



华东医药股份有限公司
HUADONG MEDICINE CO.,LTD

(Shenzhen Stock Exchange Code: 000963)

2016 Annual Audit Report

March, 2017

Contents

I. Auditor's Report	Page 1-2
II. Financial Statements	Page 3-14
(I) Consolidated Balance Sheet	Page 3-4
(II) Parent Company Balance Sheet	Page 5-6
(III) Consolidated Income Statement	Page 7
(IV) Parent Company Income Statement	Page 8
(V) Consolidated Cash Flow Statement	Page 9
(VI) Parent Company Cash Flow Statement	Page 10
(VII) Consolidated Statement of Changes in Equity	Page 11-12
(VIII) Parent Company Statement of Changes in Equity	Page 13-14
III. Notes to Financial Statements	Page 15-101

Auditor's Report

PCCPAAR [2017] No. 766

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

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, 2016, 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.

I. Management's Responsibility for the Financial Statements

The preparation and fair presentation of these financial statements is the responsibility of the Company's management. This responsibility includes: (1) preparing and presenting fairly the financial statements in accordance with China Accounting Standards for Business Enterprises; and (2) 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.

II. Certified Public Accountants' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. Those standards require that we comply with the China Code of Ethics for Certified Public Accountants and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

III. Audit Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of the Company as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with China Accounting Standards for Business Enterprises.

Pan-China Certified Public Accountants LLP

Chinese Certified Public Accountant

Hangzhou · China

Chinese Certified Public Accountant

Date of Report: March 7, 2017

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, 2016
(Expressed in Renminbi Yuan)

Assets	Note No.	Closing balance	Opening balance
Current assets:			
Cash and bank balances	1	2,661,321,219.62	1,486,510,733.05
Settlement funds			
Loans to other banks			
Financial assets at fair value through profit or loss			
Derivative financial assets			
Notes receivable	2	956,836,494.97	991,982,466.01
Accounts receivable	3	4,466,145,766.04	3,637,323,842.03
Advances paid	4	317,704,858.86	330,341,296.28
Premiums receivable			
Reinsurance accounts receivable			
Reinsurance reserve receivable			
Interest receivable			
Dividend receivable	5	240,000.00	240,000.00
Other receivables	6	29,818,329.33	36,824,970.85
Reverse-REPO financial assets			
Inventories	7	3,084,420,723.43	2,422,889,729.46
Assets classified as held for sale			
Non-current assets due within one year			
Other current assets	8	192,481,123.17	51,248,878.21
Total current assets		11,708,968,515.42	8,957,361,915.89
Non-current assets:			
Loans and advances paid			
Available-for-sale financial assets	9	91,111,431.20	91,411,431.20
Held-to-maturity investments			
Long-term receivable			
Long-term equity investments	10	64,557,786.62	53,078,598.50
Investment property	11	13,810,831.89	12,237,290.19
Fixed assets	12	1,850,489,677.14	1,265,086,224.93
Construction in progress	13	80,075,673.92	488,647,681.22
Construction materials			
Fixed assets disposal			
Productive biological assets			
Oil & gas assets			
Intangible assets	14	490,878,309.69	380,813,085.52
Development expenditures			
Goodwill	15	14,256,645.61	14,915,229.60
Long-term prepayments	16	14,512,787.53	13,816,236.12
Deferred tax assets	17	58,490,609.86	45,692,706.84
Other non-current assets	18	69,276,427.96	94,117,404.01
Total non-current assets		2,747,460,181.42	2,459,815,888.13
Total assets		14,456,428,696.84	11,417,177,804.02

Huadong Medicine Co., Ltd.
Consolidated balance sheet as at December 31, 2016 (continued)
(Expressed in Renminbi Yuan)

Liabilities & Equity	Note No.	Closing balance	Opening balance
Current liabilities:			
Short-term borrowings	19	473,116,662.44	2,413,962,043.62
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	465,561,227.34	584,170,049.00
Accounts payable	21	3,353,036,143.54	2,799,284,185.79
Advances received	22	41,012,026.97	58,115,976.87
Proceeds from sale of repurchase financial assets			
Handling fee and commission payable			
Employee benefits payable	23	42,256,741.01	33,762,032.03
Taxes and rates payable	24	422,116,391.26	245,653,112.44
Interest payable	25	31,215,454.05	39,251,471.72
Dividend payable	26	224,219.60	224,219.60
Other payables	27	924,956,769.81	617,647,618.42
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	57,571,500.00
Other current liabilities			
Total current liabilities		5,781,967,256.02	6,849,642,209.49
Non-current liabilities:			
Long-term borrowings	29	21,280,000.00	314,421,620.00
Bonds payable	30	989,495,117.70	986,714,392.28
Including: Preferred shares			
Perpetual bonds			
Long-term payables			
Long-term employee benefits payable			
Special payables			
Provisions			
Deferred income	31	21,845,360.00	23,051,195.16
Deferred tax liabilities			
Other non-current liabilities			
Total non-current liabilities		1,032,620,477.70	1,324,187,207.44
Total liabilities		6,814,587,733.72	8,173,829,416.93
Equity:			
Share capital	32	486,058,208.00	434,059,991.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve	33	3,436,248,298.06	19,798,527.01
Less: Treasury shares			
Other comprehensive income			
Special reserve			
Surplus reserve	34	357,328,881.15	244,714,789.26
General risk reserve			
Undistributed profit	35	2,998,888,532.03	2,272,483,685.44
Total equity attributable to the parent company		7,278,523,919.24	2,971,056,992.71
Non-controlling interest		363,317,043.88	272,291,394.38
Total equity		7,641,840,963.12	3,243,348,387.09
Total liabilities & equity		14,456,428,696.84	11,417,177,804.02

Huadong Medicine Co., Ltd.
Parent company balance sheet as at December 31, 2016
(Expressed in Renminbi Yuan)

Assets	Note No.	Closing balance	Opening balance
Current assets:			
Cash and bank balances		1,665,869,581.49	792,686,343.54
Financial assets at fair value through profit or loss			
Derivative financial assets			
Notes receivable		446,354,244.14	452,031,590.84
Accounts receivable	1	2,899,628,363.63	2,545,940,874.92
Advances paid		232,354,523.91	263,613,359.42
Interest receivable			
Dividend receivable			
Other receivables	2	457,427,565.19	51,701,533.67
Inventories		1,767,027,789.30	1,451,016,364.91
Assets classified as held for sale			
Non-current assets due within one year			
Other current assets		150,000,000.00	
Total current assets		7,618,662,067.66	5,556,990,067.30
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	2,542,429,470.08	1,792,847,570.08
Investment property		486,542.27	760,040.51
Fixed assets		155,786,317.30	166,778,096.93
Construction in progress		2,080,915.14	5,386,860.98
Construction materials			
Fixed assets disposal			
Productive biological assets			
Oil & gas assets			
Intangible assets		44,540,975.60	31,019,309.03
Development expenditures			
Goodwill			
Long-term prepayments			
Deferred tax assets		39,044,139.38	33,796,501.84
Other non-current assets			
Total non-current assets		2,875,479,790.97	2,121,699,810.57
Total assets		10,494,141,858.63	7,678,689,877.87

Huadong Medicine Co., Ltd.

Parent company balance sheet as at December 31, 2016 (continued)

(Expressed in Renminbi Yuan)

Liabilities & Equity	Note No.	Closing balance	Opening balance
Current liabilities:			
Short-term borrowings			1,532,392,498.67
Financial liabilities at fair value through profit or loss			
Derivative financial liabilities			
Notes payable		346,064,139.06	438,167,641.76
Accounts payable		2,529,095,581.90	2,104,741,739.23
Advances received		15,782,202.00	12,508,841.37
Employee benefits payable		2,261,582.33	1,251,160.93
Taxes and rates payable		100,818,657.13	76,382,630.87
Interest payable		29,230,136.98	35,924,044.25
Dividend payable		224,219.60	224,219.60
Other payables		28,451,263.69	32,337,916.14
Liabilities classified as held for sale			
Non-current liabilities due within one year			
Other current liabilities			
Total current liabilities		3,051,927,782.69	4,233,930,692.82
Non-current liabilities:			
Long-term borrowings			
Bonds payable		989,495,117.70	986,714,392.28
Including: Preferred shares			
Perpetual bonds			
Long-term payables			
Long-term employee benefits payable			
Special payables			
Provisions			
Deferred income		7,658,018.50	
Deferred tax liabilities			
Other non-current liabilities			
Total non-current liabilities		997,153,136.20	986,714,392.28
Total liabilities		4,049,080,918.89	5,220,645,085.10
Equity:			
Share capital		486,058,208.00	434,059,991.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve		3,432,202,868.01	15,753,096.96
Less: treasury shares			
Other comprehensive income			
Special reserve			
Surplus reserve		435,184,640.59	322,570,548.70
Undistributed profit		2,091,615,223.14	1,685,661,156.11
Total equity		6,445,060,939.74	2,458,044,792.77
Total liabilities & equity		10,494,141,858.63	7,678,689,877.87

Huadong Medicine Co., Ltd.
Consolidated income statement for the year ended December 31, 2016
(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
I. Total operating revenue		25,379,667,502.88	21,727,383,494.05
Including: operating revenue	1	25,379,667,502.88	21,727,383,494.05
Interest proceeds			
Premium earned			
Revenue from handling charges and commission			
II. Total operating cost		23,549,785,687.94	20,353,320,471.11
Including: Operating cost	1	19,219,105,526.11	16,517,782,654.45
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	131,745,979.98	104,308,584.00
Selling expenses	3	3,298,623,646.19	2,769,460,211.25
Administrative expenses	4	759,312,017.32	722,028,152.97
Financial expense	5	94,092,523.34	205,856,453.06
Assets impairment loss	6	46,905,995.00	33,884,415.38
Add: Gains on changes in fair value (or less: losses)			
Investment income (or less: losses)	7	26,610,802.80	8,448,007.39
Including: investment income from associates and joint ventures	7	13,403,988.12	8,253,129.90
Gains on foreign exchange (or less: losses)			
III. Operating profit (or less: losses)		1,856,492,617.74	1,382,511,030.33
Add: Non-operating revenue	8	59,558,463.59	63,677,361.65
Including: Gains on disposal of non-current assets	8	80,771.84	16,093,056.50
Less: Non-operating expenditures	9	33,778,104.91	26,236,403.03
Including: Losses on disposal of fixed assets	9	15,982,979.84	2,214,836.71
IV. Profit before tax (or less: total loss)		1,882,272,976.42	1,419,951,988.95
Less: Income tax	10	346,862,711.65	267,785,520.83
V. Net profit (or less: net loss)		1,535,410,264.77	1,152,166,468.12
Net profit attributable to owners of parent company		1,446,591,698.47	1,096,912,432.06
Non-controlling interest		88,818,566.30	55,254,036.06
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		1,535,410,264.77	1,152,166,468.12
Items attributable to the owners of the parent company		1,446,591,698.47	1,096,912,432.06
Items attributable to non-controlling shareholders		88,818,566.30	55,254,036.06
VIII. Earnings per share (EPS):			
(I) Basic EPS (yuan per share)		3.00	2.53
(II) Diluted EPS (yuan per share)		3.00	2.53

Huadong Medicine Co., Ltd.

Parent company income statement for the year ended December 31, 2016

(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
I. Operating revenue	1	16,195,208,608.78	14,298,822,958.21
Less: Operating cost	1	15,389,091,775.84	13,538,197,698.60
Taxes & surcharge for operations		18,077,045.62	13,471,683.51
Selling expenses		296,318,395.21	270,367,904.37
Administrative expenses	2	129,029,932.26	138,722,066.96
Financial expense		33,451,637.57	134,479,996.88
Assets impairment loss		44,896,655.19	18,883,579.73
Add: Gain on changes in fair value (or less: losses)			
Investment income (or less: losses)	3	920,644,506.88	306,620,000.00
Including: investment income from associates and joint ventures			
II. Operating profit (or less: losses)		1,204,987,673.97	491,320,028.16
Add: Non-operating revenue		7,551,995.19	10,869,120.57
Including: Gains on disposal of non-current assets		27,509.96	37,545.38
Less: Non-operating expenditures		138,073.31	4,574,883.18
Including: Losses on disposal of non-current assets		827,869.70	147,411.47
III. Profit before tax (or less: total loss)		1,212,401,595.85	497,614,265.55
Less: Income tax		86,260,676.94	50,730,912.13
IV. Net profit (or less: net loss)		1,126,140,918.91	446,883,353.42
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		1,126,140,918.91	446,883,353.42
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, 2016
(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
I. Cash flows from operating activities:			
Cash receipts from sale of goods or rendering of services		28,135,843,559.88	23,787,202,397.96
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		11,401,476.56	5,587,066.41
Other cash receipts related to operating activities	1	198,568,235.55	139,876,951.45
Subtotal of cash inflows from operating activities		28,345,813,271.99	23,932,666,415.82
Cash payments for goods purchased and services received		21,611,510,254.84	18,505,676,701.62
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		1,011,420,916.81	882,435,180.45
Cash payments for taxes and rates		1,328,373,758.96	1,261,761,032.56
Other cash payments related to operating activities	2	3,047,545,533.56	2,624,257,244.43
Subtotal of cash outflows from operating activities		26,998,850,464.17	23,274,130,159.06
Net cash flows from operating activities		1,346,962,807.82	658,536,256.76
II. Cash flows from investing activities:			
Cash receipts from withdrawal of investments		300,000.00	
Cash receipts from investment income		15,911,109.12	2,119,677.49
Net cash receipts from the disposal of fixed assets, intangible assets and other long-term assets		844,224.12	17,179,393.53
Net cash receipts from the disposal of subsidiaries & other business units			
Other cash receipts related to investing activities	3	4,860,758,018.50	36,500,000.00
Subtotal of cash inflows from investing activities		4,877,813,351.74	55,799,071.02
Cash payments for the acquisition of fixed assets, intangible assets and other long-term assets		467,001,142.02	383,005,932.97
Cash payments for investments			457,080,000.00
Net increase of pledged borrowings			
Net cash payments for the acquisition of subsidiaries & other business units		21,346,742.38	1,039,847.36
Other cash payments related to investing activities	4	5,003,100,000.00	34,000,000.00
Subtotal of cash outflows from investing activities		5,491,447,884.40	875,125,780.33
Net cash flows from investing activities		-613,634,532.66	-819,326,709.31
III. Cash flows from financing activities:			
Cash receipts from absorbing investments		3,469,999,986.27	10,150,000.00
Including: Cash received by subsidiaries from non-controlling shareholders as investments			10,150,000.00
Cash receipts from borrowings		1,384,073,999.02	7,444,613,398.01
Cash receipts from issuing of bonds			985,000,000.00
Other cash receipts related to financing activities	5	9,381,936.00	40,300,000.00
Subtotal of cash inflows from financing activities		4,863,455,921.29	8,480,063,398.01
Cash payments for the repayment of borrowings		3,647,160,880.20	6,932,483,713.84
Cash payments for distribution of dividends or profits and for interest expenses		715,752,038.92	683,859,888.91
Including: Cash paid by subsidiaries to non-controlling shareholders as dividend or profit		18,644,162.05	154,378,324.99
Other cash payments related to financing activities	6	42,982,664.87	235,215,296.00
Subtotal of cash outflows from financing activities		4,405,895,583.99	7,851,558,898.75
Net cash flows from financing activities		457,560,337.30	628,504,499.26
IV. Effect of foreign exchange rate changes on cash & cash equivalents			
V. Net increase in cash and cash equivalents			
Add: Opening balance of cash and cash equivalents		1,438,967,536.32	971,253,489.61
VI. Closing balance of cash and cash equivalents			
		2,629,856,148.78	1,438,967,536.32

Huadong Medicine Co., Ltd.

