiuyuan Gene Engineering Co., Ltd.	Hangzhou, Zhejiang	Hangzhou, Zhejiang	Drug production		21.06 [Note 1]	Equity method
Hangzhou Tangyangyuan Medicine Co., Ltd.	Hangzhou, Zhejiang	Hangzhou, Zhejiang	Medical retail		30.00 [Note 2]	Equity method

Note 1: The subsidiary Hangzhou Sino-US Pharmacy Co., Ltd. holds 21.06% equity of Hangzhou Jiuyuan Gene Engineering Co., Ltd.

Note 2: The subsidiary Hangzhou Huadong Medicine Chain Co., Ltd. holds 30% equity of Hangzhou Tangyangyuan Medicine Co., Ltd.

## 2. Main financial information of significant associates

Items	December 31, 2017 / Year 2017	
	Hangzhou Jiuyuan Gene Engineering Co., Ltd.	Hangzhou Tangyangyuan Medicine Co., Ltd.
Current assets	303,884,113.80	39,513,274.27
Non-current assets	126,261,305.78	2,066,719.16
Total assets	430,145,419.58	41,579,993.43
Current liabilities	104,328,667.41	20,619,928.74
Non-current liabilities		
Total liabilities	104,328,667.41	20,619,928.74
Non-controlling interest		
Equity attributable to owners of parent company	325,816,752.17	20,960,064.69
Proportionate share in net assets	68,617,746.29	6,288,019.41
Adjustments		
Goodwill		
Unrealized profit in internal trading		
Others		
Carrying amount of equity investments in associates	68,617,746.29	6,288,019.41
Fair value of equity investments in associates with quoted price		
Operating revenue	546,364,851.11	78,896,474.39
Net profit	74,759,720.76	6,028,665.30
Net profit of discontinued operations		
Other comprehensive income		
Total comprehensive income	74,759,720.76	6,028,665.30
Dividend from associates received in current period	2,948,400.00	360,000.00

(Continued)

Items	December 31, 2016 / Year 2016	
	Hangzhou Jiuyuan Gene Engineering Co., Ltd.	Hangzhou Tangyangyuan Medicine Co., Ltd.
Current assets	242,160,299.87	32,466,172.83
Non-current assets	133,433,398.86	1,814,224.60
Total assets	375,593,698.73	34,280,397.43
Current liabilities	94,597,829.42	16,348,998.04
Non-current liabilities		
Total liabilities	94,597,829.42	16,348,998.04
Non-controlling interest		

Items	December 31, 2016 / Year 2016	
	Hangzhou Jiuyuan Gene Engineering Co., Ltd.	Hangzhou Tangyangyuan Medicine Co., Ltd.
Equity attributable to owners of parent company	280,995,869.31	17,931,399.39
Proportionate share in net assets	59,178,366.80	5,379,419.82
Adjustments		
Goodwill		
Unrealized profit in internal trading		
Others		
Carrying amount of equity investments in associates	59,178,366.80	5,379,419.82
Fair value of equity investments in associates with quoted price		
Operating revenue	428,603,443.58	61,928,609.45
Net profit	57,789,731.89	4,526,372.50
Net profit of discontinued operations		
Other comprehensive income		
Total comprehensive income	57,789,731.89	4,526,372.50
Dividend from associates received in current period	1,684,800.00	240,000.00

### VIII. Risks related to financial instruments

The Company aims to seek the appropriate balance between the risks and benefits from its use of financial instruments and to mitigate the adverse effects that the risks of financial instruments have on the Company's financial performance. Based on such objectives, the Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The Company has exposure to the following risks from its use of financial instruments, which mainly include: credit risk, liquidity risk, and market risk. Management have deliberated and approved policies concerning such risks, and details are:

#### (I) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company's credit risk is primarily attributable to bank balances and receivables. In order to control such risks, the Company has taken the following measures:

##### 1. Bank balances

The Company deposits its bank balances in financial institutions with relatively high credit levels, hence, its credit risk is relatively low.

## 2. Receivables

The Company performs credit assessment on customers who uses credit settlement on a continuous basis. The Company selects credible and well-reputed customers based on credit assessment result, and conducts ongoing monitoring on receivables, to avoid significant risks in bad debts.

As the Company's credit risks fall into several business partners and customers, as of December 31 2017, 5.93% (December 31, 2016: 7.34%) of the total accounts receivable was due from the five largest customers of the Company. The Company has no significant central credit risk.

(1) Analysis of receivables neither past due nor impaired and receivables past due but not impaired are as follows:

Items	Closing balance				
	Neither past due nor impaired	Past due but not impaired			Total
		Within one year	1-2 years	Over 2 years	
Notes receivable	965,969,108.65				965,969,108.65
Subtotal	965,969,108.65				965,969,108.65

(Continued)

Items	Opening balance				
	Neither past due nor impaired	Past due but not impaired			Total
		Within one year	1-2 years	Over 2 years	
Notes receivable	956,836,494.97				956,836,494.97
Subtotal	956,836,494.97				956,836,494.97

(2) Please refer to notes to receivables for receivables with provision for impairment made on individual basis.

### (II) Liquidity risk

Liquidity risk is the risk that the Company may encounter deficiency of funds in meeting obligations associated with cash or other financial assets settlement, which is possibly attributable to failure in selling financial assets at fair value on a timely basis, or failure in collecting liabilities from counterparts of contracts, or early redemption of debts, or failure in achieving estimated cash flows.

In order to control such risk, the Company utilized financing tools such as notes settlement, bank borrowings, etc. and adopts long and short financing methods to optimizing financing structures, and finally maintains a balance between financing sustainability and flexibility. The Company has obtained credit limit from several commercial banks to meet working capital requirements and expenditures.

Financial instruments classified based on remaining time period till maturity

Items	Closing balance				
	Carrying amount	Contract amount not yet discounted	Within one year	1-3 years	Over 3 years
Financial liabilities					
Short-term borrowings	375,570,000.00	384,270,488.23	384,270,488.23		
Notes payable	373,668,239.37	373,668,239.37	373,668,239.37		
Accounts payable	3,452,231,781.44	3,452,231,781.44	3,452,231,781.44		
Interest payable	29,735,614.19	29,735,614.19	29,735,614.19		
Dividend payable	9,382,619.60	9,382,619.60	9,382,619.60		
Other payables	1,121,948,123.70	1,121,948,123.70	1,121,948,123.70		
Bonds payable	992,440,873.26	1,111,769,863.01			1,111,769,863.01
Subtotal	6,354,977,251.56	6,483,006,729.54	5,371,236,866.53		1,111,769,863.01

(Continued)

Items	Opening balance				
	Carrying amount	Contract amount not yet discounted	Within one year	1-3 years	Over 3 years
Financial liabilities					
Short-term borrowings	473,116,662.44	483,518,945.43	483,518,945.43		
Notes payable	465,561,227.34	465,561,227.34	465,561,227.34		
Accounts payable	3,353,036,143.54	3,353,036,143.54	3,353,036,143.54		
Interest payable	31,215,454.05	31,215,454.05	31,215,454.05		
Dividend payable	224,219.60	224,219.60	224,219.60		
Other payables	924,956,769.81	924,956,769.81	924,956,769.81		
Non-current liabilities due within one year	28,471,620.00	29,649,764.76	29,649,764.76		
Long-term borrowings	21,280,000.00	24,139,416.54		24,139,416.54	
Bonds payable	989,495,117.70	1,158,898,630.14			1,158,898,630.14
Subtotal	6,287,357,214.48	6,471,200,571.21	5,288,162,524.53	24,139,416.54	1,158,898,630.14

(III) Market risk

Market risk is the risk that the Company may encounter fluctuation in fair value of financial instruments or future cash flows due to changes in market price.

1. Interest risk

Interest risk is the risk that an enterprise may encounter fluctuation in fair value of financial instruments or future cash flows due to changes in market interest. The Company avoids such risk mainly through borrowings with floating interest rate.



