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廣州白雲山醫葯集團股份有限公司

**GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.**

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

(H Share Stock Code: 0874)

## **SUMMARY OF THE 2015 ANNUAL REPORT**

### **1. IMPORTANT NOTICE**

- 1.1** This summary is extracted from the full text of the 2015 annual report of of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (the “Company”) for the year ended 31 December 2015 (the “Reporting Period” or the “Year”). Investors who wish to know more details are advised to refer to the full text of the 2015 annual report which will be published on the website (<http://www.sse.com.cn>) of the Shanghai Stock Exchange (“SSE”), and on the website (<http://www.hkex.com.hk>) of The Stock Exchange of Hong Kong Limited (“HKEx”) or other websites designated by China Securities Regulatory Commission (the “CSRC”).
- 1.2** This summary is prepared in both English and Chinese. In the event of discrepancy in interpretation, the Chinese version shall prevail.
- 1.3** The financial reports of the Company and its subsidiaries (the “Group”) and the Company for the Reporting Period are prepared in accordance with the China Accounting Standards for Business Enterprises, which are audited by BDO China Shu Lun Pan Certified Public Accountants LLP which had issued an standard and unqualified auditors’ report in respect thereof.
- 1.4** All the information required to be contained in the summary of the 2015 annual report of the Company pursuant to paragraph 45 of Appendix 16 to the Rules Governing the Listing of Securities on HKEx (the “Listing Rules”) will be published on the website of HKEx in due course.

## 1.5 Company Profile

Stock abbreviation:	BAIYUNSHAN
Stock code:	600332 (A Share)
Stock exchange:	The Shanghai Stock Exchange
Stock abbreviation:	BAIYUNSHAN PH
Stock code:	0874 (H Share)
Stock exchange:	The Stock Exchange of Hong Kong Limited

	<b>Secretary to the Board</b>	<b>Representative of securities affairs</b>
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## 1.6 Profit distribution plan or plan of carrying over reserved funds to equity shares during the Reporting Period as considered by the Board of Directors

As audited and confirmed by BDO CHINA SHU LUN PAN CERTIFIED PUBLIC ACCOUNTANTS LLP: the net profit attributable to the shareholders of the Group of 2015 amounted to RMB1,300,351,292.59. Based on the net profit of the Company of RMB1,150,350,559.84 in 2015, a 10% statutory surplus reserve in the amount of RMB115,035,055.98 is provided, with the addition of the undistributed profit carried over from last year in the amount of RMB2,275,474,523.03, and after reducing the cash dividends of 2014 by RMB361,575,382.00, the actual distributable profits amounted to RMB2,949,214,644.89.

The Company's application for non-public offering of A shares was approved by the Issuance Audit Committee of China Securities Regulatory Commission on 9 December 2015, but it has not yet obtained the offering approving document from CSRC. According to Article 18 of the Measures for Administration of Securities Issuance and Underwriting issued by China Securities Regulatory Commission (2015 Revision), listed companies shall not issue securities until implementation of profit distribution plan (if any) or plan (if any) of carrying over reserved funds to equity shares if such plan has not been submitted to general meeting of shareholders for a vote or has not been implemented after being voted by general meeting of shareholders. To avoid the impact of distribution of dividend on progress of the Company's non-public offering of A shares, the Board of Directors of the Company proposed: (1) not to distribute dividend for year 2015, nor carrying over reserved funds to equity shares; and (2) after completion of the non-public offering of A shares, the Company will consider a special dividend.

The profit distribution plan will be submitted to the 2015 Annual General Meeting for approval. The independent non-executive independent directors of the Company have expressed their independent opinions on aforesaid matters.

## 2 PROFILE OF THE MAIN BUSINESS OR PRODUCTS DURING THE REPORTING PERIOD

### (I) Main Business and Products

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

#### 1. *Great Southern TCM (pharmaceutical manufacturing business)*

There are 25 pharmaceutical manufacturing companies and organizations under the Company (including 3 branches, 18 subsidiaries and 4 joint ventures). The above enterprises or institutions are engaged in the R&D and manufacturing of Chinese patent medicine and western medicine, chemical raw materials, intermediates chemical raw materials, bio-medicine and natural medicine, etc..