Parent company cash flow statement for the year ended December 31, 2016

(Expressed in Renminbi Yuan)

Items	Current period cumulative	Preceding period comparative
I. Cash flows from operating activities:		
Cash receipts from sale of goods and rendering of services	17,836,439,977.66	15,515,385,648.04
Receipts of tax refund		
Other cash receipts related to operating activities	24,432,209.78	12,114,536.84
Subtotal of cash inflows from operating activities	17,860,872,187.44	15,527,500,184.88
Cash payments for goods purchased and services received	17,233,166,626.45	15,042,948,485.41
Cash paid to and on behalf of employees	169,770,519.67	153,604,111.79
Cash payments for taxes and rates	210,682,199.02	162,247,538.49
Other cash payments related to operating activities	246,712,555.69	244,382,879.86
Subtotal of cash outflows from operating activities	17,860,331,900.83	15,603,183,015.55
Net cash flows from operating activities	540,286.61	-75,682,830.67
II. Cash flows from investing activities:		
Cash receipts from withdrawal of investments		
Cash receipts from investment income	921,424,001.32	634,814,974.97
Net cash receipts from the disposal of fixed assets, intangible assets and other long-term assets	83,377.80	353,485.61
Net cash receipts from the disposal of subsidiaries & other business units		
Other cash receipts related to investing activities	5,554,961,750.47	63,577,798.61
Subtotal of cash inflows from investing activities	6,476,469,129.59	698,746,259.19
Cash payments for the acquisition of fixed assets, intangible assets and other long-term assets	16,709,070.72	5,669,205.12
Cash payments for investments	729,000,000.00	460,860,000.00
Net cash payments for the acquisition of subsidiaries & other business units	21,681,900.00	
Other cash payments related to investing activities	6,112,000,000.00	76,000,000.00
Subtotal of cash outflows from investing activities	6,879,390,970.72	542,529,205.12
Net cash flows from investing activities	-402,921,841.13	156,217,054.07
III. Cash flows from financing activities:		
Cash receipts from absorbing investments	3,469,999,986.27	
Cash receipts from borrowings	514,689,361.40	6,189,599,091.53
Other cash receipts related to financing activities	828,000,000.00	329,500,000.00
Subtotal of cash inflows from financing activities	4,812,689,347.67	6,519,099,091.53
Cash payments for the repayment of borrowings	2,047,081,860.07	5,167,309,796.14
Cash payments for distribution of dividends or profits and for interest expenses	671,828,090.18	475,900,555.18
Other cash payments related to financing activities	815,881,244.95	531,833,360.00
Subtotal of cash outflows from financing activities	3,534,791,195.20	6,175,043,711.32
Net cash flows from financing activities	1,277,898,152.47	344,055,380.21
IV. Effect of foreign exchange rate changes on cash and cash equivalents		
V. Net increase in cash and cash equivalents	875,516,597.95	424,589,603.61
Add: Opening balance of cash and cash equivalents	790,352,983.54	365,763,379.93
VI. Closing balance of cash and cash equivalents	1,665,869,581.49	790,352,983.54

Huadong Medicine Co., Ltd.

Consolidated statement of changes in equity for the year ended December 31, 2016

(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	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.

Consolidated statement of changes in equity for the year ended December 31, 2016 (continued)

(Expressed in Renminbi Yuan)

Items	Preceding period comparative												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	434,059,991.00				12,998,527.01				200,026,453.92		1,619,930,023.85	251,632,114.90	2,518,647,110.68	
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				12,998,527.01				200,026,453.92		1,619,930,023.85	251,632,114.90	2,518,647,110.68	
III. Current period increase (or less: decrease)					6,800,000.00				44,688,335.34		652,553,661.59	20,659,279.48	724,701,276.41	
(I) Total comprehensive income											1,096,912,432.06	55,254,036.06	1,152,166,468.12	
(II) Capital contributed or withdrawn by owners					6,800,000.00						-335,243.42	10,485,243.42	16,950,000.00	
1. Capital contributed by owners												10,150,000.00	10,150,000.00	
2. Capital contributed by holders of other equity instruments														
3. Amount of share-based payment included in equity														
4. Others					6,800,000.00						-335,243.42	335,243.42	6,800,000.00	
(III) Profit distribution									44,688,335.34		-444,023,527.05	-45,080,000.00	-444,415,191.71	
1. Appropriation of surplus reserve									44,688,335.34		-44,688,335.34			
2. Appropriation of general risk reserve														
3. Appropriation of profit to owners											-399,335,191.71	-45,080,000.00	-444,415,191.71	
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	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	

Huadong Medicine Co., Ltd.

Parent company statement of changes in equity for the year ended December 31, 2016

(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	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

Huadong Medicine Co., Ltd.

Parent company statement of changes in equity for the year ended December 31, 2016 (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				8,953,096.96				277,882,213.36	1,682,801,329.74	2,403,696,631.06
Add: Cumulative changes of accounting policies											
Error correction of prior period											
Others											
II. Balance at the beginning of current year	434,059,991.00				8,953,096.96				277,882,213.36	1,682,801,329.74	2,403,696,631.06
III. Current period increase (or less: decrease)					6,800,000.00				44,688,335.34	2,859,826.37	54,348,161.71
(I) Total comprehensive income										446,883,353.42	446,883,353.42
(II) Capital contributed or withdrawn by owners					6,800,000.00						6,800,000.00
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					6,800,000.00						6,800,000.00
(III) Profit distribution									44,688,335.34	-444,023,527.05	-399,335,191.71
1. Appropriation of surplus reserve									44,688,335.34	-44,688,335.34	
2. Appropriation of profit to owners										-399,335,191.71	-399,335,191.71
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	434,059,991.00				15,753,096.96				322,570,548.70	1,685,661,156.11	2,458,044,792.77

 [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, 2016

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 486,058,208.00 yuan and a total of 486,058,208 shares (each with par value of one yuan), of which, 51,998,217 shares are restricted outstanding A shares, and 434,059,991 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 sixth meeting of the eighth session of the Board of Directors dated March 7, 2017.

The Company has brought 34 subsidiaries including 杭州中美华东制药有限公司 (Hangzhou Sino-US Pharmacy Co., Ltd. [†]), 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.

[†] *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 are recognized as deferred income, and amortized on a straight-line method over the useful lives of the relevant assets, and included in profit or loss. However, those measured at notional amount is directly included into profit or loss.

2. Government grants related to income

Government grants related to income are government grants other than those related to assets. Government grants related to income if used for compensating the related future expenses or losses of the Company are recognized as deferred income and are included in profit or loss during the period when the relevant expenses are recognized; if used for compensating the related expenses or losses incurred to the Company are directly included in profit or loss.

(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

The Company originally adopts FIFO method for dispatched goods on hand. In order to strengthen unification of the Company's policies related to industry and commerce and provide more reliable and relevant accounting information, under the deliberation and approval of the second meeting of the eight session of the Board of Directors dated March 15, 2016, goods on hand dispatched from storage are accounted for with weighted average method at the end of each month. Due to large sales volume of the Company's goods on hand, variety of commodities, fast turnover of inventories and relatively stable price, it is not practicable to adopt the retrospective application method. Therefore, this change is applicable to prospective application method.

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%, 6%, 5%, 3% and 0%; export goods enjoy the “exemption, credit and refund” preferential policies, with the refund rate of 15% [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%
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%
Taxpayers other than the above-mentioned	25%

(II) Tax preferential policies

The subsidiary Hangzhou Sino-US Pharmacy Co., Ltd. was identified as a high-tech enterprise in October 2011 and was re-identified on September 29, 2014. Therefore, the enterprise income tax for 2016 is levied at the reduced tax rate of 15% based on rule 28 in the Law of the PRC on Enterprise Income Tax.

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	429,517.01	686,117.06
Cash in bank	2,639,226,932.71	1,438,176,819.26

Items	Closing balance	Opening balance
Other cash and bank balances	21,664,769.90	47,647,796.73
Total	2,661,321,219.62	1,486,510,733.05

(2) Other remarks

Closing balance of cash in bank includes guarantee for bank borrowings of 10,000,000.00 yuan, closing balance of other cash and bank balances includes deposit for L/C of 14,730,000.00 yuan, deposit for bank acceptance of 6,181,317.84 yuan, deposit for e-commerce platform of 401,000.00 yuan, performance bond of 152,753.00 yuan and balance of Alipay account of 199,699.06 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	776,836,558.63		776,836,558.63	875,515,639.37		875,515,639.37
Trade acceptance	179,999,936.34		179,999,936.34	116,466,826.64		116,466,826.64
Total	956,836,494.97		956,836,494.97	991,982,466.01		991,982,466.01

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

Items	Closing balance derecognized	Closing balance not yet derecognized
Bank acceptance	762,954,878.69	
Subtotal	762,954,878.69	

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	4,704,631,018.47	99.99	238,485,252.43	5.07	4,466,145,766.04
Receivable of individually insignificant amount but	241,751.95	0.01	241,751.95	100.00	

Categories	Closing balance				Carrying amount
	Book balance		Provision for bad debts		
	Amount	% to total	Amount	Provision proportion (%)	
with provision made on an individual basis					
Total	4,704,872,770.42	100.00	238,727,004.38	5.07	4,466,145,766.04

(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	3,831,277,606.49	99.99	193,953,764.46	5.06	3,637,323,842.03
Receivable of individually insignificant amount but with provision made on an individual basis	387,951.95	0.01	387,951.95	100.00	
Total	3,831,665,558.44	100.00	194,341,716.41	5.07	3,637,323,842.03

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	4,679,024,407.44	233,951,220.39	5
1-2 years	20,881,397.30	2,088,139.74	10
2-3 years	2,200,828.26	440,165.66	20
3-4 years	931,220.05	465,610.03	50
4-5 years	265,244.06	212,195.25	80
Over 5 years	1,327,921.36	1,327,921.36	100
Subtotal	4,704,631,018.47	238,485,252.43	5.07

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

Provision for bad debts made in current period totaled 44,674,838.18 yuan.

(3) Accounts receivable written off in current period

Accounts receivable actually written off in current period totaled 289,550.21 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	85,637,644.09	1.82	4,295,842.20
Client A2	68,181,178.72	1.45	3,409,058.93

Debtors	Book balance	Proportion to the total balance of accounts receivable (%)	Provision for bad debts
Client A3	65,381,938.71	1.39	3,269,096.94
Client A4	64,552,250.00	1.37	3,227,612.50
Client A5	61,644,271.65	1.31	3,083,900.33
Subtotal	345,397,283.17	7.34	17,285,510.90

4. Advances paid

(1) Age analysis

Ages	Closing 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

(Continued)

Ages	Opening balance			
	Book balance	% to total	Provision for bad debts	Carrying amount
Within 1 year	318,206,323.54	96.33		318,206,323.54
1-2 years	9,063,371.90	2.74		9,063,371.90
2-3 years	505,145.35	0.15		505,145.35
Over 3 years	2,566,455.49	0.78		2,566,455.49
Total	330,341,296.28	100.00		330,341,296.28

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

Debtors	Book balance	Proportion to the total balance of advances paid (%)
Supplier B1	55,829,561.86	17.57
Supplier B2	37,418,078.32	11.78
Supplier B3	33,335,365.03	10.49
Supplier B4	19,162,274.37	6.03
Supplier B5	11,492,733.10	3.62
Subtotal	157,238,012.68	49.49

(3) Advances paid written off in current period

Advances paid actually written off in current period totaled 162,037.02 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.*)	240,000.00	240,000.00
Total	240,000.00	240,000.00

6. Other receivables

(1) Details

1) Details on categories

Categories	Closing 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	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

(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	43,637,222.63	100.00	6,812,251.78	15.61	36,824,970.85
Total	43,637,222.63	100.00	6,812,251.78	15.61	36,824,970.85

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	20,336,314.30	1,016,815.72	5
1-2 years	5,537,636.89	553,763.69	10
2-3 years	4,500,728.92	900,145.78	20
3-4 years	3,340,563.22	1,670,281.61	50
4-5 years	1,220,464.00	976,371.20	80
Over 5 years	3,013,466.41	3,013,466.41	100
Subtotal	37,949,173.74	8,130,844.41	21.43

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

Provisions for bad debts made in current period totaled 1,301,936.89 yuan. Due to acquisition of

* The English name is for identification purpose only.

中美华东(烟台)制药有限公司 (Sino-US Huadong (Yantai) Co., Ltd.*), the Company brought it into consolidation scope and increased provision for bad debts by 16,655.74 yuan.

(3) Other receivables categorized by nature

Nature of receivables	Closing balance	Opening balance
Deposit as security	14,374,889.31	28,264,006.89
Temporary advance payment receivable	19,965,857.46	8,687,649.39
Others	3,608,426.97	6,685,566.35
Total	37,949,173.74	43,637,222.63

(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
Hangzhou First People's Hospital	Deposit as security	725,540.00	Within 1 year	1.91	36,277.00
		910,910.00	1-2 years	2.40	91,091.00
		283,400.00	2-3 years	0.75	56,680.00
Bureau of Finance of Wenzhou Economy and Technology Development Zone	Deposit as security	1,250,000.00	Over 5 years	3.29	1,250,000.00
杭州恒丰控股有限公司 (Hangzhou Hengfeng Holdings Co., Ltd.*)	Deposit as security	70,000.00	Within 1 year	0.18	3,500.00
		340,000.00	2-3 years	0.90	68,000.00
		670,000.00	Over 5 years	1.77	670,000.00
杭州祥和北星酒店用品有限公司 (Hangzhou Xianghe Beixing Hotel Supplies Co., Ltd.*)	Deposit as security	1,000,000.00	1-2 years	2.64	100,000.00
Ruian People's Hospital	Vehicle leasing receivable	996,611.39	Within 1 year	2.63	49,830.57
Subtotal		6,246,461.39		16.47	2,325,378.57

7. Inventories

(1) Details

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

* The English names are for identification purpose only.