## 2. Foreign currency risk

Foreign currency risk is the risk arising from changes in fair value or future cash flows of financial instrument resulted from changes in exchange rate. The Company's foreign currency risk relates mainly to foreign currency monetary assets and liabilities. The Company is mainly operated in mainland China, whose main activities are denominated in RMB, hence, the Company bears insignificant market risk arising from foreign exchange changes.

Please refer to notes to foreign currency monetary items for details in foreign currency financial assets and liabilities at the end of the period.

## IX. Related party relationships and transactions

### (I) Related party relationships

#### 1. Parent company

Parent company	Place of registration	Business nature	Registered capital	Holding proportion over the Company (%)	Voting right proportion over the Company (%)
中国远大集团有限责任公司 (China Grand Enterprises, Inc.*)	Beijing	Investment management	5,838 million	41.77	41.77

#### Remarks on the parent company

China Grand Enterprises, Inc. is established on October 27, 1993 with registered capital of 5,838 million yuan, and its legal representative is 胡凯军 (Hu Kaijun). Its main business scope: undertaking Sino-foreign joint ventures, cooperative production and the "three-plus-one" trading-mix (custom manufacturing with materials, designs or samples supplied and compensation trade) business; industrial investment and investment management and consulting, etc. 北京远大华创投资有限公司 (Beijing Yuanda Huachuang Investment Co., Ltd.\*) is the holding shareholder of China Grand Enterprises, Inc. with holding proportion of 93%, whose legal representative is Hu Kaijun and its registered capital is 360 million yuan.

(2) The Company's ultimate controlling party is Hu Kaijun.

2. Please refer notes to interest in other entities for details on the Company's subsidiaries.

#### 3. Associates of the Company

Please refer to notes to interest in other entities for details on the Company's significant associates.

#### 4. Other related parties of the Company

##### (1) Details

Related parties	Relationships with the Company
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\* The English names are for identification purpose only.

Related parties	Relationships with the Company
杭州华东医药集团有限公司 (Hangzhou Huadong Medicine Group Co., Ltd.*)	The second largest shareholder
四川远大蜀阳药业股份有限公司 (Sichuan Yuanda Shuyang Pharmaceutical Co., Ltd.*)	An affiliated company of the Company's holding shareholder
远大物产集团有限公司 (Grand Resources Group Co., Ltd.*)	An affiliated company of the Company's holding shareholder
常熟雷允上制药有限公司 (Changshu Leiyunshang Pharmaceutical Co., Ltd.*)	An affiliated company of the Company's holding shareholder
雷允上药业集团有限公司 (LYS Pharmaceutical Co., Ltd.*)	An affiliated company of the Company's holding shareholder
广东雷允上药业有限公司 (Guangdong Leiyunshang Pharmaceutical Co., Ltd.*)	An affiliated company of the Company's holding shareholder
远大医药(中国)有限公司 (Grand Pharmaceutical (China) Co., Ltd.*)	An affiliated company of the Company's holding shareholder
北京华新制药有限公司 (Beijing Huajin Pharmaceutical Co., Ltd.*)	An affiliated company of the Company's holding shareholder
北京九和药业有限公司 (Beijing Jiuhe Pharmaceutical Co., Ltd.*)	An affiliated company of the Company's holding shareholder
杭州远大生物制药有限公司 (Hangzhou Grand Bio-pharmaceutical Co., Ltd.*)	An affiliated company of the Company's holding shareholder
陕西新碑林医药有限责任公司 (Shaanxi Chang'an Medicine Co., Ltd.*)	An affiliated company of the Company's holding shareholder
西安碑林药业股份有限公司 (Xi'an Beilin Pharmaceutical Co., Ltd.*)	An affiliated company of the Company's holding shareholder
沈阳药大雷允上药业有限责任公司 (Shenyang Yaoda Leiyunshang Pharmaceutical Co., Ltd.*)	An affiliated company of the Company's holding shareholder
远大医药黄石飞云制药有限公司 (Grand Pharmaceutical Huangshi Feiyun Pharmaceutical Co., Ltd.*)	An affiliated company of the Company's holding shareholder
蓬莱诺康药业有限公司 (Penglai Nuokang Pharmaceutical Co., Ltd.*)	An affiliated company of the Company's holding shareholder
远大武汉医药研究总院有限公司 (Grand Wuhan Pharmaceutical Research Institute Co., Ltd.*)	An affiliated company of the Company's holding shareholder
武汉远大制药集团销售有限公司 (Wuhan Grand Pharmaceutical Group Sales Co., Ltd.*)	An affiliated company of the Company's holding shareholder
长春雷允上药业有限公司 (Changchun Leiyunshang Pharmaceutical Co., Ltd.*)	An affiliated company of the Company's holding shareholder
云南雷允上理想药业有限公司 (Yunnan Leiyunshang Lixiang Pharmaceutical Co., Ltd.*)	An affiliated company of the Company's holding shareholder
苏州雷允上国药连锁总店有限公司 (Suzhou Leiyunshang Chain Pharmacy Co., Ltd.*)	An affiliated company of the Company's holding shareholder
远大(上海)融资租赁有限公司 (Grand (Shanghai) Financial Leasing Co., Ltd.*)	An affiliated company of the Company's holding shareholder
贵阳远大房地产开发有限公司 (Guiyang Yuanda Real Estate Development Co., Ltd.*)	An affiliated company of the Company's holding shareholder
黑龙江远大购物中心有限公司	An affiliated company of the Company's

\* The English names are for identification purpose only.

Related parties	Relationships with the Company
(Heilongjiang Grand Shopping Center Co., Ltd.*)	holding shareholder
山西远大置业有限责任公司 (Shanxi Grand Real Estate Co., Ltd.*)	An affiliated company of the Company's holding shareholder
上海远大产融投资管理有限公司 (Shanghai Grand Industry and Finance Investment Management Co., Ltd.*)	An affiliated company of the Company's holding shareholder
天津远大联合汽车贸易集团有限公司 (Grand Union Automobile (Tianjin) Co., Ltd.*)	An affiliated company of the Company's holding shareholder
天津远大联合汽车服务有限公司 (Tianjin Grand Union Automobile Service Co., Ltd.*)	The wholly-owned subsidiary of Grand Union Automobile (Tianjin) Co., Ltd.
天津远大联合汽车销售有限公司 (Tianjin Grand Union Automobile Sales Co., Ltd.*)	An affiliated company of the Company's holding shareholder
保定加合精细化工有限公司 (Baoding Jahe Fine Chemical Co., Ltd.*)	An affiliated company of the Company's holding shareholder
宁波远大实业投资有限公司 (Ningbo Grand Industrial Investment Co., Ltd.*)	An affiliated company of the Company's holding shareholder
宁波赛缪斯生物科技有限公司 (Ningbo Santemuse Biotechnology Co., Ltd.) [Note 1]	Invested by non-controlling shareholders and related parties of Huadong Ningbo Medicine Co., Ltd.
杭州健生医药有限公司 (Zhejiang Jiansheng Medicine Co., Ltd.) [Note 1]	Invested by non-controlling shareholders and related parties of Huadong Ningbo Medicine Co., Ltd.
浙江家和制药有限公司 (Zhejiang Jiahe Pharmaceutical Co., Ltd.) [Note 1]	Invested by non-controlling shareholders and related parties of Huadong Ningbo Medicine Co., Ltd.
嘉兴爱森森生物技术有限公司 (Jiaxing Aikesen Biotechnology Co., Ltd.) [Note 1]	Its executive board members are non-controlling shareholders and related parties of Huadong Ningbo Medicine Co., Ltd.
杭州华东医药集团控股有限公司 (Hangzhou Huadong Medicine Group Holdings Co., Ltd.) [Note 2]	The former associate of the Company's second largest shareholder
杭州华东医药科技有限公司 (Hangzhou Huadong Medicine Technology Co., Ltd.*)	An affiliate company of the Company's second largest shareholder
埃斯特维华义制药有限公司 (Esteve Huayi Pharmaceutical Co., Ltd.*)	An affiliate company of Hangzhou Huadong Medicine Group Holdings Co., Ltd.
浙江华义医药有限公司 (Zhejiang Huayi Medicine Co., Ltd.*)	An affiliate company of Hangzhou Huadong Medicine Group Holdings Co., Ltd.
杭州华东医药集团康润制药有限公司 (Hangzhou Huadong Medicine Group Kangrun Pharmaceutical Co., Ltd.*)	An affiliate company of Hangzhou Huadong Medicine Group Holdings Co., Ltd.
杭州华东医药集团新五丰药业有限公司 (Hangzhou Huadong Medicine Group Xinwufeng Pharmaceutical Co., Ltd.*)	An affiliate company of Hangzhou Huadong Medicine Group Holdings Co., Ltd.
杭州华东医药集团新药研究院有限公司 (Hangzhou Huadong Medicine Group Biotechnology Institute Co., Ltd.*)	Related to senior executives
杭州朱养心药业有限公司 (Hangzhou Zhuyangxin Pharmaceutical Co., Ltd.*)	The former associate of Hangzhou Huadong Medicine Group Biotechnology Institute Co., Ltd.