Items	Closing 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

(Continued)

Items	Opening balance		
	Book balance	Provision for write-down	Carrying amount
Raw materials	84,661,391.67		84,661,391.67
Work in process	78,490,507.70		78,490,507.70
Finished goods	233,387,591.24	103,905.09	233,283,686.15
Goods on hand	2,001,951,845.94	14,668.37	2,001,937,177.57
Materials on consignment for further processing	5,684,986.18		5,684,986.18
Packages	18,831,980.19		18,831,980.19
Total	2,423,008,302.92	118,573.46	2,422,889,729.46

(2) Provision for inventory write-down

1) Details

Items	Opening balance	Increase		Decrease		Closing balance
		Accrual	Others	Reversal or written-off	Others	
Finished goods	103,905.09	108,598.92		14,552.82		197,951.19
Goods on hand	14,668.37					14,668.37
Subtotal	118,573.46	108,598.92		14,552.82		212,619.56

2) Determination basis of net realizable value and reasons for the reversal or written-off of provision for inventory write-down

Items	Basis for provision for inventory write-down	Reasons for the reversal or written-off of provision for inventory write-down	Proportion of recovered amount to closing balance of such inventory (%)
Goods on hand	Cost is higher than net realizable value		

8. Other current assets

Items	Closing balance	Opening balance
Input VAT to be deducted	42,251,005.64	50,729,160.37

Items	Closing balance	Opening balance
Bank financial products	150,000,000.00	
Taxes prepaid for rental income	84,218.70	87,350.45
Prepaid enterprise income tax	145,898.83	399,826.14
Prepaid business tax		32,541.25
Total	192,481,123.17	51,248,878.21

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	91,411,431.20		91,411,431.20
Including: At cost	91,111,431.20		91,111,431.20	91,411,431.20		91,411,431.20
Total	91,111,431.20		91,111,431.20	91,411,431.20		91,411,431.20

(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., Ltd.*)	81,031,431.20			81,031,431.20
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
陕西博华医药有限公司 (Shaanxi Bohua Medicine Co., Ltd.*)	300,000.00		300,000.00	
Subtotal	91,411,431.20		300,000.00	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.					10.00	
Shaanxi Bohua Medicine Co., Ltd.						
Subtotal						

* The English names are for identification purpose only.

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	64,557,786.62		64,557,786.62	53,078,598.50		53,078,598.50
Total	64,557,786.62		64,557,786.62	53,078,598.50		53,078,598.50

(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.*)	48,692,536.44			12,170,630.36	
Hangzhou Tangyangyuan Medicine Co., Ltd.	4,386,062.06			1,233,357.76	
Total	53,078,598.50			13,403,988.12	

(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		
Associates						
Hangzhou Jiuyuan Gene Engineering Co., Ltd.		-1,684,800.00			59,178,366.80	
Hangzhou Tangyangyuan Medicine Co., Ltd.		-240,000.00			5,379,419.82	
Total		-1,924,800.00			64,557,786.62	

11. Investment property

(1) Details

Items	Buildings and structures	Land use right	Total
Cost			
Opening balance	21,271,904.78	1,874,726.33	23,146,631.11
Increase	3,527,870.34		3,527,870.34
1) Acquisition			
2) Transferred in from fixed assets	3,527,870.34		3,527,870.34
Decrease	612,604.13		612,604.13

* The English name is for identification purpose only.

Items	Buildings and structures	Land use right	Total
1) Disposal			
2) Transferred out to fixed assets	612,604.13		612,604.13
Closing balance	24,187,170.99	1,874,726.33	26,061,897.32
Accumulated depreciation and amortization			
Opening balance	10,303,652.64	605,688.28	10,909,340.92
Increase	1,683,859.26	41,995.16	1,725,854.42
1) Accrual or amortization	762,705.51	41,995.16	804,700.67
2) Transferred in from fixed assets	921,153.75		921,153.75
Decrease	384,129.91		384,129.91
1) Disposal			
2) Transferred out to fixed assets	384,129.91		384,129.91
Closing balance	11,603,381.99	647,683.44	12,251,065.43
Carrying amount			
Closing balance	12,583,789.00	1,227,042.89	13,810,831.89
Opening balance	10,968,252.14	1,269,038.05	12,237,290.19

12. Fixed assets

(1) Details

Items	Buildings and structures	General equipment	Special equipment
Cost			
Opening balance	826,381,728.39	137,089,534.62	784,445,446.90
Increase	206,702,678.83	11,721,726.53	469,633,376.48
1) Acquisition	1,058,234.47	8,239,238.85	27,132,423.90
2) Transferred in from construction in progress	205,031,840.23	3,482,487.68	439,503,859.81
3) Transferred in from others [Note 1]	612,604.13		2,997,092.77
Decrease	14,929,666.33	1,357,660.77	16,055,367.73
1) Disposal/scrap	11,401,795.99	1,357,660.77	16,055,367.73
2) Transferred out to investment property	3,527,870.34		
Closing balance	1,018,154,740.89	147,453,600.38	1,238,023,455.65
Accumulated depreciation			
Opening balance	202,610,488.53	74,243,984.34	290,740,965.75
Increase	34,542,449.21	15,427,101.24	81,260,961.62
1) Accrual	34,158,319.30	15,427,101.24	79,615,356.66

Items	Buildings and structures	General equipment	Special equipment
2) Transferred in from others [Note 2]	384,129.91		1,645,604.96
Decrease	5,042,023.94	1,266,872.05	11,899,642.13
1) Disposal/scrap	4,120,870.19	1,266,872.05	11,899,642.13
2) Transferred out to investment property	921,153.75		
Closing balance	232,110,913.80	88,404,213.53	360,102,285.24
Carrying amount			
Closing balance	786,043,827.09	59,049,386.85	877,921,170.41
Opening balance	623,771,239.86	62,845,550.28	493,704,481.15

(Continued)

Items	Transport facilities	Other equipment	Total
Cost			
Opening balance	57,740,674.16	145,344,542.81	1,951,001,926.88
Increase	14,005,401.36	57,621,657.45	759,684,840.65
1) Acquisition	6,692,623.65	30,556,339.56	73,678,860.43
2) Transferred in from construction in progress	6,157,150.30	27,065,317.89	681,240,655.91
3) Transferred in from others [Note 1]	1,155,627.41		4,765,324.31
Decrease	4,664,739.35	8,902,514.96	45,909,949.14
1) Disposal/scrap	4,664,739.35	8,902,514.96	42,382,078.80
2) Transferred out to investment property			3,527,870.34
Closing balance	67,081,336.17	194,063,685.30	2,664,776,818.39
Accumulated depreciation			
Opening balance	35,318,736.14	83,001,527.19	685,915,701.95
Increase	6,832,474.06	19,059,183.39	157,122,169.52
1) Accrual	6,602,415.58	19,059,183.39	154,862,376.17
2) Transferred in from others [Note 2]	230,058.48		2,259,793.35
Decrease	3,914,075.76	6,628,116.34	28,750,730.22
1) Disposal/scrap	3,914,075.76	6,628,116.34	27,829,576.47
2) Transferred out to investment property			921,153.75
Closing balance	38,237,134.44	95,432,594.24	814,287,141.25
Carrying amount			
Closing balance	28,844,201.73	98,631,091.06	1,850,489,677.14
Opening balance	22,421,938.02	62,343,015.62	1,265,086,224.93

Note 1: Current increase of cost amounting to 4,152,720.18 yuan is due to the acquisition of Sino-US Huadong (Yantai) Co., Ltd., which is brought into consolidation scope.

Note 2: Current increase of accumulated depreciation amounting to 1,875,663.44 yuan is due to the acquisition of Sino-US Huadong (Yantai) Co., Ltd., which is brought into consolidation scope.

(2) Fixed assets with certificate of titles being unsettled

Items	Carrying amount	Reasons for unsettlement
Buildings and structures	133,272,781.52	Final account of project hasn't been finished, or finished but in the process of handling certificate of titles
Subtotal	133,272,781.52	

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
106 workshop project				9,088,517.53		9,088,517.53
Process layout of Pharmaceutical Preparation Building 1	20,075,053.84		20,075,053.84	17,926,030.50		17,926,030.50
Process layout of fourth floor	1,366,311.15		1,366,311.15	807,039.90		807,039.90
Corbrin capsule expansion and transformation	7,616,999.19		7,616,999.19	5,074,990.40		5,074,990.40
GMP transformation of original tablet sit of 203 workshop	7,810,933.19		7,810,933.19	8,641,686.84		8,641,686.84
Comprehensive pilot project development platform project phase I	11,407,486.92		11,407,486.92	10,402,557.54		10,402,557.54
Huadong Medicine Biomedical Science Park phase I				365,243,818.98		365,243,818.98
Workshop expansion project of Chinese herbal decoction pieces	1,057,536.20		1,057,536.20	41,717,050.33		41,717,050.33
Other piecemeal projects	30,741,353.43		30,741,353.43	29,745,989.20		29,745,989.20
Total	80,075,673.92		80,075,673.92	488,647,681.22		488,647,681.22

(2) Changes in significant projects

Projects	Budgets	Opening balance	Increase	Transferred to fixed assets	Other decrease	Closing balance
106 workshop project	17.11 million	9,088,517.53	5,383,603.10	14,472,120.63		
Process layout of Pharmaceutical Preparation Building 1	180.00 million	17,926,030.50	2,974,318.47	825,295.13		20,075,053.84
Process layout of fourth floor	94.75 million	807,039.90	1,146,509.99	587,238.74		1,366,311.15
Corbrin capsule expansion and transformation	45.00 million	5,074,990.40	20,757,064.99	18,215,056.20		7,616,999.19
GMP transformation of original tablet sit of 203 workshop	70.00 million	8,641,686.84	20,869,802.75	21,700,556.40		7,810,933.19
Comprehensive pilot project development platform project phase I	59.70 million	10,402,557.54	15,110,893.44	14,105,964.06		11,407,486.92

Projects	Budgets	Opening balance	Increase	Transferred to fixed assets	Other decrease	Closing balance
Huadong Medicine Biomedical Science Park phase I	779.40 million	365,243,818.98	157,539,125.03	522,331,812.81	451,131.20	
Workshop expansion project of Chinese herbal decoction pieces	67.80 million	41,717,050.33	13,669,908.64	53,860,656.82	468,765.95	1,057,536.20
Other piecemeal projects		29,745,989.20	43,125,095.04	35,141,955.12	6,987,775.69	30,741,353.43
Subtotal		488,647,681.22	280,576,321.45	681,240,655.91	7,907,672.84	80,075,673.92

(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
106 workshop project	98.96	100.00	5,034,000.30	151,555.57	5.63	Self-raised
Process layout of Pharmaceutical Preparation Building 1	50.34	90.00				Self-raised
Process layout of fourth floor	75.86	99.00				Self-raised
Corbrin capsule expansion and transformation	57.40	90.00				Self-raised
GMP transformation of original tablet sit of 203 workshop	42.16	88.00				Self-raised
Comprehensive pilot project development platform project phase I	42.74	90.00				Self-raised
Huadong Medicine Biomedical Science Park phase I	67.60	100.00	8,055,992.17	3,842,932.53	4.59	Self-raised
Workshop expansion project of Chinese herbal decoction pieces	91.98	95.00	5,043,686.46	1,398,580.32	6.50	Self-raised
Other piecemeal projects						Self-raised
Subtotal			18,133,678.93	5,393,068.42		Self-raised

14. Intangible assets

Items	Land use right	Non-patent technology	Software	Trademark, franchise right	Total
Cost					
Opening balance	401,196,937.76	147,939,241.57	9,163,671.00	63,263,635.00	621,563,485.33
Increase	115,329,800.00	44,745,489.56	4,389,841.09		164,465,130.65
1) Acquisition	115,329,800.00	44,745,489.56	4,389,841.09		164,465,130.65
Decrease					
1) Disposal					
Closing balance	516,526,737.76	192,684,731.13	13,553,512.09	63,263,635.00	786,028,615.98
Accumulated amortization					
Opening balance	185,675,836.88	31,329,862.20	5,693,533.56	18,051,167.17	240,750,399.81
Increase	42,112,315.07	4,617,114.57	1,698,519.66	5,971,957.18	54,399,906.48
1) Accrual	42,112,315.07	4,617,114.57	1,698,519.66	5,971,957.18	54,399,906.48
Decrease					
1) Disposal					
Closing balance	227,788,151.95	35,946,976.77	7,392,053.22	24,023,124.35	295,150,306.29
Carrying amount					
Closing balance	288,738,585.81	156,737,754.36	6,161,458.87	39,240,510.65	490,878,309.69
Opening balance	215,521,100.88	116,609,379.37	3,470,137.44	45,212,467.83	380,813,085.52

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
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
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
Total	16,912,778.39			16,912,778.39

(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
Subtotal	1,997,548.79	658,583.99		2,656,132.78

(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 in the current period.

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

* The English names are for identification purpose only.

限责任公司 (Xi'an Bohua Pharmacy Co., Ltd. *) when the Company acquired equity of Xi'an Bohua Pharmacy Co., Ltd. in previous year.

16. Long-term prepayments

Items	Opening balance	Increase	Amortization	Other decreases	Closing balance
Decoration fees	13,816,236.12	6,760,463.54	6,130,754.56	799,751.87	13,646,193.23
Housing rents		903,000.00	451,500.00		451,500.00
Technical service fees		547,169.80	132,075.50		415,094.30
Total	13,816,236.12	8,210,633.34	6,714,330.06	799,751.87	14,512,787.53

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	235,226,218.49	55,042,720.78	176,308,464.85	41,480,027.46
Unrealized profit from internal transactions	22,251,346.18	3,447,889.08	21,130,920.24	3,177,679.38
Deferred income			6,900,000.00	1,035,000.00
Total	257,477,564.67	58,490,609.86	204,339,385.09	45,692,706.84

(2) Details of unrecognized deferred tax assets

Items	Closing balance	Opening balance
Deductible losses	93,970,328.79	90,896,135.76
Provision for bad debts for accounts receivable	3,500,785.89	18,033,251.56
Provision for bad debts for other receivables	8,130,844.41	6,812,251.78
Provision for inventory write-down	212,619.56	118,573.46
Subtotal	105,814,578.65	115,860,212.56

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

Maturity years	Closing balance	Opening balance	Remarks
Year 2016		8,135,036.06	
Year 2017	10,393,471.77	10,544,448.09	
Year 2018	17,573,144.89	17,573,144.89	
Year 2019	17,968,681.08	20,450,596.19	

* The English name is for identification purpose only.

Maturity years	Closing balance	Opening balance	Remarks
Year 2020	30,787,472.96	34,192,910.53	
Year 2021	17,247,558.09		
Subtotal	93,970,328.79	90,896,135.76	

18. Other non-current assets

Items	Closing balance	Opening balance
Prepayment for acquisition of equipment	47,076,427.96	61,349,290.80
Prepayment for transfer of technology	22,200,000.00	32,420,000.00
Prepayment for engineering		348,113.21
Total	69,276,427.96	94,117,404.01

19. Short-term borrowings

(1) Details

Items	Closing balance	Opening balance
Pledged borrowings	215,000,000.00	125,669,425.69
Mortgaged borrowings	47,446,050.00	70,000,000.00
Secured borrowings	129,470,000.00	1,457,878,869.01
Credit borrowings	24,200,612.44	674,746,565.28
Mortgaged and secured borrowings	38,000,000.00	39,000,000.00
Domestic L/C		46,667,183.64
Trade acceptance discount	19,000,000.00	
Total	473,116,662.44	2,413,962,043.62

(2) No balance overdue but unpaid.

20. Notes payable

Items	Closing balance	Opening balance
Trade acceptance	63,853,630.67	26,676,197.86
Bank acceptance	401,707,596.67	557,493,851.14
Total	465,561,227.34	584,170,049.00

21. Accounts payable

(1) Details

Items	Closing balance	Opening balance
Payment for goods	3,193,754,782.51	2,682,836,927.58
Payment for acquisition of	159,281,361.03	116,447,258.21

Items	Closing balance	Opening balance
long-term assets		
Total	3,353,036,143.54	2,799,284,185.79

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

22. Advances received

(1) Details

Items	Closing balance	Opening balance
Advanced drug sales	40,339,543.16	57,421,084.87
Advanced rental fees	672,483.81	694,892.00
Total	41,012,026.97	58,115,976.87

(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	23,239,009.12	951,262,585.54	943,190,009.81	31,311,584.85
Post-employment benefits - defined benefit plan	10,523,022.91	60,764,356.76	60,342,223.51	10,945,156.16
Termination benefits		328,914.13	328,914.13	
Total	33,762,032.03	1,012,355,856.43	1,003,861,147.45	42,256,741.01

(2) Details of short-term employee benefits

Items	Opening balance	Increase	Decrease	Closing balance
Wage, bonus, allowance and subsidy	16,626,371.44	776,187,465.86	770,582,882.27	22,230,955.03
Employee welfare fund		75,073,175.33	75,073,175.33	
Social insurance premium	4,120,242.58	44,483,898.20	42,304,185.66	6,299,955.12
Including: Medicare premium	3,377,770.26	39,020,512.24	36,937,545.91	5,460,736.59
Occupational injuries premium	179,705.47	1,996,495.07	2,016,598.22	159,602.32
Maternity premium	562,766.85	3,466,890.89	3,350,041.53	679,616.21
Housing provident fund	76,074.42	32,191,915.34	32,133,467.46	134,522.30
Trade union fund and employee education fund	2,262,537.21	22,622,896.09	22,393,064.37	2,492,368.93
Labor cost	153,783.47	703,234.72	703,234.72	153,783.47
Subtotal	23,239,009.12	951,262,585.54	943,190,009.81	31,311,584.85

(3) Details of defined benefit plan

Items	Opening balance	Increase	Decrease	Closing balance
Basic endowment insurance premium	9,946,534.23	55,859,596.47	55,407,368.85	10,398,761.85
Unemployment insurance premium	576,488.68	4,904,760.29	4,934,854.66	546,394.31

Items	Opening balance	Increase	Decrease	Closing balance
Subtotal	10,523,022.91	60,764,356.76	60,342,223.51	10,945,156.16

24. Taxes and rates payable

Items	Closing balance	Opening balance
VAT	259,268,935.55	84,742,955.09
Business tax		1,952,412.56
Enterprise income tax	112,013,031.48	86,313,125.76
Individual income tax withheld for tax authorities	16,439,840.99	23,924,959.77
Urban maintenance and construction tax	11,820,856.95	17,982,416.66
Housing property tax	1,872,981.74	933,890.10
Land use tax	638,326.69	286,140.03
Education surcharge	5,077,772.02	4,915,100.42
Local education surcharge	3,305,662.03	5,008,563.40
Local water conservancy fund	10,375,835.62	18,336,156.02
Stamp duty	724,795.18	708,034.36
Price regulation fund	529,088.09	412,684.87
Land appreciation tax		123,829.35
Security fund for the disabled	49,264.92	12,844.05
Total	422,116,391.26	245,653,112.44

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	593,714.96
Corporate bonds	29,230,136.98	29,636,111.11
Short-term borrowings	1,654,696.30	9,021,645.65
Total	31,215,454.05	39,251,471.72

26. Dividend payable

(1) Details

Items	Closing balance	Opening balance
Dividend of corporate shares	224,219.60	224,219.60
Total	224,219.60	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	28,877,302.24	20,759,814.08
Call loans	28,654,838.65	42,191,837.51
Temporary receipts payable	819,759,719.38	525,370,629.76
Others	47,664,909.54	29,325,337.07
Total	924,956,769.81	617,647,618.42

(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	57,571,500.00
Total	28,471,620.00	57,571,500.00

29. Long-term borrowings

Items	Closing balance	Opening balance
Mortgaged borrowings		60,000,000.00
Secured borrowings	21,280,000.00	53,950,000.00
Mortgaged and secured borrowings		21,541,620.00
Credit borrowings		178,930,000.00
Total	21,280,000.00	314,421,620.00

30. Bonds payable

(1) Details

Items	Closing balance	Opening balance
15 Huadong Bond	989,495,117.70	986,714,392.28
Total	989,495,117.70	986,714,392.28

(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
986,714,392.28			2,780,725.42		989,495,117.70

31. Deferred income

(1) Details

Items	Opening balance	Increase	Decrease	Closing balance	Reasons for balance
Government grants	23,051,195.16	7,658,018.50	8,863,853.66	21,845,360.00	
Total	23,051,195.16	7,658,018.50	8,863,853.66	21,845,360.00	

(2) Details of government grants

Items	Opening balance	Increase	Grants included into non-operating revenue	Other movements	Closing balance	Related to assets/income
Subsidy for heat supply renovation project	3,651,195.16		663,853.66		2,987,341.50	Related to assets
Subsidy for national generic chemical drug development project	6,500,000.00		1,300,000.00		5,200,000.00	Related to assets
Subsidy for significant innovation project	6,900,000.00		6,900,000.00			Related to income
Production project of cordyceps fungus powder with annual output of 1,300 tons	6,000,000.00				6,000,000.00	Related to assets
Compensation for demolition		7,658,018.50			7,658,018.50	Related to assets
Subtotal	23,051,195.16	7,658,018.50	8,863,853.66		21,845,360.00	

(3) Other remarks

1) Subsidy for heat supply renovation project

Pursuant to the document numbered Hang Zheng Ban Han [2008] 233, the subsidiary Hangzhou Sino-US Pharmacy Co., Ltd. respectively received subsidies for heat facility renovation of 6,372,995.20 yuan and 17,882,121.40 yuan from 杭州市热能投资有限公司 (Hangzhou Heat Energy Investment Co., Ltd. *) in 2008 and 2009, totaling 24,255,116.60 yuan. Accumulated non-operating revenue recognized based on benefit period totals 21,267,775.10 yuan, of which, that recognized in the current period amounts to 663,853.66 yuan.

2) Subsidy for national generic chemical drug development project

Pursuant to the document numbered Zhe Cai Qi [2012] 402 issued by Zhejiang Provincial Department of Finance, Zhejiang Provincial Development and Reform Commission, Zhejiang Province Economic and Information Commission and Zhejiang Provincial Department of Health,

* The English name is for identification purpose only.

the subsidiary Hangzhou Sino-US Pharmacy Co., Ltd. received special subsidy for national generic chemical drug development of 6,500,000.00 yuan appropriated by Bureau of Finance of Gongshu District, Hangzhou in 2013. Non-operating revenue recognized in the current period based on benefit period amounts to 1,300,000.00 yuan.

3) Subsidy for significant innovation project

Pursuant to the document numbered Hang Cai Qi [2013] 1550 issued by Hangzhou Bureau of Finance and Hangzhou Economic and Information Commission, the subsidiary Hangzhou Sino-US Pharmacy Co., Ltd. received subsidy for the project “Research of Anticoagulant Fondaparinux” of 6,900,000.00 yuan appropriated by Bureau of Finance of Gongshu District, Hangzhou in 2014. In the current period, the R&D of such project has been completed and non-operating revenue recognized in the current period amounts to 6,900,000.00 yuan.

4) Production project of cordyceps fungus powder with annual output of 1,300 tons

Pursuant to the document numbered Hang Cai Qi [2015] 52 issued by Hangzhou Bureau of Finance and Hangzhou Economic and Information Commission, the subsidiary 华东医药（杭州）百令生物科技有限公司 (Huadong Medicine (Hangzhou) Bailing Biotechnology Co., Ltd. *) received subsidy for key innovation project from industrial pooling fund of 6,900,000.00 yuan appropriated by Hangzhou Dajiangdong Industrial Concentration Area Management Committee in 2015. As no related assets are put into use in the current period, no non-operating revenue is recognized.

5) Compensation for demolition

In the current period, the Company received compensation for demolition of 7,658,018.50 yuan from the Government Investment and Construction Project Administrative Center of Xiacheng District, Hangzhou. As the transfer procedure of related assets hasn’t been settled, no non-operating revenue is recognized.

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	434,059,991.00	51,998,217.00				51,998,217.00	486,058,208.00

(2) Other remarks

On January 18, 2016, under the document of approval of Written Reply to Approve the Private Placement of Huadong Medicine Co., Ltd. (Zheng Jian Xu Ke [2016] No. 55) by China Securities Regulatory Commission, the Company privately issued RMB ordinary shares (A shares) of

* The English name is for identification purpose only.

51,998,217 shares to specific investors, with issuing price of 67.31 yuan per share. Total raised fund amounted to 3,499,999,986.27 yuan, and the net amount of raised fund amounted to 3,468,447,988.05 yuan after deducting issuing cost of 31,551,998.22 yuan, of which, 51,998,217.00 yuan was included into paid-in capital and 3,416,449,771.05 yuan was included into capital reserve (share premium). Such capital increase had been verified by Pan-China Certified Public Accountants LLP, and a capital verification report numbered PCCPACVR [2016] 13 was issued thereon.

33. Capital reserve

(1) Details

Items	Opening balance	Increase	Decrease	Closing balance
Capital premium	172,250.60	3,416,449,771.05		3,416,622,021.65
Other capital reserve	19,626,276.41			19,626,276.41
Total	19,798,527.01	3,416,449,771.05		3,436,248,298.06

(2) Other remarks

Please refer to section V (I) 32 for details.

34. Surplus reserve

(1) Details

Items	Opening balance	Increase	Decrease	Closing balance
Statutory surplus reserve	244,714,789.26	112,614,091.89		357,328,881.15
Total	244,714,789.26	112,614,091.89		357,328,881.15

(2) Other remarks

Current increase of 112,614,091.89 yuan is due to the appropriation of statutory surplus reserve at 10% of net profit generated by parent company in 2016.

35. Undistributed profit

(1) Details

Items	Current period cumulative	Preceding period comparative
Opening balance	2,272,483,685.44	1,619,930,023.85
Add: Net profit attributable to owners of the parent company	1,446,591,698.47	1,096,912,432.06
Less: Appropriation of statutory surplus reserve	112,614,091.89	44,688,335.34
Dividend payable on ordinary shares	607,572,759.99	399,335,191.71
Others		335,243.42
Closing balance	2,998,888,532.03	2,272,483,685.44

(2) Other remarks

Pursuant to the profit distribution plan of 2015 passed by the Shareholders' Meeting of 2015, the Company distributes cash dividend of 12.5 yuan per 10 shares. Dividend on ordinary shares distributed totals 607,572,759.99 yuan.

(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	25,345,870,024.02	19,201,130,699.62	21,689,770,363.02	16,506,542,734.09
Other operations	33,797,478.86	17,974,826.49	37,613,131.03	11,239,920.36
Total	25,379,667,502.88	19,219,105,526.11	21,727,383,494.05	16,517,782,654.45

2. Taxes and surcharge for operations

Items	Current period cumulative	Preceding period comparative
Business tax	330,272.72	1,863,393.52
Urban maintenance and construction tax	70,171,449.89	59,215,784.54
Education surcharge	30,143,672.07	25,423,530.53
Local education surcharge	20,009,131.99	16,887,211.73
Housing property tax [Note]	4,419,362.52	858,873.76
Stamp duty [Note]	4,979,644.97	
Land use tax [Note]	1,624,914.87	59,789.92
Vehicle and vessel use tax [Note]	67,530.95	
Total	131,745,979.98	104,308,584.00

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, stamp duty, land use tax and vehicle and vessel use tax for the period from May to December 2016 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	797,692,568.28	662,325,032.90
Promotion and market maintenance expenses	663,863,971.86	531,788,584.80
Employee benefits	511,900,412.19	469,977,301.75
Office expenses	474,829,260.27	384,444,485.72

Items	Current period cumulative	Preceding period comparative
Freight charges	574,790,546.16	466,901,345.77
Advertising and publicity expenses	21,992,533.49	16,816,349.17
Others	253,554,353.94	237,207,111.14
Total	3,298,623,646.19	2,769,460,211.25

4. Administrative expenses

Items	Current period cumulative	Preceding period comparative
Employee benefits	168,944,936.87	196,028,432.94
R&D expenses	264,094,606.80	217,744,347.72
Amortization of intangible assets	53,256,380.80	39,377,923.25
Depreciation expenses	18,194,942.36	16,849,320.75
Office expenses	27,908,917.14	26,782,477.00
Business entertainment	20,509,597.64	17,122,819.71
Travelling expenses	58,675,353.22	51,815,106.64
Rental expenses	23,563,319.46	24,922,574.12
Taxes [Note]	8,461,309.34	13,389,219.11
Others	115,702,653.69	117,995,931.73
Total	759,312,017.32	722,028,152.97

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	78,026,672.86	171,767,614.91
Interest income	-28,899,433.23	-9,637,113.41
Handling charges	4,191,688.94	4,775,871.40
Discount expenses	19,108,513.12	22,320,166.65
Losses on exchange	14,745,784.11	13,619,870.59
Gains on exchange	-1,127,592.74	-1,729,500.09
Cash discount	8,046,890.28	4,739,543.01
Total	94,092,523.34	205,856,453.06

6. Assets impairment loss

Items	Current period cumulative	Preceding period comparative
Bad debts loss	46,138,812.09	33,884,415.38

Items	Current period cumulative	Preceding period comparative
Inventory write-down loss	108,598.92	
Impairment loss of goodwill	658,583.99	
Total	46,905,995.00	33,884,415.38

7. Investment income

Items	Current period cumulative	Preceding period comparative
Investment income from long-term equity investments under equity method	13,403,988.12	8,253,129.90
Gains on disposal of available-for-sale financial assets	30,000.00	
Investment income from bank financial products	13,176,814.68	194,877.49
Total	26,610,802.80	8,448,007.39

8. Non-operating revenue

(1) Details

Items	Current period cumulative	Preceding period comparative	Amount included in non-recurring profit or loss
Gains on disposal of non-current assets	80,771.84	16,093,056.50	80,771.84
Including: Gains on disposal of fixed assets	80,771.84	16,093,056.50	80,771.84
Government grants	49,236,117.29	34,611,801.68	49,236,117.29
Tax reduction and exemption	9,144,326.46	4,270,451.86	9,144,326.46
Indemnity income	200,000.00	4,877,638.00	200,000.00
Unpayable fund	160,950.82	1,159,669.56	160,950.82
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		20,416.48
Others	715,880.70	2,664,744.05	715,880.70
Total	59,558,463.59	63,677,361.65	59,558,463.59

(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	556,700.00	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	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	1,171,000.00	Related to income	Pursuant to the document numbered Xia Da Ji Yao [2014] 4
Subsidy for college students practical training	418,203.00	116,157.00	Related to income	
Subsidy for purchasing robots		2,404,000.00	Related to income	Pursuant to the document numbered Hang Cai Qi [2014] 1024
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
Other small subsidies		512,800.00	Related to income	
Subtotal	7,498,100.14	5,930,657.00		

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

Subsidy for Hangzhou significant science and technology innovation project of 2014		1,575,000.00	Related to income	Pursuant to the document numbered Hang Ke Ji [2014] 246
Special fund from zero balance account of Bureau of Development, Reform and Economy of Gongshu District, Hangzhou		4,840,400.00	Related to assets	Pursuant to the document numbered Gong Zheng Ban [2015] 33
Special fund from zero balance account of Bureau of Development, Reform and Economy of Gongshu District, Hangzhou		63,000.00	Related to income	Pursuant to the document numbered Gong Fa Gai [2015] 216
Special fund for the first batch of technology innovation of 2015 in Gongshu		1,575,000.00	Related to income	Pursuant to the document numbered Gong Ke [2015] 13
Post-doctoral research funds	100,000.00	500,000.00	Related to income	
Reward for brand standard in Gongshu of 2014		300,000.00	Related to income	Pursuant to the document numbered Gong Ke [2015] 14
Reward for hi-tech enterprises in Gongshu of 2015		100,000.00	Related to income	Pursuant to the document numbered Gong Ke [2015] 12
Special fiscal fund for provincial energy-saving of 2014 and subsidy for auxiliary pertain to real-time online monitoring system of enterprises with annual energy consumption of 10,000 tce		60,000.00	Related to income	Pursuant to the document numbered Gong Fa Gai [2015] 117
Subsidy for special fungus of 863 project		56,250.00	Related to income	Pursuant to the document numbered Guo Ke Fa She [2012] 187
Subsidy for heat supply renovation project	663,853.66	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	34,565.00	Related to income	
Subtotal	21,248,895.67	9,768,068.66		
3) 华东医药（西安）博华制药有限公司 (Huadong Medicine (Xi'an) Bohua Pharmacy Co., Ltd.*)				
Subsidy for stable employment from 2014 to 2015		217,000.00	Related to income	
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	57,000.00	Related to income	
Subtotal	310,000.00	274,000.00		
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) 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	200,000.00		Related to income	Hangzhou Dajiangdong Management

* The English names are for identification purpose only.