\* The English names are for identification purpose only.

Note 1: According to the Implementation Guidelines for Related Transactions of Companies Listed in Shanghai Stock Exchange, as net profit of Huadong Ningbo Medicine Co., Ltd. accounts for over 10% of the net profit in the consolidated financial statements of the Company in the current period, which has significant impact on the Company, natural persons who hold over 10% equity of significant holding subsidiaries shall be identified as related parties. As Ningbo Santemuse Biotechnology Co., Ltd., Hangzhou Jiansheng Medicine Co., Ltd. and Zhejiang Jiahe Pharmaceutical Co., Ltd. are invested by non-controlling shareholders and related parties of Huadong Ningbo Medicine Co., Ltd., and Jiaxing Aikesen Biotechnology Co., Ltd. engages non-controlling shareholders and related parties of Huadong Ningbo Medicine Co., Ltd. as its executive board members, they are identified as related parties in the current period.

Note 2: Hangzhou Huadong Medicine Group Co., Ltd. has no longer held equity of Hangzhou Huadong Medicine Group Holdings Co., Ltd. since September 16, 2015. According to the Implementation Guidelines for Related Transactions of Companies Listed in Shanghai Stock Exchange, it is still considered as related party of listed companies within 12 months after September 16, 2015 but no longer since October 2016.

(II) Related party transactions

1. Purchase and sale of goods, rendering and receiving services

(1) Purchase of drugs and receiving of services

Related parties	Current period cumulative	Preceding period comparative
Sichuan Yuanda Shuyang Pharmaceutical Co., Ltd.	65,902,765.38	45,459,925.64
Hangzhou Jiuyuan Gene Engineering Co., Ltd.	46,503,834.63	37,487,270.14
Penglai Nuokang Pharmaceutical Co., Ltd.	19,484,219.23	
Shenyang Yaoda Leiyunshang Pharmaceutical Co., Ltd.	15,366,093.26	
Beijing Jiuhe Pharmacy Co., Ltd.	13,336,785.37	
Yunnan Leiyunshang Lixiang Pharmaceutical Co., Ltd.	10,771,965.05	11,502,037.97
Grand Pharmaceutical (China) Co., Ltd.	10,228,894.98	10,190,186.41
Wuhan Grand Pharmaceutical Group Sales Co., Ltd.	8,526,498.74	9,246,959.40
Hangzhou Jiansheng Medicine Co., Ltd.	6,742,043.60	
Hangzhou Grand Bio-pharmaceutical Co., Ltd.	6,716,356.83	4,275,493.80
Zhejiang Jiahe Pharmaceutical Co., Ltd.	5,656,679.31	
Changshu Leiyunshang Pharmaceutical Co., Ltd.	3,992,706.99	4,655,750.58
Xi'an Beilin Pharmaceutical Co., Ltd.	3,656,604.70	
LYS Pharmaceutical Co., Ltd.	3,345,012.74	5,651,376.93
Guangdong Leiyunshang Pharmaceutical Co., Ltd.	1,475,689.69	1,639,950.11
Ningbo Santemuse Biotechnology Co., Ltd.	1,564,171.26	

Related parties	Current period cumulative	Preceding period comparative
Changchun Leiyunshang Pharmaceutical Co., Ltd.	952,170.21	949,020.12
Beijing Huajin Pharmaceutical Co., Ltd.	568,093.83	
Shaanxi Chang'an Medicine Co., Ltd.	126,458.65	
Hangzhou Tangyangyuan Medicine Co., Ltd.	40,898.53	
Baoding Jahe Fine Chemical Co., Ltd.	33,076.92	
Grand Pharmaceutical Huangshi Feiyun Pharmaceutical Co., Ltd.	24,469.08	
Hangzhou Zhuyangxin Pharmaceutical Co., Ltd.		17,353,656.89
Zhejiang Huayi Medicine Co., Ltd.		430,715.24
Hangzhou Huadong Medicine Group Kangrun Pharmaceutical Co., Ltd.		936,844.07
Hangzhou Huadong Medicine Group Xinwufeng Pharmaceutical Co., Ltd.		6,592.65
Subtotal	225,015,488.98	149,785,779.95

(2) Sale of drugs and rendering of services

Related parties	Current period cumulative	Preceding period comparative
Hangzhou Jiansheng Medicine Co., Ltd.	155,832,923.08	
Hangzhou Jiuyuan Gene Engineering Co., Ltd.	4,447,440.78	2,484,662.79
Yunnan Leiyunshang Lixiang Pharmaceutical Co., Ltd.	620,477.87	174,110.62
Hangzhou Tangyangyuan Medicine Co., Ltd.	239,837.22	391,176.35
Grand Resources Group Co., Ltd.	140,447.42	252,589.37
Shanxi Grand Real Estate Co., Ltd.	95,726.50	
Ningbo Grand Industrial Investment Co., Ltd.	52,876.11	
Shanghai Grand Industry and Finance Investment Management Co., Ltd.	11,085.47	
Grand (Shanghai) Financial Leasing Co., Ltd.	11,085.47	
Hangzhou Huadong Medicine Group Co., Ltd.	3,307.69	79,855.56
Hangzhou Huadong Medicine Group Biotechnology Institute Co., Ltd.		3,717,022.75
Hangzhou Huadong Medicine Group Kangrun Pharmaceutical Co., Ltd.		801,958.39
Esteve Huayi Pharmaceutical Co., Ltd.		391,699.58
Hangzhou Zhuyangxin Pharmaceutical Co., Ltd.		848,279.88
Zhejiang Huayi Medicine Co., Ltd.		1,108.55
Hangzhou Huadong Medicine Group Xinwufeng Pharmaceutical Co., Ltd.		6,079.18
Hangzhou Grand Bio-pharmaceutical Co., Ltd.		41,958.86
Subtotal	161,455,207.61	9,190,501.88

## 2. Related party leases

### (1) The Company as the lessor

Lessees	Types of asset leased	Lease income for current period	Lease income for the preceding period
Hangzhou Huadong Medicine Group Co., Ltd.	Housing rents	286,066.29	

### (2) The Company as the lessee

Lessors	Types of asset leased	Lease expenses for current period	Lease expenses for the preceding period
Hangzhou Huadong Medicine Technology Co., Ltd.	Housing rents	7,523,809.90	7,523,809.70

## 3. Compensation for demolition

Pursuant to the supplementary agreement of Demolition Compensation Agreement entered into between the subsidiary Hangzhou Sino-US Pharmacy Co., Ltd. and Hangzhou Huadong Medicine Group Co., Ltd. on July 28, 2017, Hangzhou Sino-US Pharmacy Co., Ltd. pays compensation for demolition of 13,256,340.00 yuan to Hangzhou Huadong Medicine Group Co., Ltd.

## 4. Related party guarantees

As of December 31, 2017, details of the Company as guaranteed parties:

Guarantors	Amount guaranteed	Commencement date	Maturity date	Whether the guarantee is mature
China Grand Enterprises, Inc.	1,000,000,000.00	5/19/2015	11/18/2020	No [Note]

Note: China Grand Enterprises, Inc. provides guarantee for the corporate bonds of 1 billion yuan issued by the Company.

## 5. Key management's emoluments

Items	Current period cumulative	Preceding period comparative
Key management's emoluments	10.09 million	7.68 million

## 6. Other related party transactions

### (1) Rendering of services

Related parties	Content of transaction	Current period cumulative	Preceding period comparative
Hangzhou Jiuyuan Gene Engineering Co., Ltd.	Power services	520,782.03	437,966.62
Hangzhou Huadong Medicine Group Co., Ltd.	Property and security services	754,716.98	754,716.98
	Power services	267,730.00	279,237.45
Subtotal		1,543,229.01	1,471,921.05

## (2) Technical services

1) Pursuant to the Technical Consultancy Service Contract entered into between Hangzhou Sino-US Pharmacy Co., Ltd. and Grand Wuhan Pharmaceutical Research Institute Co., Ltd., Grand Wuhan Pharmaceutical Research Institute Co., Ltd. would provide new product consultancy and related technical services for Hangzhou Sino-US Pharmacy Co., Ltd., and the latter paid technical service fees of 3.11 million yuan in 2016.

2) Pursuant to a series of Technology Development Contract entered into between Hangzhou Sino-US Pharmacy Co., Ltd. and Hangzhou Jiuyuan Gene Engineering Co., Ltd., Hangzhou Jiuyuan Gene Engineering Co., Ltd. would provide drug R&D technical services for Hangzhou Sino-US Pharmacy Co., Ltd., and the latter paid technical service fees of 32.45 million yuan in 2017 and 12.70 million yuan in 2016.

3) Pursuant to a series of Technical Service Contract entered into between Hangzhou Sino-US Pharmacy Co., Ltd. and Hangzhou Huadong Medicine Group Biotechnology Institute Co., Ltd., Hangzhou Huadong Medicine Group Biotechnology Institute Co., Ltd. would provide drug R&D technical services for Hangzhou Sino-US Pharmacy Co., Ltd., and the latter paid technical service fees of 43.40 million yuan in 2017 and 37.55 million yuan in 2016.

## (3) Transfer of new drug technology

Under the approval of the resolution of the extraordinary meeting of the eight session of Board of Directors, in August 2017, Hangzhou Sino-US Pharmacy Co., Ltd. and Hangzhou Huadong Medicine Group Biotechnology Institute Co., Ltd. entered into the Technology Transfer Agreement, which agreed that the Company acquired the new drug technology of Decitabine at the consideration of 30 million yuan and the transfer price was determined based on the Assets Valuation Report (numbered CWAVP [2017] 319) issued by Canwin CPVs Ltd. In 2017, Hangzhou Sino-US Pharmacy Co., Ltd. has paid 30 million yuan for the transfer of new drug technology.

## (4) Others

1) In the current period, Jiaxing Aikesen Biotechnology Co., Ltd. provides medical market research services for Huadong Ningbo Medicine Co., Ltd., and the latter paid services fees of 1.20 million yuan in 2017.

2) In the current period, Hangzhou Sino-US Pharmacy Co., Ltd. purchases vehicles from Tianjin Grand Union Automobile Sales Co., Ltd. at the price of 797,435.89 yuan.

In the current period, Huadong Medicine (Hangzhou) Bailing Biotechnology Co., Ltd. purchases vehicles from Grand Union Automobile (Tianjin) Co., Ltd. at the price of 340,170.94 yuan; and receives vehicle modification services from Tianjin Grand Union Automobile Service Co., Ltd. at the price of 58,490.57 yuan.

In the current period, Huadong Ningbo Medicine Co., Ltd. acquires one Land Rover from its non-controlling shareholders and related parties at the consideration of 590,221.91 yuan.

(III) Balance due to or from related parties

1. Balance due from related parties

Items	Related parties	Closing balance		Opening balance	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Accounts receivable	Hangzhou Jiansheng Medicine Co., Ltd.	77,522,270.00	3,876,113.50		
	Hangzhou Tangyangyuan Medicine Co., Ltd.	16,280.01	814.00	79,767.49	3,988.37
	Hangzhou Jiuyuan Gene Engineering Co., Ltd.	28,532.30	1,426.62	171,666.30	8,583.31
	Yunnan Leiyunshang Lixiang Pharmaceutical Co., Ltd.	2,972.19	148.61	109,545.00	5,477.25
Subtotal		77,570,054.50	3,878,502.73	360,978.79	18,048.93
Advances paid	Zhejiang Jiahe Pharmaceutical Co., Ltd.	710,518.22			
	Beijing Jiuhe Pharmacy Co., Ltd.	20,937.62			
	Sichuan Yuanda Shuyang Pharmaceutical Co., Ltd.			1,586,034.08	
	Tianjin Grand Union Automobile Sales Co., Ltd.	71,995.73			
	Wuhan Grand Pharmaceutical Group Sales Co., Ltd.	6,933.17			
	Ningbo Santemuse Biotechnology Co., Ltd.	902,527.60			
Subtotal		1,712,912.34		1,586,034.08	
Other receivables	Hangzhou Huadong Medicine Group Co., Ltd.	170,000.00	8,500.00	170,000.00	8,500.00
Subtotal		170,000.00	8,500.00	170,000.00	8,500.00
Other non-current assets	Hangzhou Huadong Medicine Group Biotechnology Institute Co., Ltd.	9,200,000.00		9,200,000.00	
Subtotal		9,200,000.00		9,200,000.00	

2. Balance due to related parties

Items	Related parties	Closing balance	Opening balance
Accounts payable	Hangzhou Huadong Medicine Group Biotechnology Institute Co., Ltd.	30,000,000.00	50,000,000.00
	Shenyang Yaoda Leiyunshang Pharmaceutical Co., Ltd.	3,606,553.74	



Items	Related parties	Closing balance	Opening balance
	Hangzhou Jiuyuan Gene Engineering Co., Ltd.	2,468,171.34	4,227,329.87
	Hangzhou Jiansheng Medicine Co., Ltd.	1,302,043.60	
	LYS Pharmaceutical Co., Ltd.	1,139,726.64	1,316,806.95
	Yunnan Leiyunshang Lixiang Pharmaceutical Co., Ltd.	914,884.17	1,780,033.67
	Xi'an Beilin Pharmaceutical Co., Ltd.	885,101.68	
	Changshu Leiyunshang Pharmaceutical Co., Ltd.	719,284.28	1,069,628.87
	Hangzhou Grand Bio-pharmaceutical Co., Ltd.	395,352.00	
	Guangdong Leiyunshang Pharmaceutical Co., Ltd.	306,595.89	354,923.64
	Penglai Nuokang Pharmaceutical Co., Ltd.	121,252.17	
	Wuhan Grand Pharmaceutical Group Sales Co., Ltd.	94,531.32	148,945.32
	Shaanxi Chang'an Medicine Co., Ltd.	79,256.98	
	Beijing Huajin Pharmaceutical Co., Ltd.	78,647.28	
	Hangzhou Tangyangyuan Medicine Co., Ltd.	44,606.83	
	Baoding Jahe Fine Chemical Co., Ltd.	38,700.00	
	Grand Pharmaceutical (China) Co., Ltd.	29,112.41	37,855.30
	Grand Pharmaceutical Huangshi Feiyun Pharmaceutical Co., Ltd.	28,739.22	
	Sichuan Yuanda Shuyang Pharmaceutical Co., Ltd.	4,170.10	
	Hangzhou Huadong Medicine Group Co., Ltd.	494.00	
	Beijing Jiuhe Pharmacy Co., Ltd.	104.27	
	Changchun Leiyunshang Pharmaceutical Co., Ltd.		451,918.17
	Hangzhou Tangyangyuan Medicine Co., Ltd.		44,606.83
	Hangzhou Grand Bio-pharmaceutical Co., Ltd.		14,286.00
Subtotal		42,257,327.92	59,446,334.62
Advances received	Hangzhou Huadong Medicine Group Biotechnology Institute Co., Ltd.	49,989.41	270,033.41
	Hangzhou Grand Bio-pharmaceutical Co., Ltd.		17,718.00
	Suzhou Leiyunshang Chain Pharmacy Co., Ltd.	2,000.00	2,000.00
Subtotal		51,989.41	289,751.41
Other payables	LYS Pharmaceutical Co., Ltd.	453,238.96	453,238.96
Subtotal		453,238.96	453,238.96