2015				Committee
Subtotal	220,856.19			
6) 江苏九阳生物制药有限公司 (Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd.*)				
International market development fund	20,000.00	20,000.00	Related to income	
Subsidy for science and technology innovation from Bureau of Finance	23,300.00	30,000.00	Related to income	
Fund for international market development for SMEs of 2015	16,800.00	19,400.00	Related to income	Pursuant to the document numbered She Shang Wu Han [2015] 10
Subsidy for three items of technology	20,000.00	15,000.00	Related to income	
Subsidy for stable development of foreign trade of 2015		20,000.00	Related to income	Pursuant to the document numbered She Shang Wu [2015] 49
Special fund for patent	8,000.00	16,500.00	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	120,900.00		
7) Huadong Ningbo Medicine Co., Ltd.				
Special fund for promotion of industrial restructuring	16,790,000.00	17,140,000.00	Related to income	Pursuant to the document numbered Lun Shang Wu [2016] 31
Reward for HQs enterprises		200,000.00	Related to income	
Reward from local taxation bureau	186,644.24	85,853.68	Related to income	
Reward for engineering growth		50,000.00	Related to income	
Chill car supported by Environmental Protection Bureau		39,000.00	Related to income	
Other small subsidies		11,500.00	Related to income	
VAT withheld for tax authorities and enterprise income tax refund	125,269.45		Related to income	
Subtotal	17,101,913.69	17,526,353.68		
8) Huadong Medicine Wenzhou Co., Ltd.				
Reward for service leading enterprise from Bureau of Commerce	100,000.00		Related to income	Pursuant to the document numbered Zhe Shang Wu Lian Fa [2015] 18
Other small subsidies	19,149.00		Related to income	
Subtotal	119,149.00			

* The English name is for identification purpose only.

9) 华东医药湖州有限公司 (Huadong Medicine Huzhou Co., Ltd.)				
Subsidy for stable employment	17,140.17	15,999.28	Related to income	Pursuant to the document numbered Hu Ren She Fa [2016] 63
Subtotal	17,140.17	15,999.28		
10) Hangzhou Huadong Chinese Medicine Co., Ltd.				
Fiscal fund for cultivation and supporting of Hangzhou agricultural products processing enterprises		450,000.00	Related to income	Pursuant to the documents numbered Shi Nong Ban [2014] 127 and Hang Cai Nong Kuai [2014] 290
The first batch of provincial and above subsidy fund for safety production standardization		100,000.00	Related to income	Pursuant to the document numbered Hang Cai Qi [2014] 957
Reward for service leading enterprise in Lin'an	450,000.00		Related to income	Pursuant to the document numbered Lin Nong Chan Ban [2016] No.6, Lin Cai Nong Kuai [2016] 41
Other small subsidies	80,000.00	64,593.06	Related to income	
Subtotal	530,000.00	614,593.06		
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] No.307
Special subsidy for modern logistics	440,000.00		Related to income	Pursuant to the document numbered Hang Jing Kai Jing [2015] No.356
Fiscal contribution award of 2015	116,700.00		Related to income	Pursuant to the document numbered Hang Jing Kai Guan Fa [2016] No.147
Fiscal contribution award of 2015 in Baiyang Subdistrict	25,800.00		Related to income	
Subsidy for elimination of diesel powered car		61,000.00	Related to income	Pursuant to the document numbered Hang Huan Fa [2011] 325
Subsidy for technology standardization of 2014		150,000.00	Related to income	Pursuant to the document numbered Hang Cai Qi [2014] 1256
The second batch of quality technology supervision subsidy of 2014		150,000.00	Related to income	Pursuant to the document numbered Hang Cai Xing [2015] 3
Other small subsidies		230.00	Related to income	
Subtotal	742,989.47	361,230.00		
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

* The English names are for identification purpose only.

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) 杭州悦可医疗美容诊所有限公司 (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			
14) 杭州悦行优品健康管理有限公司 (Hangzhou Yuexing Youpin Health Management Co., Ltd.)				
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.*)				
Subsidy from Integrated Service Center of Ziyang Subdistrict, Shangcheng District, Hangzhou	12,000.00		Related to income	
Subtotal	12,000.00			

(3) Tax preferential policies

In the current period, tax deduction and exemption totaling 9,144,326.46 yuan includes deduction of urban land use tax amounting to 106,749.34 yuan and deduction of local water conservancy fund amounting to 9,037,577.12 yuan received by the Company and subsidiaries in accordance with related documents.

9. Non-operating expenditures

(1) Details

Items	Current period cumulative	Preceding period comparative	Amount included in non-recurring profit or loss
Losses on disposal of non-current assets	15,982,979.84	2,214,836.71	15,982,979.84
Including: Losses on disposal of fixed assets	14,177,450.71	2,214,836.71	14,177,450.71
Donation expenditures	7,507,800.00	8,465,378.00	7,507,800.00
Penalty expenditures and surcharge for overdue tax payment	6,297,140.10	307,077.21	6,297,140.10
Local water conservancy fund	3,883,845.88	13,938,423.29	-11,439,058.37
Others	106,339.09	1,310,687.82	106,339.09
Total	33,778,104.91	26,236,403.03	18,455,200.66

(2) Other remarks

* The English names are for identification purpose only.

Pursuant to the document numbered Hang Di Shui Xia You Pi [2015] 80100388 issued by Hangzhou Local Taxation Bureau, Xiacheng Taxation Branch, the Company was entitled to enjoy an 80% exemption for local water conservancy fund in 2015, totaling 11,439,058.37 yuan.

10. Income tax expenses

(1) Details

Items	Current period cumulative	Preceding period comparative
Current period income tax expenses	359,660,614.67	270,222,433.15
Deferred income tax expenses	-12,797,903.02	-2,436,912.32
Total	346,862,711.65	267,785,520.83

(2) Reconciliation of accounting profit to income tax expenses

Items	Current period cumulative	Preceding period comparative
Profit before tax	1,882,272,976.42	1,419,951,988.95
Income tax expenses based on tax rate adopted by the parent company	470,568,244.11	354,987,997.24
Effect of different tax rate applicable to subsidiaries	-129,354,962.85	-102,355,550.05
Effect of prior income tax reconciliation	-293,537.11	1,075,800.95
Effect of non-taxable income	-3,168,933.99	-1,373,523.54
Effect of non-deductible costs, expenses and losses	27,996,022.10	23,443,198.51
Utilization of deductible losses not previously recognized as deferred income tax assets	-7,484,333.24	-4,761,566.19
Effect of deducible temporary differences or deductible losses not recognized as deferred income tax assets	4,304,760.89	11,746,531.98
Effect of plus deduction of R&D expenses	-12,825,178.65	-12,168,831.11
Effect of plus deduction of wages of the disabled workers	-199,910.89	-120,446.85
Tax exemption for primary processing of agricultural products	-2,674,354.60	-2,688,090.11
Others	-5,104.12	
Income tax expenses	346,862,711.65	267,785,520.83

(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	92,738,209.32	63,925,462.98
Government grants	40,372,263.63	39,947,948.02
Interest income from bank deposits	28,899,433.23	9,637,113.41
Rental income	4,167,943.37	7,310,071.33

Items	Current period cumulative	Preceding period comparative
Compensation for demolition		1,250,000.00
Others	32,390,386.00	17,806,355.71
Total	198,568,235.55	139,876,951.45

2. Other cash payments related to operating activities

Items	Current period cumulative	Preceding period comparative
Travelling expenses	752,727,649.52	629,904,210.85
Deposit for L/C and notes	67,242,019.43	94,475,293.16
Promotion and market maintenance expenses	604,744,809.17	482,787,763.52
Office expenses	437,905,617.57	359,691,439.43
Vehicle and transportation expenses	518,523,383.55	411,551,258.76
R&D expenses	190,870,530.51	173,543,383.35
Others	475,531,523.81	472,303,895.36
Total	3,047,545,533.56	2,624,257,244.43

3. Other cash receipts related to investing activities

Items	Current period cumulative	Preceding period comparative
Redemption of financial products	4,853,100,000.00	36,500,000.00
Compensation for demolition	7,658,018.50	
Total	4,860,758,018.50	36,500,000.00

4. Other cash payments related to investing activities

Items	Current period cumulative	Preceding period comparative
Purchase of financial products	5,003,100,000.00	34,000,000.00
Total	5,003,100,000.00	34,000,000.00

5. Other cash receipts related to financing activities

Items	Current period cumulative	Preceding period comparative
Receipts of call loans	8,800,000.00	
Receipts of deposit for bank borrowings	581,936.00	40,300,000.00
Total	9,381,936.00	40,300,000.00

6. Other cash payments related to financing activities

Items	Current period cumulative	Preceding period comparative
Call loans and interest	31,430,666.65	212,000,000.00

Items	Current period cumulative	Preceding period comparative
Deposit for bank borrowings	10,000,000.00	20,881,936.00
Agency fees for private placement of shares	1,551,998.22	
Deposit for domestic L/C		2,333,360.00
Total	42,982,664.87	235,215,296.00

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	1,535,410,264.77	1,152,166,468.12
Add: Provision for assets impairment loss	46,905,995.00	33,884,415.38
Depreciation of fixed assets, oil and gas assets, productive biological assets	155,625,081.68	118,430,316.14
Amortization of intangible assets	54,441,901.64	40,418,545.35
Amortization of long-term prepayments	6,714,330.06	4,783,874.54
Loss on disposal of fixed assets, intangible assets and other non-current assets (Less: gains)	15,902,208.00	-13,878,219.79
Fixed assets retirement loss (Less: gains)		
Losses on changes in fair value (Less: gains)		
Financial expenses (Less: gains)	78,026,672.86	171,767,614.91
Investments losses (Less: gains)	-26,610,802.80	-8,448,007.39
Decrease of deferred tax assets (Less: increase)	-12,797,903.02	-2,436,912.32
Increase of deferred tax liabilities (Less: decrease)		
Decrease in inventories (Less: increase)	-661,003,471.15	-608,240,666.94
Decrease in operating receivables (Less: increase)	-850,151,374.45	-1,009,235,550.86
Increase of operating payables (Less: decrease)	1,004,520,321.71	779,324,379.62
Others	-20,416.48	
Net cash flow from operating activities	1,346,962,807.82	658,536,256.76
(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	2,629,856,148.78	1,438,967,536.32
Less: Cash at the beginning of the period	1,438,967,536.32	971,253,489.61

Supplement information	Current period cumulative	Preceding period comparative
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	1,190,888,612.46	467,714,046.71

(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	21,722,300.00
Including: Sino-US Huadong (Yantai) Co., Ltd.	21,681,900.00
温州济众医药连锁有限公司 (Wenzhou Jizhong Medicine Chain Co., Ltd.*)	40,400.00
Less: Cash and cash equivalents held by subsidiaries at the acquisition date	375,557.62
Including: Sino-US Huadong (Yantai) Co., Ltd.	375,557.62
Wenzhou Jizhong Medicine Chain Co., Ltd.	
Net cash payment for acquisition of subsidiaries in current period	21,346,742.38

(3) Cash and cash equivalents

Items	Closing balance	Opening balance
1) Cash	2,629,856,148.78	1,438,967,536.32
Including: Cash on hand	429,517.01	686,117.06
Cash in bank on demand for payment	2,629,226,932.71	1,438,176,819.26
Other cash and bank balances on demand for payment	199,699.06	104,600.00
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	2,629,856,148.78	1,438,967,536.32
Including: Cash and cash equivalents of parent company or subsidiaries with use restrictions		

(4) 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, 2016	Cash in bank	10,000,000.00	Pledged time deposit

* The English name is for identification purpose only.

	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	
December 31, 2015	Other cash and bank balances	2,333,360.00	Deposit for domestic L/C
		6,270,000.00	Deposit for L/C
		581,936.00	Deposit for bank borrowings
		37,956,900.73	Deposit for notes
		401,000.00	Other deposits
	Subtotal	47,543,196.73	

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

Items	Current period cumulative	Preceding period comparative
Amount of endorsed commercial acceptance	1,037,123,356.47	946,885,395.98
Including: Payment for goods	992,669,455.86	893,622,881.02
Payment for acquisition of long-term assets, such as fixed-assets	44,453,900.61	53,262,514.96

(IV) Others

1. Assets with title or use right restrictions

Items	Closing carrying amount	Reasons for restrictions
Cash and bank balances	31,465,070.84	Deposits
Notes receivable	57,839,602.48	Pledged notes
Accounts receivable	81,355,761.89	Guarantee for borrowings
Investment properties	3,027,642.00	Guarantee for borrowings
Fixed assets	77,962,179.57	Guarantee for borrowings
Intangible assets [Note]	2,047,548.02	Guarantee for borrowings
Total	253,697,804.80	

Note: Balance of bank borrowings under such guarantee contract is 0 yuan.