## X. Commitments and contingencies

### (I) Significant commitments

1. In 2015, the subsidiary Hangzhou Sino-US Pharmacy Co., Ltd. and Hangzhou Huadong Medicine Group Biotechnology Institute Co., Ltd. entered into the Technology Transfer

Agreement, which agreed that Hangzhou Sino-US Pharmacy Co., Ltd. acquired the new drug technology of Mefatinib at the consideration of 50 million yuan and the transfer price was determined based on the Assets Valuation Report (numbered CWAVP [2015] 686) issued by Canwin CPVs Ltd. In 2015, Hangzhou Sino-US Pharmacy Co., Ltd. had paid 20 million yuan for the transfer of new drug technology, with 30 million yuan unpaid as of December 31, 2017. Pursuant to the Technology Transfer Agreement, during the first five years after Mefatinib new drug technology is successfully acquired and goes on sale, Hangzhou Sino-US Pharmacy Co., Ltd. shall accrue royalty at 2% of net sales amount of related products annually and pay it to Hangzhou Huadong Medicine Group Biotechnology Institute Co., Ltd. In 2017, such technology hasn't gone to sale.

2. In 2017, the subsidiary Hangzhou Sino-US Pharmacy Co., Ltd. and Hangzhou Jiuyuan Gene Engineering Co., Ltd. entered into the Technology Transfer Agreement, which agreed that Hangzhou Sino-US Pharmacy Co., Ltd. acquired the new drug technology of Liraglutide at the consideration of 80 million yuan and the transfer price was determined based on the Assets Valuation Report (numbered CWAVP [2016] 432) issued by Canwin CPVs Ltd. As of December 31, 2017, such contract hasn't been fulfilled. Pursuant to the Technology Transfer Agreement, during the first six years after Liraglutide new drug technology is successfully acquired and goes on sale, Hangzhou Sino-US Pharmacy Co., Ltd. shall accrue royalty at 3% of net sales amount of related products annually and pay it to Hangzhou Huadong Medicine Group Biotechnology Institute Co., Ltd.

3. On December 21, 2017, the subsidiary Hangzhou Sino-US Pharmacy Co., Ltd. and vTv Therapeutics LLC entered into the License Agreement, which granted a sole license to Hangzhou Sino-US Pharmacy Co., Ltd. to use the IP of product TTP273, therapeutic goods for type-2 diabetes, locally and to commercialize it, including but not limited to, technology development, clinical research, application for regulatory approval, patent or trademark registration, production and all commercialization within the region. Pursuant to the agreement, Hangzhou Sino-US Pharmacy Co., Ltd. shall pay royalty totaling USD 33.00 million to vTv Therapeutics LLC by installments and pay total milestone fees not exceeding USD 50.00 million by four installments based on actual sales of the product (annual net sales amount reaches USD 100 million to USD 750 million). Besides, during the sales sharing period, Hangzhou Sino-US Pharmacy Co., Ltd. shall also share sales amount at the rate from 1% to 10% of annual net sales amount of the product to vTv Therapeutics LLC. In January 2018, Hangzhou Sino-US Pharmacy Co., Ltd. has made down payment of USD 8.00 million for royalty.

## (II) Contingencies

In June 2007, Shaanxi Jiuzhou Pharmacy Co., Ltd. signed the Maximum Mortgage Contract with

中国农业银行商洛商州区支行 (Agricultural Bank of China, Shangluo Shangzhou Sub-branch\*), and provided a mortgaged guarantee with maximum amount of 9.00 million yuan for 商洛商山 (集团) 水泥有限公司 (Shangluo Shangshan (Group) Cement Co., Ltd.\*) using its machinery (with carrying amount of 15,154,518.48 yuan) as collaterals. The guarantee term was from June 19, 2007 to June 18, 2008. Shangluo Shangshan (Group) Cement Co., Ltd. borrowed 4.20 million under such guarantee and repaid principal of 0.80 million yuan and interest accrued before September 20, 2007 after the maturity of such loan. As Shangluo Shangshan (Group) Cement Co., Ltd. failed to pay off such loan and currently entered into the bankruptcy liquidation procedures, Shaanxi Higher People's Court made a civil ruling numbered (2012) Shan Min Er Zhong Zi 00069 on December 27, 2012, ruling that Shangluo Shangshan (Group) Cement Co., Ltd. shall repay principal and interest thereof; if it fails to do so after bankruptcy liquidation, Agricultural Bank of China, Shangluo Shangzhou Sub-branch is entitled to have the priority right of compensation concerning proceeds from discount, auction or sale of mortgaged assets of Shaanxi Jiuzhou Pharmacy Co., Ltd.

On July 8, 2016, 中国农业银行商洛分行 (Agricultural Bank of China, Shangluo Branch\*) and 商洛市城市建设投资开发有限公司 (Shangluo City Construction Investment Development Co., Ltd.\*) issued the Announcement on Transfer of Creditor's Right of Entrusted Assets and Trustee Management and Disposal, Agricultural Bank of China, Shangluo Branch had signed the Trusteeship and Transfer Agreement on Entrusted Assets with Shangluo City Construction Investment Development Co., Ltd., which agreed that, taking March 31, 2016 as the benchmark date, Agricultural Bank of China, Shangluo Branch would transfer creditor's right assets of 49 companies to Shangluo City Construction Investment Development Co., Ltd. on an integral basis, and the latter would manage and dispose transferred assets. As of December 31, 2017, the cost of mortgaged machinery is 10,534,082.19 yuan, accumulated depreciation is 9,208,246.36 yuan and net value is 1,325,835.83 yuan.

## **XI. Events after the balance sheet date**

### **(I) Profit distribution after the balance sheet date**

Pursuant to the Plan for Profit Distribution of 2017 deliberated and approved by the eleventh meeting of the eighth session of the Board of Directors on March 28, 2018, the Company will distribute cash dividend of 7.2 yuan (tax included) per 10 shares totaling 699,923,819.52 yuan based on the total share of 972,116,416 shares, and increase share capital by converting capital reserve at the rate of 5 shares per 10 shares.

(II) Pursuant to the Plan for Expected Daily Related-Party Transactions in 2018 deliberated and approved by the eleventh meeting of the eighth session of the Board of Directors on March 28,

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2018, in 2018, the Company and its subsidiaries are expected to have daily related-party transactions in amount of 197.00 million yuan to 237.50 million yuan with China Grand Enterprises, Inc. and related parties, have daily related-party transactions in amount of 8.85 million yuan to 9.75 million yuan with Hangzhou Huadong Medicine Group Co., Ltd. and related parties, and have daily related-party transactions in amount of 305.50 million yuan to 377.00 million yuan with other related parties.

## XII. Other significant events

### (I) Segment information

#### 1. Identification basis for reportable segments

Reportable segments are identified based on operating segments which are determined based on the structure of the Company's internal organization, management requirements and internal reporting system. The Company identified reportable segments based on industry and assessed operation performance on manufacturing, commerce and headquarters business. Assets and liabilities shared by different segments are allocated between segments proportionate to their respective size.

#### 2. Financial information of reportable segments

##### Industry segment

Items	Commerce	manufacturing	HQs
Revenue from main operations	21,613,521,264.57	6,949,845,834.63	
Cost of main operations	20,032,637,613.63	1,288,871,897.71	
Total assets	8,364,406,621.46	6,471,625,521.44	5,206,300,245.93
Total liabilities	7,212,152,478.49	2,073,399,799.28	974,553,100.31

(Continued)

Items	Inter-segment offsetting	Total
Revenue from main operations	766,365,875.28	27,797,001,223.92
Cost of main operations	778,739,260.43	20,542,770,250.91
Total assets	4,055,225,851.37	15,987,106,537.46
Total liabilities	3,081,861,761.44	7,178,243,616.64

(II) Other significant transactions and events that maybe influential for investors in decision-making

As of December 31, 2017, details of shares pledged by shareholders are as follows:

Shareholders	Number of pledged shares	Commencement date	Maturity date	Pledgee	Proportion of pledged shares to holding shares	Purpose
China Grand Enterprises, Inc.	19,700,000	1/6/2016	Till the date of releasing registration of pledge by pledgee	光大证券股份有限公司 (Everbright Securities)	4.85%	Financing

Shareholders	Number of pledged shares	Commencement date	Maturity date	Pledgee	Proportion of pledged shares to holding shares	Purpose
				Co., Ltd. )		
	30,860,000	1/6/2016	Till the date of releasing registration of pledge by pledgee	上海光大证券资产管理有限公司 (Everbright Securities Asset Management Co., Ltd.*)	7.60%	Financing
	30,860,000	1/7/2016	Till the date of releasing registration of pledge by pledgee	北京银行股份有限公司 (Bank of Beijing Co., Ltd.*)	7.60%	Financing
	97,861,890	1/11/2016	Till the date of releasing registration of pledge by pledgee	华鑫国际信托有限公司 (China Fortune International Trust Co., Ltd.)	24.10%	Financing
	18,240,000	3/22/2017	Till the date of releasing registration of pledge by pledgee	Everbright Securities Co., Ltd.	4.49%	Financing
	17,000,000	7/24/2017	Till the date of releasing registration of pledge by pledgor and pledgee		4.19%	Financing
Subtotal	214,521,890				52.83%	

As of December 31, 2017, the Company's shares of 214,521,890 shares held by China Grand Enterprises, Inc. have been pledged, accounting 22.07% of the total share, and no share is frozen.

### XIII. Notes to items of parent company financial statements

#### (I) Notes to items of parent company balance sheet

##### 1. Accounts receivable

##### (1) Details

##### 1) Details on categories

Categories	Closing balance				
	Book balance		Provision for bad debts		Carrying amount
	Amount	% to total	Amount	Provision proportion (%)	
Receivables with provision made on a collective basis using portfolios with similar credit risk features	3,067,789,375.60	100.00	156,052,555.56	5.09	2,911,736,820.04
Total	3,067,789,375.60	100.00	156,052,555.56	5.09	2,911,736,820.04

(Continued)

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Categories	Opening balance				Carrying amount
	Book balance		Provision for bad debts		
	Amount	% to total	Amount	Provision proportion (%)	
Receivables with provision made on a collective basis using portfolios with similar credit risk features	3,055,804,921.13	100.00	156,176,557.50	5.11	2,899,628,363.63
Total	3,055,804,921.13	100.00	156,176,557.50	5.11	2,899,628,363.63

2) In portfolios, accounts receivable with provision made on a collective basis with age analysis method

Ages	Closing balance		
	Book balance	Provision for bad debts	Provision proportion (%)
Within 1 year	3,031,725,721.22	151,586,286.07	5
1-2 years	29,980,374.41	2,998,037.44	10
2-3 years	5,580,323.29	1,116,064.66	20
3-4 years	167,326.52	83,663.26	50
4-5 years	335,630.16	268,504.13	80
Subtotal	3,067,789,375.60	156,052,555.56	5.09

(2) Provisions made, collected or reversed in current period

Provision for bad debts made in current period totaled -124,001.94 yuan.

(3) Details of the top 5 debtors with largest balances

Debtors	Book balance	Proportion to the total balance of accounts receivable (%)	Provision for bad debts
Huadong Medicine Huzhou Co., Ltd.	149,589,120.05	4.88	7,483,295.85
Huadong Medicine Shaoxing Co., Ltd.	100,625,701.27	3.28	5,031,346.51
Client A1	80,814,217.09	2.63	4,040,710.85
Huadong Medicine Lishui Co., Ltd.	74,622,393.06	2.43	3,731,119.65
Huadong Medicine Cunde (Zhoushan) Co., Ltd.	55,154,074.57	1.80	2,775,419.15
Subtotal	460,805,506.04	15.02	23,061,892.01

2. Other receivables

(1) Details

1) Details on categories

Categories	Closing balance		
	Book balance	Provision for bad debts	Carrying amount

	Amount	% to total	Amount	Provision proportion (%)	
Receivables with provision made on a collective basis using portfolios with similar credit risk features	682,673,881.16	100.00	44,384,043.58	6.50	638,289,837.58
Total	682,673,881.16	100.00	44,384,043.58	6.50	638,289,837.58

(Continued)

Categories	Opening balance				Carrying amount
	Book balance		Provision for bad debts		
	Amount	% to total	Amount	Provision proportion (%)	
Receivables with provision made on a collective basis using portfolios with similar credit risk features	484,965,892.31	100.00	27,538,327.12	5.68	457,427,565.19
Total	484,965,892.31	100.00	27,538,327.12	5.68	457,427,565.19

2) In portfolios, other receivables with provision made on a collective basis with age analysis method

Ages	Closing balance		
	Book balance	Provision for bad debts	Provision proportion (%)
Within 1 year	568,955,129.35	28,447,756.47	5
1-2 years	105,896,275.04	10,589,627.51	10
2-3 years	706,362.38	141,272.48	20
3-4 years	2,562,014.67	1,281,007.34	50
4-5 years	3,148,599.72	2,518,879.78	80
Over 5 years	1,405,500.00	1,405,500.00	100
Subtotal	682,673,881.16	44,384,043.58	6.50

(2) Provisions made, collected or reversed in current period

Provisions for bad debts made in current period totaled 16,845,716.46 yuan.

(3) Other receivables categorized by nature

Nature of receivables	Closing balance	Opening balance
Deposit as security	14,512,354.68	8,966,351.31
Call loans	652,710,869.53	463,100,500.00
Temporary advance payment receivable	8,473,675.12	10,016,583.66
Others	6,976,981.83	2,882,457.34
Total	682,673,881.16	484,965,892.31

(4) Details of the top 5 debtors with largest balances

Debtors	Nature of receivables	Book balance	Ages	Proportion to the total balance of other receivables (%)	Provision for bad debts
Huadong Medicine Wenzhou Co., Ltd.	Borrowings	150,000,000.00	Within 1 year	21.97	7,500,000.00
Huadong Medicine Ningbo Sales Co., Ltd.	Borrowings	85,000,000.00	Within 1 year	16.11	4,359,970.42
	Borrowings	25,000,000.00	1-2 years		2,280,059.17
Huadong Medicine Shaoxing Co., Ltd.	Borrowings	64,000,000.00	Within 1 year	9.37	3,200,000.00
Huadong Medicine Huzhou Co., Ltd.	Borrowings	30,000,000.00	Within 1 year	8.79	1,616,543.75
	Borrowings	30,000,000.00	1-2 years		2,766,912.50
Huadong Medicine Lishui Co., Ltd.	Borrowings	60,000,000.00	Within 1 year	8.79	3,000,000.00
Subtotal		444,000,000.00		65.03	24,723,485.84

### 3. Long-term equity investments

#### (1) Categories

Items	Closing balance		
	Book balance	Provision for impairment	Carrying amount
Investments in subsidiaries	2,772,666,075.14	3,951,000.00	2,768,715,075.14
Total	2,772,666,075.14	3,951,000.00	2,768,715,075.14

(Continued)

Items	Opening balance		
	Book balance	Provision for impairment	Carrying amount
Investments in subsidiaries	2,546,380,470.08	3,951,000.00	2,542,429,470.08
Total	2,546,380,470.08	3,951,000.00	2,542,429,470.08

#### (2) Investments in subsidiaries

Investees	Opening balance	Increase	Decrease	Closing balance	Provision for impairment made in current period	Closing balance of provision for impairment
Hangzhou Sino-US Pharmacy Co., Ltd.	951,620,914.20	1,353,765,340.56		2,305,386,254.76		
Hangzhou Huasheng Investment Management Co., Ltd.	26,000,000.00			26,000,000.00		
Hangzhou Huadong Medicine Chain Co., Ltd.	13,124,400.00			13,124,400.00		
Huadong Medicine Deqing Tianrui Co., Ltd.	5,618,411.54			5,618,411.54		
Huadong Ningbo Medicine Co., Ltd.	3,315,000.00			3,315,000.00		
Huadong	2,851,000.00			2,851,000.00		2,851,000.00