2. Monetary items in foreign currencies

(1) Details

Items	Closing balance in foreign currencies	Exchange rate	RMB equivalent
Cash and bank balances			
Including: USD	1,385,227.51	6.9370	9,609,323.24
Accounts receivable			

Items	Closing balance in foreign currencies	Exchange rate	RMB equivalent
Including: USD	191,371.00	6.9370	1,327,540.63
Short-term borrowings			
Including: USD	5,138,628.00	6.9370	35,646,662.44

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
Sino-US Huadong (Yantai) Co., Ltd.	Nov. 30, 2016	21,681,900.00	51.00	Equity acquisition
Wenzhou Jizhong Medicine Chain Co., Ltd.	Aug. 31, 2016	40,400.00	100.00	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
Sino-US Huadong (Yantai) Co., Ltd.	Nov. 30, 2016	Obtain of actual control		-104,389.45
Wenzhou Jizhong Medicine Chain Co., Ltd.	Aug. 31, 2016	Obtain of actual control		

2. Combination costs and goodwill

Items	Sino-US Huadong (Yantai) Co., Ltd.	Wenzhou Jizhong Medicine Chain Co., Ltd.
Combination costs	21,681,900.00	40,400.00
Cash	21,681,900.00	40,400.00
Total combination costs	21,681,900.00	40,400.00
Less: Share of fair value of net identifiable assets acquired	21,702,316.48	40,400.00
The surplus of share of fair value of net identifiable assets acquired over the combination cost	20,416.48	

3. Acquisition-date identifiable assets and liabilities of acquirees

(1) Details

Items	Sino-US Huadong (Yantai) Co., Ltd.

	Acquisition-date fair value	Acquisition-date carrying amount
Assets		
Cash and bank balances	375,557.62	375,557.62
Advances paid	59,581.81	59,581.81
Other receivables	316,459.00	316,459.00
Inventories	621,568.92	621,568.92
Other current assets	127,568.99	127,568.99
Fixed assets	2,277,056.74	2,277,056.74
Intangible assets	40,329,800.00	
Liabilities		
Accounts payable	394,875.00	394,875.00
Employee benefits payable	105,000.00	105,000.00
Taxes payable	41,180.63	41,180.63
Other payables	1,012,975.72	1,012,975.72
Net assets	42,553,561.73	2,223,761.73
Less: Non-controlling interest	20,851,245.25	1,089,643.25
Net assets acquired	21,702,316.48	1,134,118.48

(Continued)

Items	Wenzhou Jizhong Medicine Chain Co., Ltd.	
	Acquisition-date fair value	Acquisition-date carrying amount
Assets		
Intangible assets	40,400.00	
Liabilities		
Net assets	40,400.00	
Less: Non-controlling interest		
Net assets acquired	40,400.00	

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

The fair value of identifiable assets and liabilities of Sino-US Huadong (Yantai) Co., Ltd. is determined based on the Assets Valuation Report (numbered CWAVP [2016] 497) issued by Canwin CPVs Ltd.; the acquisition value of identifiable assets and liabilities of Wenzhou Jizhong Medicine Chain Co., Ltd. is taken as the fair value.

(II) 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 (%)
杭州杏国健康管理有限公司	Subsidiary newly	May 6, 2016	5,000,000.00	100%

Entities	Equity acquisition method	Equity acquisition date	Capital contribution	Capital contribution proportion (%)
(Hangzhou Xingguo Health Management Co., Ltd.*)	set up			
杭州杏联医疗管理有限公司 (Hangzhou Xinlian Health Care Management Co., Ltd.*)	Sub-subsidiary newly set up	May 24, 2016	5,000,000.00	100%
宁波雅致医疗美容诊所有限公司 (Ningbo Yazhi Medical Cosmetology Clinic Co., Ltd.*)	Third-tier subsidiary newly set up	April 18, 2016	1,000,000.00	100%

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	
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		Business combination under common control
Huadong Medicine Supply Chain Management (Hangzhou) Co., Ltd.	Hangzhou, Zhejiang	Hangzhou, Zhejiang	Warehousing service	100.00		Business combination not under common control
Huadong Medicine Ningbo Sales Co., Ltd.	Ningbo, Zhejiang	Ningbo, Zhejiang	Commerce	100.00		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
Shaanxi Jiuzhou Pharmacy Co., Ltd.	Xi'an, Shaanxi	Xi'an, Shaanxi	Manufacturing		65.00 [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
Huadong Ningbo Medicine Co., Ltd.	Ningbo, Zhejiang	Ningbo, Zhejiang	Commerce	51.00		Business combination not under common control
Huadong Medicine Deqing Tianrui Co., Ltd.	Deqing, Zhejiang	Deqing, Zhejiang	Lease and business service	62.85 [Note 2]	32.67	Business combination not under common control
Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd.	Yancheng, Jiangsu	Yancheng, Jiangsu	Manufacturing	79.61		Business combination not under common control
Huadong Medicine Wenzhou Co., Ltd.	Ruian, Zhejiang	Ruian, Zhejiang	Commerce	40.00		Business combination not

* The English names are for identification purpose only.

						under common control
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	Manufacturing		100.00 [Note 3]	Business combination not under common control
Huadong Medicine Shaoxing Co., Ltd.	Shaoxing, Zhejiang	Shaoxing, Zhejiang	Commerce	60.00		Business combination not under common control
Huadong Medicine Lishui Co., Ltd.	Longquan, Zhejiang	Longquan, Zhejiang	Commerce	60.00		Business combination not under common control
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
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 [Note 4]	13.67	Set up
华东医药广东药业有限公司 (Huadong Medicine Guangdong Pharmaceutical Co., Ltd.*)	Guangdong, Guangzhou	Guangdong, Guangzhou	Commerce	100.00		Set up
华东医药(武汉)药业有限公司 (Huadong Medicine Wuhan Pharmaceutical Co., Ltd.*)	Wuhan, Hubei	Wuhan, Hubei	Commerce		90.00 [Note 5]	Set up
Huadong Medicine Huzhou Co., Ltd.	Huzhou, Zhejiang	Huzhou, Zhejiang	Commerce	100.00		Set up
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 industry		100.00 [Note 6]	Set up
宁波惊尘冷链物流有限公司 (Ningbo Jingchen Cold Chain Logistics Co., Ltd.*)	Ningbo, Zhejiang	Ningbo, Zhejiang	Service industry		100.00 [Note 7]	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 8]	Set up
Huadong Medicine (Hangzhou) Bailing Biotechnology Co., Ltd.	Hangzhou, Zhejiang	Hangzhou, Zhejiang	Manufacturing	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	95.00		Set up
杭州采薇坊香文化创意有限公司 (Hangzhou Caiweifangxiang Cultural Creativity Co., Ltd.*)	Hangzhou, Zhejiang	Hangzhou, Zhejiang	Commerce	100.00		Set up
Hangzhou Huadong Medicine Chemical Reagent Co., Ltd. [Note 9]	Hangzhou, Zhejiang	Hangzhou, Zhejiang	Warehousing	100.00		Business combination not under common control

* The English names are for identification purpose only.

Hangzhou Peiyuantang Clinic Co., Ltd.	Hangzhou, Zhejiang	Hangzhou, Zhejiang	Medical service		100.00 [Note 10]	Business combination not under common control
Ningbo Yazhi Medical Cosmetology Clinic Co., Ltd.	Ningbo, Zhejiang	Ningbo, Zhejiang	Medical beauty service		100.00 [Note 11]	Set up
Wenzhou Jizhong Medicine Chain Co., Ltd.	Ruian, Zhejiang	Ruian, Zhejiang	Commerce		100.00 [Note 12]	Business combination not under common control
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 13]	Set up
Sino-US Huadong (Yantai) Co., Ltd.	Yantai, Shandong	Yantai, Shandong	Manufacturing	51.00		Business combination not under common control

Note 1: The subsidiary Huadong Medicine (Xi'an) Bohua Pharmacy Co., Ltd. holds its 65.00% equity.

Note 2: The Company holds its 62.85% equity, and the subsidiary Hangzhou Huasheng Investment Management Co., Ltd. holds its 32.67% equity.

Note 3: The subsidiary Huadong Medicine Wenzhou Co., Ltd. holds its 100.00% equity.

Note 4: The Company holds its 86.33% equity, and the subsidiary Hangzhou Huasheng Investment Management Co., Ltd. holds its 13.67% equity.

Note 5: The subsidiary Huadong Ningbo Medicine Co., Ltd. holds its 90% equity.

Note 6: The subsidiary Huadong Medicine (Xi'an) Bohua Pharmacy Co., Ltd. holds its 72.00% equity, and the sub-subsidiary Shaanxi Jiuzhou Pharmacy Co., Ltd. holds its 28% equity.

Note 7: The subsidiary Huadong Ningbo Medicine Co., Ltd. holds its 100% equity.

Note 8: The subsidiary Huadong Ningbo Medicine Co., Ltd. holds its 100% equity.

Note 9: Hangzhou Huadong Medicine Chemical Reagent Co., Ltd. is formerly known as 杭州英德化工有限公司 (Hangzhou Yingde Chemical Co., Ltd.*), and renamed in the current period.

Note 10: the subsidiary Hangzhou Huadong Wulin Large Pharmacy Co., Ltd. holds its 100% equity.

Note 11: The sub-subsidiary 宁波幸福缪斯医疗投资有限公司 (Ningbo Happiness Muse Medical Investment Co., Ltd.*) holds its 100% equity.

Note 12: The subsidiary Huadong Medicine Wenzhou Co., Ltd. holds its 100.00% equity.

Note 13: The subsidiary Hangzhou Xingguo Health Management Co., Ltd. holds its 100.00%

* The English names are for identification purpose only.

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. Pursuant to the resolution of the General Shareholders' Meeting, Ruian People's Hospital agrees and authorizes that one of the board members it designates will vote with the board members designated by the Company in the voting of Board of Directors, with authorization period of 5 years, 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	5,393,298.68		40,026,134.16
Huadong Ningbo Medicine Co., Ltd.	49.00	73,205,733.69	18,007,500.00	185,221,020.89
Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd.	20.39	-2,347,180.55		10,654,037.78
Huadong Medicine Wenzhou Co., Ltd.	60.00	8,513,242.52		93,458,860.71
Huadong Medicine Shaoxing Co., Ltd.	40.00	422,835.64		2,981,762.12
Huadong Medicine Lishui Co., Ltd.	40.00	2,042,909.32		8,781,338.08

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.	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 Shaoxing Co., Ltd.	170,517,884.94	2,501,044.59	173,018,929.53
Huadong Medicine Lishui Co., Ltd.	271,460,286.51	3,785,059.36	275,245,345.87

(Continued)

Subsidiaries	Closing 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

Subsidiaries	Closing balance		
	Current liabilities	Non-current liabilities	Total liabilities
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 Shaoxing Co., Ltd.	165,564,524.24		165,564,524.24
Huadong Medicine Lishui Co., Ltd.	253,292,000.68		253,292,000.68

(Continued)

Subsidiaries	Opening balance		
	Current assets	Non-current assets	Total assets
Hangzhou Huadong Chinese Medicine Co., Ltd.	124,773,510.33	66,238,002.84	191,011,513.17
Huadong Ningbo Medicine Co., Ltd.	521,677,037.55	126,478,211.38	648,155,248.93
Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd.	33,784,111.85	172,329,694.89	206,113,806.74
Huadong Medicine Wenzhou Co., Ltd.	632,292,472.18	142,902,594.57	775,195,066.75
Huadong Medicine Shaoxing Co., Ltd.	181,195,416.00	2,498,679.60	183,694,095.60
Huadong Medicine Lishui Co., Ltd.	259,348,476.18	1,500,784.53	260,849,260.71

(Continued)

Subsidiaries	Opening balance		
	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou Huadong Chinese Medicine Co., Ltd.	66,479,424.48	37,950,000.00	104,429,424.48
Huadong Ningbo Medicine Co., Ltd.	386,308,485.88		386,308,485.88
Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd.	132,341,743.34	10,000,000.00	142,341,743.34
Huadong Medicine Wenzhou Co., Ltd.	612,077,416.42	21,541,620.00	633,619,036.42
Huadong Medicine Shaoxing Co., Ltd.	177,296,779.41		177,296,779.41
Huadong Medicine Lishui Co., Ltd.	244,003,188.83		244,003,188.83

(2) Profit or loss and cash flows

Subsidiaries	Current period cumulative			
	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities

Subsidiaries	Current period cumulative			
	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 Shaoxing Co., Ltd.	572,494,648.16	1,057,089.10	1,057,089.10	10,548,149.67
Huadong Medicine Lishui Co., Ltd.	698,003,472.57	5,107,273.31	5,107,273.31	-60,000,673.91

(Continued)

Subsidiaries	Preceding period comparative			
	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Hangzhou Huadong Chinese Medicine Co., Ltd.	295,220,823.83	14,609,028.89	14,609,028.89	28,876,183.19
Huadong Ningbo Medicine Co., Ltd.	1,035,121,765.15	91,920,641.79	91,920,641.79	-21,981,858.00
Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd.	24,937,678.82	-18,102,791.10	-18,102,791.10	-15,212,823.57
Huadong Medicine Wenzhou Co., Ltd.	1,827,419,419.28	17,132,032.94	17,132,032.94	-5,668,519.82
Huadong Medicine Shaoxing Co., Ltd.	445,833,857.01	1,806,285.14	1,806,285.14	-31,198,219.36
Huadong Medicine Lishui Co., Ltd.	601,049,348.27	1,131,564.40	1,131,564.40	7,349,333.36

(II) 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, 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		
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		
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

(Continued)

Items	December 31, 2015 / Year 2015	
	Hangzhou Jiuyuan Gene Engineering Co., Ltd.	Hangzhou Tangyangyuan Medicine Co., Ltd.
Current assets	191,300,474.58	25,930,497.79
Non-current assets	118,271,958.39	2,015,174.29
Total assets	309,572,432.97	27,945,672.08
Current liabilities	78,266,295.55	13,325,465.23
Non-current liabilities	100,000.00	
Total liabilities	78,366,295.55	13,325,465.23
Non-controlling interest		
Equity attributable to owners of parent company	231,206,137.42	14,620,206.85

Items	December 31, 2015 / Year 2015	
	Hangzhou Jiuyuan Gene Engineering Co., Ltd.	Hangzhou Tangyangyuan Medicine Co., Ltd.
Proportionate share in net assets	48,692,536.44	4,386,062.06
Adjustments		
Goodwill		
Unrealized profit in internal trading		
Others		
Carrying amount of equity investments in associates		
Fair value of equity investments in associates with quoted price		
Operating revenue	341,189,569.90	53,167,008.61
Net profit	32,751,820.09	4,518,468.37
Net profit of discontinued operations		
Other comprehensive income		
Total comprehensive income	32,751,820.09	4,518,468.37
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 2016, 7.34% (December 31, 2015: 6.92%) 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				Total
	Neither past due nor impaired	Past due but not impaired			
		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

(Continued)

Items	Opening balance				Total
	Neither past due nor impaired	Past due but not impaired			
		Within one year	1-2 years	Over 2 years	
Notes receivable	991,982,466.01				991,982,466.01
Subtotal	991,982,466.01				991,982,466.01

(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	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

(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	2,413,962,043.62	2,472,905,401.24	2,472,905,401.24		
Notes payable	584,170,049.00	584,170,049.00	584,170,049.00		
Accounts payable	2,799,284,185.79	2,799,284,185.79	2,799,284,185.79		
Interest payable	39,251,471.72	39,251,471.72	39,251,471.72		
Dividend payable	224,219.60	224,219.60	224,219.60		
Other payables	617,647,618.42	617,647,618.42	617,647,618.42		
Non-current liabilities due within one year	57,571,500.00	59,991,198.60	59,991,198.60		
Long-term borrowings	314,421,620.00	377,402,768.14		131,678,532.65	245,724,235.49
Bonds payable	986,714,392.28	1,192,741,789.54			1,192,741,789.54
Subtotal	7,813,247,100.43	8,143,618,702.05	6,573,474,144.37	131,678,532.65	1,438,466,025.03

(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 fixed 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	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 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 51%, 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

* The English names are for identification purpose only.