Investees	Opening balance	Increase	Decrease	Closing balance	Provision for impairment made in current period	Closing balance of provision for impairment
Medicine Guangdong Pharmaceutical Co., Ltd.						
Huadong Medicine (Xi'an) Bohua Pharmacy Co., Ltd.	86,509,744.34		86,509,744.34			
Hangzhou Huadong Chinese Medicine Co., Ltd.	11,067,100.00			11,067,100.00		
Huadong Medicine Supply Chain Management (Hangzhou) Co., Ltd.	86,500,000.00			86,500,000.00		
Huadong Medicine Wenzhou Co., Ltd.	32,190,000.00			32,190,000.00		
Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd.	109,070,000.00		109,070,000.00			
Hangzhou Huadong Wulin Large Pharmacy Co., Ltd.	15,000,000.00			15,000,000.00		
Huadong Medicine Ningbo Sales Co., Ltd.	58,600,000.00			58,600,000.00		
Huadong Medicine Shaoxing Co., Ltd.	4,032,000.00	55,500,000.00		59,532,000.00		
Huadong Medicine Huzhou Co., Ltd.	80,000,000.00			80,000,000.00		
Huadong Medicine (Hangzhou) Bailing Biotechnology Co., Ltd.	1,000,000,000.00		1,000,000,000.00			
Hangzhou Yuexing Youpin Health Management Co., Ltd.	6,000,000.00	4,000,000.00		10,000,000.00		
Huadong Medicine (Hangzhou) Biological Product Co., Ltd.	10,000,000.00			10,000,000.00		
Huadong Medicine Lishui Co., Ltd.	11,550,000.00			11,550,000.00		
Hangzhou Yoco Medical Cosmetology Clinic Co., Ltd.	2,550,000.00	461,908.84		3,011,908.84		
Hangzhou	3,000,000.00			3,000,000.00		

Investees	Opening balance	Increase	Decrease	Closing balance	Provision for impairment made in current period	Closing balance of provision for impairment
Caiweifangxiang Cultural Creativity Co., Ltd.						
Hangzhou Huadong Medicine Chemical Reagent Co., Ltd.	1,100,000.00			1,100,000.00		1,100,000.00
Huadong Medicine (Yantai) Pharmaceutical Co., Ltd.	21,681,900.00		21,681,900.00			
Hangzhou Xingguo Health Management Co., Ltd.	5,000,000.00			5,000,000.00		
Huadong Medicine Medical Device Technology Co., Ltd.		5,100,000.00		5,100,000.00		
Huadong Medicine Cunde (Zhoushan) Co., Ltd.		19,200,000.00		19,200,000.00		
Zhoushan Cundetang Medicine Retail Co., Ltd.		5,520,000.00		5,520,000.00		
Huadong Medicine Daishan Co., Ltd.						
Subtotal	2,546,380,470.08	1,443,547,249.40	1,217,261,644.34	2,772,666,075.14		3,951,000.00

### (3) Remarks on movements

1) Pursuant to the capital increase agreement entered into between the Company and the subsidiaries Hangzhou Sino-US Pharmacy Co., Ltd., Huadong Medicine (Xi'an) Bohua Pharmacy Co., Ltd., Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd., Huadong Medicine (Hangzhou) Bailing Biotechnology Co., Ltd., Huadong Medicine (Yantai) Pharmaceutical Co., Ltd. on September 8, 2017, the Company increases investment in the subsidiary Hangzhou Sino-US Pharmacy Co., Ltd. using the equity of Huadong Medicine (Xi'an) Bohua Pharmacy Co., Ltd., Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd., Huadong Medicine (Hangzhou) Bailing Biotechnology Co., Ltd. and Huadong Medicine (Yantai) Pharmaceutical Co., Ltd. with carrying amount totaling 1,217,261,644.34 yuan.

2) Pursuant to the resolution on the Plan for Injection of Manufacturing Branches' Assets into the Wholly-Owned Subsidiary Hangzhou Sino-US Pharmacy Co., Ltd. approved by the sixth meeting of the eighth session of the Board of Directors dated March 7, 2017, the Company, taking May 31, 2017 as the benchmark date, incorporates all assets, liabilities and work-force of manufacturing branches into the subsidiary Hangzhou Sino-US Pharmacy Co., Ltd., and increases investment in the subsidiary using net assets of 136,503,696.22 yuan.

3) Pursuant to the Plan for Capital Increase of Holding Subsidiaries of 2017 approved by the sixth meeting of the eighth session of the Board of Directors dated March 7, 2017, the Company increases capital of Huadong Medicine Shaoxing Co., Ltd. by 50.00 million yuan.

Pursuant to the Equity Transfer Agreement of Huadong Medicine Shaoxing Co., Ltd. entered into between the Company and 高雅丽 (Gao Yali), 祁燕红 (Qi Yanhong), the Company acquires 40% equity of Huadong Medicine Shaoxing Co., Ltd. held by Gao Yali and Qi Yanhong at the consideration of 5.50 million yuan. Please refer to section VII (II) for details.

4) Pursuant to the Plan for Capital Increase of Wholly-Owned Subsidiaries of 2016 approved by the second meeting of the eighth session of the Board of Directors dated March 15, 2016, the Company increases capital of Hangzhou Yuexing Youpin Health Management Co., Ltd. by 4.00 million yuan.

5) Pursuant to the Equity Transfer Agreement and supplementary agreement entered into between the Company and 高寿松 (Gao Shousong), natural person shareholder of Hangzhou Yoco Medical Cosmetology Clinic Co., Ltd., the Company acquires 15% equity of Hangzhou Yoco Medical Cosmetology Clinic Co., Ltd. held by Gao Shousong at the consideration of 0.46 million yuan. Please refer to section VII (II) for details.

6) In the current period, the Company and 刘宗乐 (Liu Zongle) jointly establish Huadong Medicine Medical Device Technology Co., Ltd. with registered capital of 10.00 million yuan, of which, 5.10 million yuan is contributed by the Company, accounting for 51%, and 4.90 million yuan is contributed by Liu Zongle, accounting for 49% of the registered capital.

7) Pursuant to the Equity Transfer Agreement of 舟山存德医药有限公司 (Zhoushan Cunde Medicine Co., Ltd.\*) and Zhoushan Cundetang Medicine Retail Co., Ltd. entered into between the Company and 7 companies including 浙江万事达集团有限公司 (Zhejiang Wanshida Group Co., Ltd.\*), in the current period, the Company acquires 80% equity of Huadong Medicine Cunde (Zhoushan) Co., Ltd. at the consideration of 13.60 million yuan, and acquires 80% equity of Zhoushan Cundetang Medicine Retail Co., Ltd. at the consideration of 4.00 million yuan. Please refer to section VI (I) for details.

In the current period, the Company increases capital of Huadong Medicine Cunde (Zhoushan) Co., Ltd. by 5.60 million yuan, and increases capital of Zhoushan Cundetang Medicine Retail Co., Ltd. by 1.52 million yuan.

8) Pursuant to the Equity Transfer Agreement of 浙江省岱山县诚泰医药有限公司 (Zhejiang Daishan Chengtai Pharmaceutical Co., Ltd.\*) entered into between the Company and 12 persons including 张和平 (Zhang Heping), 杜群康 (Du Qunkang) and 沈海滨 (Shen Haibin), the

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\* The English names are for identification purpose only.

Company acquires 70% equity of Huadong Medicine Daishan Co., Ltd. at the consideration of 0.00 yuan. Please refer to section VI (I) for details.

(II) Notes to items of the parent company income statement

1. Operating revenue/Operating cost

Items	Current period cumulative		Preceding period comparative	
	Revenue	Cost	Revenue	Cost
Main operations	17,167,594,581.47	16,301,428,412.03	16,184,339,154.23	15,383,567,991.66
Other operations	9,732,293.68	4,474,772.99	10,869,454.55	5,523,784.18
Total	17,177,326,875.15	16,305,903,185.02	16,195,208,608.78	15,389,091,775.84

2. Administrative expenses

Items	Current period cumulative	Preceding period comparative
Employee benefits	75,482,256.67	60,741,093.77
R&D expenses	8,659,968.80	23,734,632.91
Consulting fees	2,673,403.49	4,463,182.12
Depreciation expenses	4,954,597.38	2,978,301.47
Taxes and rates	894,368.73	3,474,587.27
Leasing fees	6,461,317.13	6,367,021.09
Amortization of intangible assets	3,415,903.57	3,476,695.01
Office expenses	1,547,972.20	1,692,991.79
Business entertainment	6,003,457.58	6,205,797.98
Computer application fees	3,990,509.18	3,213,952.22
Agency service fees	1,853,258.93	2,174,914.29
Others	12,198,574.12	10,506,762.34
Total	128,135,587.78	129,029,932.26

3. Investment income

(1) Details

Items	Current period cumulative	Preceding period comparative
Investment income from long-term equity investments under cost method	1,064,575,000.00	907,652,932.84
Investment income from bank financial products	2,550,107.70	12,991,574.04
Total	1,067,125,107.70	920,644,506.88

(2) Other remarks

1) Investment income from long-term equity investments under cost method includes dividends of 1,000,000,000.00 yuan from Hangzhou Sino-US Pharmacy Co., Ltd., 62,475,000.00 yuan from

Huadong Ningbo Medicine Co., Ltd. and 1,800,000.00 yuan from Hangzhou Huadong Chinese Medicine Co., Ltd.

2) Pursuant to the Equity Transfer Agreement entered into between the Company and Gao Shousong, natural person shareholder of Hangzhou Yoco Medical Cosmetology Clinic Co., Ltd., the Company acquires 10% equity in amount of 0.30 million yuan of Hangzhou Yoco Medical Cosmetology Clinic Co., Ltd. held by Gao Shousong at the consideration of 0.00 yuan. In the current period, the Company recognizes investment income of 0.30 million yuan.

#### **XIV. Other supplementary information**

##### **(I) Non-recurring profit or loss**

##### **1. Schedule of non-recurring profit or loss of current period**

Items	Amount	Remarks
Gains on disposal of non-current assets, including written-off of provision for impairment	-7,395,738.16	
Tax refund, credit or exemption approved beyond the power of authorities, without formal documents, or with occasionality	11,124,356.12	
Government grant included in profit or loss (excluding those closely related to operating activities, or regular government grants)	85,111,812.35	
Fund possession charge from non-financial entities and included in profit or loss		
Gains on acquisition of subsidiaries, joint ventures and associates due to the surplus of acquisition-date fair value of net identifiable assets in acquiree over the acquisition cost		
Gains on non-cash assets exchange		
Gains on assets consigned to the third party for investment or management	2,575,905.01	
Assets impairment loss incurred due to force majeure such as natural disasters		
Gains on debt restructuring	2,439,066.31	
Entity restructuring expenses, such as staffing and integrating expenses		
Gains on transactions with unfair value		
Net profit gains on subsidiaries acquired through business combination under common control from the beginning of the period to the combination date		
Contingent gains on non-operating activities		
Gains on changes in fair value of held-for-trading financial assets and liabilities and investment income from disposal of held-for-trading financial assets and liabilities, and available-for-sale financial assets, excluding those arising from hedging business related to operating activities		
The reversed provision for impairment of receivables based on impairment testing on an individual basis		
Gains on designated loans		

Items	Amount	Remarks
Gains on changes in fair value of investment properties with subsequent measurement at the fair value mode		
Gains on reconciliation of current period profit or loss following legal and regulative requirements		
Management charges for consigned operations		
Other non-operating revenue or expenditures	-20,536,885.66	
Other profit or loss satisfying the definition of non-recurring profit or loss		
Subtotal	73,318,515.97	
Less: Enterprise income tax affected	19,783,865.78	
Non-controlling interest affected (after tax)	14,092,788.70	
Net non-recurring profit or loss attributable to shareholders of the parent company	39,441,861.49	

## (II) RONA and EPS

### 1. Details

Profit of the reporting period	Weighted average RONA (%)	EPS (yuan/share)	
		Basic EPS	Diluted EPS
Net profit attributable to shareholders of ordinary shares	23.02	1.83	1.83
Net profit attributable to shareholders of ordinary shares after deducting non-recurring profit or loss	22.51	1.79	1.79

### 2. Calculation process of weighted average RONA

Items	Symbols	Current period cumulative
Net profit attributable to shareholders of ordinary shares	A	1,779,506,061.59
Non-recurring profit or loss	B	39,441,861.49
Net profit attributable to shareholders of ordinary shares after deducting non-recurring profit or loss	C=A-B	1,740,064,200.10
Opening balance of net assets attributable to shareholders of ordinary shares	D	7,278,523,919.24
Net assets attributable to shareholders of ordinary shares increased due to offering of new shares or conversion of debts into shares	E	
Number of months counting from the next month when the net assets were increased to the end of the reporting period	F	
Net assets attributable to shareholders of ordinary shares decreased due to share repurchase or cash dividends appropriation	G	656,178,580.80
Number of months counting from the next month when the net assets were decreased to the end of the reporting period	H	8
Others	I1	364,570.77
Net assets attributable to shareholders of ordinary shares increased due to		

Items	Symbols	Current period cumulative
acquisition of 10% equity of Hangzhou Yoco Medical Cosmetology Clinic Co., Ltd.		
Number of months counting from the next month when other net assets were increased or decreased to the end of the reporting period	J1	4
Net assets attributable to shareholders of ordinary shares increased due to acquisition of 40% equity of Huadong Medicine Shaoxing Co., Ltd.	I2	-2,147,603.23
Number of months counting from the next month when other net assets were increased or decreased to the end of the reporting period	J2	0
Net assets attributable to shareholders of ordinary shares increased due to acquisition of 10% equity of Huadong Medicine Wuhan Pharmaceutical Co., Ltd.	I3	-327,701.00
Number of months counting from the next month when other net assets were increased or decreased to the end of the reporting period	J3	10
Net assets attributable to shareholders of ordinary shares disproportionately increased due to capital increase of Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd.	I4	-6,470,870.01
Number of months counting from the next month when other net assets were increased or decreased to the end of the reporting period	J4	2
Number of months in the reporting period	K	12
Weighted average net assets	$L = D + A/2 + E \times F/K - G \times H/K \pm I \times J/K$	7,729,594,523.92
Weighted average RONA	$M = A/L$	23.02%
Weighted average RONA after deducting non-recurring profit or loss	$N = C/L$	22.51%

### 3. Calculation process of basic EPS and diluted EPS

#### (1) Calculation process of basic EPS

Items	Symbols	Current period cumulative
Net profit attributable to shareholders of ordinary shares	A	1,779,506,061.59
Non-recurring profit or loss	B	39,441,861.49
Net profit attributable to shareholders of ordinary shares after deducting non-recurring profit or loss	$C = A - B$	1,740,064,200.10
Opening balance of total shares	D	486,058,208.00

Items	Symbols	Current period cumulative
Number of shares increased due to conversion of reserve to share capital or share dividend appropriation	E	486,058,208.00
Number of shares increased due to offering of new shares or conversion of debts into shares	F	
Number of months counting from the next month when the share was increased to the end of the reporting period	G	
Number of shares decreased due to share repurchase	H	
Number of months counting from the next month when the share was decreased to the end of the reporting period	I	
Number of shares decreased in the reporting period	J	
Number of months in the reporting period	K	12
Weighted average of outstanding ordinary shares	$L = \frac{D + E + F \times G / K - H \times I / K}{J}$	972,116,416.00
Basic EPS	$M = A / L$	1.83
Basic EPS after deducting non-recurring profit or loss	$N = C / L$	1.79

(2) Calculation process of diluted EPS

Calculation process of diluted EPS is the same as that of basic EPS

Huadong Medicine Co., Ltd.

March 28, 2018