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

4. Other related parties of the Company

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
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.*) [Note 1]	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.*) [Note 2]	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
西安德天药业股份有限公司 (Xi'an Deten 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
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
杭州华东医药集团控股有限公司 (Hangzhou Huadong Medicine Group Holdings Co., Ltd.*) [Note 3]	The 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	An affiliate company of Hangzhou Huadong Medicine Group Holdings Co., Ltd.

* The English names are for identification purpose only.

Related parties	Relationships with the Company
Kangrun Pharmaceutical 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.

Note 1: 长春远大国奥制药有限公司 (Changchun Grand Guoao Pharmaceutical Co., Ltd.*) was renamed as Changchun Leiyunshang Pharmaceutical Co., Ltd. on June 15, 2016.

Note 2: 云南理想药业有限公司 (Yunnan Lixiang Pharmaceutical Co., Ltd.*) was renamed as Yunnan Leiyunshang Lixiang Pharmaceutical Co., Ltd. on December 26, 2016.

Note 3: 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. Therefore, related party transactions with Hangzhou Huadong Medicine Group Co., Ltd. and its affiliated companies occurred during January to September 2016 are taken into account.

(II) Related party transactions

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

(1) Purchase of goods and receiving of services

Related parties	Content of related transactions	Current period cumulative	Preceding period comparative
Hangzhou Jiuyuan Gene Engineering Co., Ltd.	Purchase of drugs	37,487,270.14	28,268,066.55
Hangzhou Zhuyangxin Pharmaceutical Co., Ltd.		17,353,656.89	10,251,140.68
Wuhan Grand Pharmaceutical Group Sales Co., Ltd.		9,246,959.40	12,565,623.91
Yunnan Leiyunshang Lixiang Pharmaceutical Co., Ltd.		11,502,037.97	11,164,024.85
LYS Pharmaceutical Co., Ltd.		5,651,376.93	2,636,758.79
Changshu Leiyunshang Pharmaceutical Co., Ltd.		4,655,750.58	5,677,464.21
Sichuan Yuanda Shuyang Pharmaceutical Co., Ltd.		45,459,925.64	24,551,908.56
Zhejiang Huayi Medicine Co., Ltd.		430,715.24	17,094.02
Hangzhou Huadong Medicine Group Kangrun Pharmaceutical		936,844.07	1,273,575.70

* The English names are for identification purpose only.

Related parties	Content of related transactions	Current period cumulative	Preceding period comparative
Co., Ltd.			
Grand Pharmaceutical (China) Co., Ltd.		10,190,186.41	7,802,183.54
Guangdong Leiyunshang Pharmaceutical Co., Ltd.		1,639,950.11	1,001,267.32
Changchun Leiyuanshang Pharmaceutical Co., Ltd.		949,020.12	440,057.43
Hangzhou Grand Bio-pharmaceutical Co., Ltd.		4,275,493.80	2,013,001.08
Hangzhou Huadong Medicine Group Xinwufeng Pharmaceutical Co., Ltd.		6,592.65	
Subtotal		149,785,779.95	107,662,166.64

2) Sale of drugs and rendering of services

Related parties	Content of related transactions	Current period cumulative	Preceding period comparative
Hangzhou Huadong Medicine Group Biotechnology Institute Co., Ltd.		3,717,022.75	1,874,606.23
Hangzhou Tangyangyuan Medicine Co., Ltd.		391,176.35	417,595.75
Hangzhou Jiuyuan Gene Engineering Co., Ltd.		2,484,662.79	2,287,760.26
Hangzhou Huadong Medicine Group Kangrun Pharmaceutical Co., Ltd.		801,958.39	1,279,740.55
Esteve Huayi Pharmaceutical Co., Ltd.		391,699.58	1,546,681.99
Hangzhou Zhuyangxin Pharmaceutical Co., Ltd.		848,279.88	623,772.98
Hangzhou Huadong Medicine Group Co., Ltd.	Sale of drugs	79,855.56	10,705.03
Zhejiang Huayi Medicine Co., Ltd.		1,108.55	412,157.92
Hangzhou Huadong Medicine Group Xinwufeng Pharmaceutical Co., Ltd.		6,079.18	9,506.18
Grand Resources Group Co., Ltd.		252,589.37	178,168.15
China Grand Enterprises, Inc.			20,555.34
Xi'an Deten Pharmaceutical Co., Ltd.			2,753,981.79
Yunnan Leiyunshang Lixiang Pharmaceutical Co., Ltd.		174,110.62	
Hangzhou Grand Bio-pharmaceutical Co., Ltd.		41,958.86	
Subtotal		9,190,501.88	11,415,232.17

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 Kangrun Pharmaceutical Co., Ltd.	Housing rents	71,000.00	71,000.00

(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 Group Co., Ltd.	Housing rents	[Note]	60,000.00
Hangzhou Huadong Medicine Technology Co., Ltd.	Housing rents	7,523,809.70	5,925,000.00

Note: The subsidiary Hangzhou Huadong Medicine Chain Co., Ltd. originally rent commercial housing located at Block 14, No. 81, Sandun Road, Gongshu District, Hangzhou from Hangzhou Huadong Medicine Group Co., Ltd., with leasing term from January 1, 2015 to December 31, 2019. Due to the demolition of the above property in the current period, pursuant to the Compensation Agreement on Leasing Termination entered into between the two parties, Hangzhou Huadong Medicine Chain Co., Ltd. received compensation of 0.20 million yuan from Hangzhou Huadong Medicine Group Co., Ltd.

3. Related party guarantees

The Company and its subsidiaries 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 1]
Hangzhou Huadong Medicine Group Co., Ltd.	150,000,000.00	6/15/2015	6/15/2017	No [Note 2]

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

Note 2: Balance of bank borrowings under such guarantee contract is 0 yuan.

4. Key management's emoluments

Items	Current period cumulative	Preceding period comparative
Key management's emoluments	7.68 million	6.97 million

5. Other related party transactions

(1) Power comprehensive service

1) Hangzhou Sino-US Pharmacy Co., Ltd. provided power services for Hangzhou Jiuyuan Gene Engineering Co., Ltd. and charged power fees of 437,966.62 yuan in 2016 and 503,790.72 yuan in 2015.

2) Hangzhou Sino-US Pharmacy Co., Ltd. provided power services for Hangzhou Huadong Medicine Group Co., Ltd. and charged power fees of 279,237.45 yuan in 2016.

3) The Company and its subsidiary Hangzhou Sino-US Pharmacy Co., Ltd. provided outsourcing services including property security for Hangzhou Huadong Medicine Group Co., Ltd. and respectively charged service fees of 141,509.43yuan and 613,207.55 yuan in 2016.

4) Hangzhou Huadong Medicine Group Kangrun Pharmaceutical Co., Ltd. provided utility, workforce, leasing, management services, technology development, etc. for the Company's subsidiary Hangzhou Sino-US Pharmacy Co., Ltd. Hangzhou Sino-US Pharmacy Co., Ltd. paid utility fees of 2,052,052.99 yuan, labor fees of 795,145.63 yuan, leasing fees of 5,098,080.38 yuan, management service fees of 709,454.29 yuan and environmental protection fees of 372,508.56 yuan during January to September 2016, and paid utility fees of 2,993,395.00 yuan, labor fees of 737,100.00 yuan, leasing fees of 2,910,000.00 yuan, management service fees of 502,550.00 yuan and environmental protection fees of 551,410.00 yuan in 2015.

(2) Technical services

1) Pursuant to the Technical Service Contact entered into between Hangzhou Sino-US Pharmacy Co., Ltd. and Hangzhou Huadong Medicine Group Kangrun Pharmaceutical Co., Ltd., Hangzhou Huadong Medicine Group Kangrun Pharmaceutical Co., Ltd. would provide drug research and development technical services for Hangzhou Sino-US Pharmacy Co., Ltd., and the latter paid technical service fees of 1,245,283.02 yuan during January to September 2016.

2) Pursuant to a series of Technical Service Contact 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 research and development technical services for Hangzhou Sino-US Pharmacy Co., Ltd., and the latter paid technical service fees of 37.55 million yuan in 2016 and 33.04 million yuan in 2015.

3) 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 and 1.42 million yuan in 2015.

4) 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 12.70 million yuan in 2016.

(3) Transfer of new drug technology

1) Under the approval of the resolution of the 17th meeting of the seventh session of the Board of Directors, in December 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 Acarbose Chewable Tablets at the consideration of 25 million yuan and the transfer price was determined based on the Assets Valuation Report (numbered CWAVP [2015] 687) issued by Canwin CPVs Ltd. In 2016, Hangzhou Sino-US Pharmacy Co., Ltd. has paid 25 million yuan for the transfer of new drug technology.

2) Under the approval of the resolution of the extraordinary meeting of the eight session of Board of Directors, in August 2017, the Company and Hangzhou Sino-US Pharmacy Co., Ltd. respectively entered into the Technology Transfer Agreement with Hangzhou Huadong Medicine Group Biotechnology Institute Co., Ltd., which agreed that the Company acquired the new drug technology of Dapomycin API at the consideration of 15 million yuan, and Hangzhou Sino-US Pharmacy Co., Ltd. acquired the new drug technology of Dapomycin injection at the consideration of 35 million yuan. The transfer prices were determined based on the Assets Valuation Report (numbered CWAVP [2016] 232) issued by Canwin CPVs Ltd. In 2016, the Company and Hangzhou Sino-US Pharmacy Co., Ltd. have paid 9 million yuan and 21 million respectively for the transfer of new drug technology.

(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 Tangyangyuan Medicine Co., Ltd.	79,767.49	3,988.37	52,264.03	2,613.21
	Hangzhou Zhuyangxin Pharmaceutical Co., Ltd.			357,082.49	17,854.12
	Hangzhou Jiuyuan Gene Engineering Co., Ltd.	171,666.30	8,583.31	47,088.30	2,354.41
	Esteve Huayi Pharmaceutical Co., Ltd.			49,329.65	2,466.48
	Hangzhou Huadong Medicine Group Kangrun Pharmaceutical Co., Ltd.			9,994.90	499.75
	Hangzhou Huadong Medicine Group Xinwufeng			8,390.90	419.55

	Pharmaceutical Co., Ltd.				
	Hangzhou Huadong Medicine Group Biotechnology Institute Co., Ltd.			22,909.49	1,145.47
	Zhejiang Huayi Medicine Co., Ltd.			8,000.00	400.00
	Yunnan Leiyunshang Lixiang Pharmaceutical Co., Ltd.	109,545.00	5,477.25		
Subtotal		360,978.79	18,048.93	555,059.76	27,752.99
Advances paid	Sichuan Yuanda Shuyang Pharmaceutical Co., Ltd.	1,586,034.08		1,123.93	
Subtotal		1,586,034.08		1,123.93	
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
Notes payable	Wuhan Grand Pharmaceutical Group Sales Co., Ltd.		7,000,000.00
	Zhejiang Huayi Medicine Co., Ltd.		280,000.00
Subtotal			7,280,000.00
Accounts payable	Hangzhou Jiuyuan Gene Engineering Co., Ltd.	4,227,329.87	4,266,471.95
	Hangzhou Zhuyangxin Pharmaceutical Co., Ltd.		1,828,952.32
	Changshu Leiyunshang Pharmaceutical Co., Ltd.	1,069,628.87	2,489,237.91
	Yunnan Leiyunshang Lixiang Pharmaceutical Co., Ltd.	1,780,033.67	1,986,143.48
	Hangzhou Huadong Medicine Group Kangrun Pharmaceutical Co., Ltd.		252,993.12
	LYS Pharmaceutical Co., Ltd.	1,316,806.95	228,199.80
	Changchun Leiyunshang Pharmaceutical Co., Ltd.	451,918.17	432,226.67
	Wuhan Grand Pharmaceutical Group Sales Co., Ltd.	148,945.32	150,183.00
	Hangzhou Huadong Medicine Group Xinwufeng Pharmaceutical Co., Ltd.		59,909.59
	Grand Pharmaceutical (China) Co., Ltd.	37,855.30	31,160.94
	Sichuan Yuanda Shuyang Pharmaceutical Co., Ltd.		2,440.27
	Guangdong Leiyunshang Pharmaceutical Co., Ltd.	354,923.64	378,124.78
	Hangzhou Tangyangyuan Medicine Co., Ltd.	44,606.83	44,606.83

Items	Related parties	Closing balance	Opening balance
	Hangzhou Huadong Medicine Group Biotechnology Institute Co., Ltd.	50,000,000.00	30,000,000.00
	Hangzhou Grand Bio-pharmaceutical Co., Ltd.	14,286.00	
Subtotal		59,446,334.62	42,150,650.66
Advances received	Hangzhou Jiuyuan Gene Engineering Co., Ltd.		
	Hangzhou Huadong Medicine Group Kangrun Pharmaceutical Co., Ltd.		1,536.50
	Grand (Shanghai) Financial Leasing Co., Ltd.		13,864.08
	Hangzhou Huadong Medicine Group Biotechnology Institute Co., Ltd.	270,033.41	1,108,198.01
	Hangzhou Grand Bio-pharmaceutical Co., Ltd.	17,718.00	
	Suzhou Leiyunshang Chain Pharmacy Co., Ltd.	2,000.00	
Subtotal		289,751.41	1,123,598.59
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

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, 2016. 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 2016, such technology hasn't gone to sale.

(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

* The English names are for identification purpose only.

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. As of December 31, 2016, 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) Establishment of the subsidiary 华东医药医疗器械科技（杭州）有限公司 (Huadong Medicine Medical Device Technology Co., Ltd.*)

The Company and 刘宗乐 (Liu Zongle) jointly established Huadong Medicine Medical Device Technology Co., Ltd. with registered capital of 10 million yuan, of which, 5.10 million yuan was contributed by the Company, accounting for 51% of registered capital, and 4.90 million yuan was contributed by Liu Zongle, accounting for 49%. Huadong Medicine Medical Device Technology Co., Ltd. was registered at administration for industry and commerce on January 9, 2017. As of March 7, 2017, Huadong Medicine Medical Device Technology Co., Ltd. has received all contributions from shareholders.

(II) Shares unfrozen after the balance sheet date

Due to the property preservation in the case of dispute over import and export agency contract against 中国中轻国际控股公司 (Sinolight International Holdings Corporation*), China Grand Enterprises, Inc. froze the Company's outstanding A shares of 1 million shares it held in 中国证券登记结算有限公司深圳分公司 (China Securities Depository and Clearing Co., Ltd., Shenzhen Branch*) to provide guarantee for property preservation. The freezing period lasted three years from May 20, 2016 to May 19, 2019. As both parties in this case had completed the performance of effective verdict, Beijing Second Intermediate People's Court made a civil ruling to discharge all measures for preservation on January 10, 2017, and completed to unfreeze the above 1 million shares on February 20, 2017.

(III) Profit distribution after the balance sheet date

Pursuant to the Plan for Profit Distribution of 2016 deliberated and approved by the sixth meeting

* *The English names are for identification purpose only.*

of the eighth session of the Board of Directors on March 7, 2017, the Company will distribute cash dividend of 13.50 yuan (tax included) per 10 shares totaling 656,178,580.80 yuan based on the total share of 486,058,208 shares, and increase share capital by converting capital reserve at the rate of 10 shares per 10 shares. The remaining undistributed profit will be carried forward to the following periods for distribution.

(IV) Pursuant to the Plan for Expected Daily Related-Party Transactions in 2017 deliberated and approved by the sixth meeting of the eighth session of the Board of Directors on March 7, 2017, in 2017, the Company and its subsidiaries are expected to have daily related-party transactions in amount of 1130.00 million yuan to 163.50 million yuan with China Grand Enterprises, Inc., have daily related-party transactions in amount of 126.10 million yuan to 154.50 million yuan with Hangzhou Huadong Medicine Group Co., Ltd. and other related parties.

(V) Pursuant to the Plan for Investment in Construction of Jiangdong Project Phase II deliberated and approved by the sixth meeting of the eighth session of the Board of Directors on March 7, 2017, the total expected investment amounts to 2.25 billion yuan.

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.

The Company identified reportable segments based on geographic information, revenue from main operations and costs of main operations are allocated between segments based on locations where sales realized, and assets and liabilities are allocated based on locations of operating entities.

2. Financial information of reportable segments

Geographic information

Items	Domestic	Overseas	Inter-segment offset	Total
Revenue from main operations	25,323,166,526.99	22,703,497.03		25,345,870,024.02
Cost of main operations	19,182,658,665.31	18,472,034.31		19,201,130,699.62
Total assets	14,456,428,696.84			14,456,428,696.84
Total liabilities	6,814,587,733.72			6,814,587,733.72

Industry segment

Items	Commerce	manufacturing	HQs
Revenue from main operations	20,115,645,583.65	5,848,047,732.55	
Cost of main operations	18,521,471,182.55	1,143,579,866.11	
Total assets	8,060,600,531.61	4,635,277,190.56	4,745,370,945.44
Total liabilities	4,490,242,347.99	1,907,191,707.41	994,600,319.25

(Continued)

Items	Inter-segment offsetting	Total
Revenue from main operations	617,823,292.18	25,345,870,024.02
Cost of main operations	463,920,349.04	19,201,130,699.62
Total assets	2,984,819,970.77	14,456,428,696.84
Total liabilities	577,446,317.05	6,814,587,733.72

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

1. As of December 31, 2016, details of shares pledged by shareholders are as follows:

Shareholders	Number of pledged shares	Commencement date	Maturity date	Holder of pledged shares	Proportion of pledged shares to holding shares	Purpose
China Grand Enterprises, Inc.	9,850,000	1/6/2016	1/5/2018	光大证券股份有限公司 (Everbright Securities Co., Ltd.)	4.85%	Financing
	15,430,000	1/6/2016	1/5/2018	上海光大证券资产管理有限公司 (Everbright Securities Asset Management Co., Ltd.*)	7.60%	Financing
	15,430,000	1/7/2016	1/5/2018	上海光大证券资产管理有限公司 (Everbright Securities Asset Management Co., Ltd.*)	7.60%	Financing
	48,930,945	1/11/2016	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.*)	24.10%	Financing
	9,490,000	7/25/2016	Till the date of releasing registration of pledge by pledgee	Everbright Securities Co., Ltd.	4.67%	Financing
Subtotal	99,130,945				48.82%	

2. As of December 31, 2016, details of frozen shares held by shareholders are as follows:

Due to the property preservation in the case of dispute over import and export agency contract against Sinolight International Holdings Corporation, China Grand Enterprises, Inc. froze the

* The English names are for identification purpose only.

Company's outstanding A shares of 1 million shares it held in China Securities Depository and Clearing Co., Ltd., Shenzhen Branch, with freezing period of three years from May 20, 2016 to May 19, 2019.

As of December 31, 2016, the Company's shares of 100,130,945 shares that held by China Grand Enterprises, Inc. have been pledged and frozen, accounting 20.60% of the total share.

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	3,055,804,921.13	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

(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	2,681,126,882.27	100.00	135,186,007.35	5.04	2,545,940,874.92
Total	2,681,126,882.27	100.00	135,186,007.35	5.04	2,545,940,874.92

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	3,010,557,566.64	150,527,878.33	5
1-2 years	40,847,660.63	4,084,766.07	10
2-3 years	2,119,779.44	423,955.89	20
3-4 years	2,279,914.42	1,139,957.21	50
Subtotal	3,055,804,921.13	156,176,557.50	5.11

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

Provision for bad debts made in current period totaled 21,232,973.02 yuan.

(3) Accounts receivable written off in current period

Accounts receivable actually written off in current period totaled 242,422.87 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
Huadong Medicine Wenzhou Co., Ltd.	212,695,521.29	6.96	13,077,804.88
Huadong Medicine Huzhou Co., Ltd.	110,251,039.28	3.61	5,512,551.97
Huadong Medicine Shaoxing Co., Ltd.	88,646,718.18	2.90	4,432,367.51
Client A6	55,993,481.40	1.83	2,799,674.07
Client A2	55,133,866.32	1.80	2,756,693.31
Subtotal	522,720,626.47	17.11	28,579,091.74

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	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

(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	56,676,178.62	100.00	4,974,644.95	8.78	51,701,533.67
Total	56,676,178.62	100.00	4,974,644.95	8.78	51,701,533.67

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 (%)

Ages	Closing balance		
	Book balance	Provision for bad debts	Provision proportion (%)
Within 1 year	474,853,169.14	23,742,658.45	5
1-2 years	2,357,958.78	235,795.88	10
2-3 years	3,040,864.67	608,172.93	20
3-4 years	3,268,399.72	1,634,199.86	50
4-5 years	640,000.00	512,000.00	80
Over 5 years	805,500.00	805,500.00	100
Subtotal	484,965,892.31	27,538,327.12	5.68

(2) Provisions for bad debts made in current period totaled 22,563,682.17 yuan.

(3) Other receivables categorized by nature

Nature of receivables	Closing balance	Opening balance
Deposit as security	8,966,351.31	13,661,102.42
Call loans	463,100,500.00	31,470,036.86
Temporary advance payment receivable	10,016,583.66	8,392,870.26
Others	2,882,457.34	3,152,169.08
Total	484,965,892.31	56,676,178.62

(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
Jiangsu Jiuyang Bio-Pharmaceutical Co., Ltd.	Borrowings	103,000,000.00	Within 1 year	21.24	5,150,000.00
Huadong Medicine Lishui Co., Ltd.	Borrowings	80,000,000.00	Within 1 year	16.50	4,000,000.00
Huadong Medicine Supply Chain Management (Hangzhou) Co., Ltd.	Borrowings	60,000,000.00	Within 1 year	12.37	3,000,000.00
Huadong Medicine Shaoxing Co., Ltd.	Borrowings	55,000,000.00	Within 1 year	11.34	2,750,000.00
Huadong Ningbo Medicine Co., Ltd.	Borrowings	50,000,000.00	Within 1 year	10.31	2,500,000.00
Subtotal		348,000,000.00		71.76	17,400,000.00

3. Long-term equity investments

(1) Categories

Items	Closing balance		
	Book balance	Provision for impairment	Carrying amount

Items	Closing 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

(Continued)

Items	Opening balance		
	Book balance	Provision for impairment	Carrying amount
Investments in subsidiaries	1,795,698,570.08	2,851,000.00	1,792,847,570.08
Total	1,795,698,570.08	2,851,000.00	1,792,847,570.08

(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			951,620,914.20		
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 Medicine Guangdong Pharmaceutical Co., Ltd.	2,851,000.00			2,851,000.00		2,851,000.00
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.	38,600,000.00	20,000,000.00		58,600,000.00		
Huadong Medicine Shaoxing Co., Ltd.	4,032,000.00			4,032,000.00		
Huadong Medicine Huzhou Co., Ltd.	40,000,000.00	40,000,000.00		80,000,000.00		
Huadong Medicine	340,000,000.00	660,000,000.00		1,000,000,000.00		

(Hangzhou) Bailing Biotechnology Co., Ltd.						
Hangzhou Yuexing Youpin Health Management Co., Ltd.	2,000,000.00	4,000,000.00		6,000,000.00		
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			2,550,000.00		
Hangzhou Caiweifangxiang Cultural Creativity Co., Ltd.	3,000,000.00			3,000,000.00		
Hangzhou Huadong Medicine Chemical Reagent Co., Ltd.	1,100,000.00			1,100,000.00	1,100,000.00	1,100,000.00
Sino-US Huadong (Yantai) Co., Ltd.		21,681,900.00		21,681,900.00		
Hangzhou Xingguo Health Management Co., Ltd.		5,000,000.00		5,000,000.00		
Subtotal	1,795,698,570.08	750,681,900.00		2,546,380,470.08	1,100,000.00	3,951,000.00

(3) Remarks on movements of long-term equity investments

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 respectively increases capital of Huadong Medicine Ningbo Sales Co., Ltd., Huadong Medicine Huzhou Co., Ltd. and Hangzhou Yuexing Youpin Health Management Co., Ltd. by 20 million yuan, 40 million yuan and 4 million yuan. The Company's subsidiary Huadong Medicine (Xi'an) Bohua Pharmacy Co., Ltd. increases capital of Huadong Medicine (Hangzhou) Bailing Biotechnology Co., Ltd. by 660 million yuan. In June 2016, the Company acquired equity of Huadong Medicine (Hangzhou) Bailing Biotechnology Co., Ltd. amounting to 660 million yuan from Huadong Medicine (Xi'an) Bohua Pharmacy Co., Ltd.

(4) Remarks on movements of provision for impairment

Hangzhou Huadong Medicine Chemical Reagent Co., Ltd. plans to cancel the registration due to its poor operating performance. Therefore, provision for impairment of long-term equity investments has been fully made in amount of 1.10 million yuan.

(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
Revenue from main operations	16,184,339,154.23	15,383,567,991.66	14,287,449,443.69	13,531,895,539.07
Revenue from other	10,869,454.55	5,523,784.18	11,373,514.52	6,302,159.53

Items	Current period cumulative		Preceding period comparative	
	Revenue	Cost	Revenue	Cost
operations				
Total	16,195,208,608.78	15,389,091,775.84	14,298,822,958.21	13,538,197,698.60

2. Administrative expenses

Items	Current period cumulative	Preceding period comparative
Employee benefits	60,741,093.77	60,324,097.05
R&D expenses	23,734,632.91	21,646,109.13
Consulting fees	4,463,182.12	7,526,768.94
Depreciation expenses	2,978,301.47	3,118,798.39
Taxes and rates	3,474,587.27	4,770,546.61
Leasing fees	6,367,021.09	6,283,544.00
Amortization of intangible assets	3,476,695.01	3,423,392.86
Office expenses	1,692,991.79	2,323,753.81
Business entertainment	6,205,797.98	4,977,842.55
Others	15,895,628.85	24,327,213.62
Total	129,029,932.26	138,722,066.96

3. Investment income

(1) Details

Items	Current period cumulative	Preceding period comparative
Investment income from long-term equity investments under cost method	907,652,932.84	306,620,000.00
Investment income from bank financial products	12,991,574.04	
Total	920,644,506.88	306,620,000.00

(2) Other remarks

Investment income from long-term equity investments under cost method includes dividends of 880,000,000.00 yuan from Hangzhou Sino-US Pharmacy Co., Ltd., 18,742,500.00 yuan from Huadong Ningbo Medicine Co., Ltd. and 8,910,432.84 yuan from Huadong Medicine Deqing Tianrui Co., Ltd.

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	-15,902,208.00	

Items	Amount	Remarks
Tax refund, credit or exemption approved beyond the power of authorities, without formal documents, or with occasionality	20,583,384.83	
Government grant included in profit or loss (excluding those closely related to operating activities, or regular government grants)	49,236,117.29	
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	20,416.48	
Gains on non-cash assets exchange		
Gains on assets consigned to the third party for investment or management	13,176,814.68	
Assets impairment loss incurred due to force majeure such as natural disasters		
Gains on debt restructuring		
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	30,000.00	
The reversed provision for impairment of receivables based on impairment testing on an individual basis		
Gains on designated loans		
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	-12,834,447.67	
Other profit or loss satisfying the definition of non-recurring profit or loss		
Subtotal	54,310,077.61	
Less: Enterprise income tax affected	14,858,992.32	
Non-controlling interest affected (after tax)	4,236,928.17	
Net non-recurring profit or loss attributable to shareholders of the parent company	35,214,157.12	

(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	22.19	3.00	3.00
Net profit attributable to shareholders of ordinary shares after deducting non-recurring profit or loss	21.65	2.93	2.93

2. Calculation process of weighted average RONA

Items	Symbols	Current period cumulative
Net profit attributable to shareholders of ordinary shares	A	1,446,591,698.47
Non-recurring profit or loss	B	35,214,157.12
Net profit attributable to shareholders of ordinary shares after deducting non-recurring profit or loss	C=A-B	1,411,377,541.35
Opening balance of net assets attributable to shareholders of ordinary shares	D	2,971,056,992.71
Net assets attributable to shareholders of ordinary shares increased due to offering of new shares or conversion of debts into shares	E	3,468,447,988.05
Number of months counting from the next month when the net assets were increased to the end of the reporting period	F	11
Net assets attributable to shareholders of ordinary shares decreased due to share repurchase or cash dividends appropriation	G	607,572,759.99
Number of months counting from the next month when the net assets were decreased to the end of the reporting period	H	7
Number of months in the reporting period	K	12
Weighted average net assets	$L = D + A/2 + E \times F/K - G \times H/K \pm I \times J/K$	6,519,346,054.33
Weighted average RONA	M=A/L	22.19%
Weighted average RONA after deducting non-recurring profit or loss	N=C/L	21.65%

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	1,446,591,698.47
Non-recurring profit or loss	B	35,214,157.12
Net profit attributable to shareholders of ordinary shares after deducting non-recurring profit or loss	C=A-B	1,411,377,541.35
Opening balance of total shares	D	434,059,991.00
Number of shares increased due to conversion of reserve to share capital or share dividend appropriation	E	

Items	Symbols	Current period cumulative
Number of shares increased due to offering of new shares or conversion of debts into shares	F	51,998,217.00
Number of months counting from the next month when the share was increased to the end of the reporting period	G	11
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	$L = \frac{D+E+F \times G/K - H \times I/K}{J}$	481,725,023.25
Basic EPS	$M = A/L$	3.00
Basic EPS after deducting non-recurring profit or loss	$N = C/L$	2.93

(2) Calculation process of diluted EPS

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

Huadong Medicine Co., Ltd.

March 7, 2017