- 1) The Group is an epitome of the southern TCM. The Company has 13 China time-honored brand enterprises such as Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd (“Zhong Yi”), Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Co., Ltd (“Chen Li Ji”), Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd (“Qi Xing”), Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd (“Jing Xiu Tang”), Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd (“Pan Gao Shou”), etc.(including subsidiaries and joint ventures), among which, 7 of them are century-old time-honored brand. It has 17 protected Chinese traditional medicine of national grade, and 97 exclusively made Chinese traditional medicine. Main products include Xiao Ke Pill, Hua Tuo Zai Zao Pill, compound Salvia Milltiorrhiz slice, Ban Lan Gen Granule, Qingkailing series, Zhui Feng Tou Gu Pill, An Gong Niu Huang pill, Zi Shen Yu Tai Pill, etc.. The Company has the obvious advantages in respect of TCM resources in Southern China and even the whole country.
- 2) The Group has a complete antibiotic production chain ranging from raw material medicine to preparation, with products covering commonly used antibiotic varieties. The Group integrated the antibiotic brands with the famous trademark “Kang Zhi Ba”, striving to make a market image with the first brand of oral antibacterial anti-inflammatory. The Group’s chemical medicine includes cefathiamidine, cefixime, amoxicillin and sildenafil citrate, etc..

#### 2. *Great Health Industry*

The Company and its joint ventures are mainly engaged in the R&D and manufacturing of beverage, food, healthcare product cosmeceuticals, etc., including the wholly-owned subsidiary, Guangzhou Wang Lao Ji Great Health Co., Ltd. (“Wang Lao Ji Great Health”) and the joint venture of the Company, Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd (“Wang Lao Ji Pharmaceutical”) and the main products include Wang Lao Ji Herbal Tea, bottled water, ganoderma spore oil capsules, lozenges, tortoise herb jelly, solid drink etc..

### 3. *Great Commerce (Pharmaceutical distribution business)*

The pharmaceutical distribution business of the Group and its joint ventures mainly includes the wholesale, retail, and import and export business of pharmaceutical products, medical equipment and healthcare products etc.. The wholesale business is carried out through the Company's joint venture, namely Guangzhou Pharmaceuticals Corporation ("GP Corp.") and its subsidiaries, namely Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. ("Cai Zhi Lin"), and Guangzhou Pharmaceutical Import & Export Company Limited ("Pharmaceutical Import & Export"). The retail business is carried out through Cai Zhi Lin pharmacy chains, Jian Min pharmacy chains and Ying Bang pharmacy, etc.. The GP Corp. is the largest pharmaceutical logistics company in Southern China as a distributor or an agent for pharmaceutical factories.

### 4. *Great Medical Care*

The Group promoted the industry investments in medical services, health management, health maintenance and elderly care etc., with Guangzhou Baiyunshan Medical and Healthcare Industry Investment Co., Ltd. ("Medical and Healthcare Industry Company") as the main investment body. At present, the Great Medical Care is still in the stage of preliminary layout.

The pharmaceutical manufacturing and trading operations of the Group have no obvious seasonality as they do not have any obvious periodic features. The Great Medical Care, with the characteristics and gift feature of its main product, namely Wang Lao Ji herbal tea, has certain seasonality as product demands relates to weather and holidays.

## **(II) Current development of the industry**

In recent years, with the increasingly intensified efforts in medicine bidding and medical insurance cost control, as well as the slowdown in GDP growth and the completion of full coverage in the medical insurance, the growth rate of the pharmaceutical industry has declined. The total industrial output value of medicines in 2015 was RMB2,521.8 billion, representing an increase of 13.1%, which declined by 5.7 percentage points as compared with the growth rate in 2013; the main business revenue achieved from the national scale plus pharmaceutical manufacturing industries in 2015 was RMB2,553.7 billion, representing an increase of 9.1%, which declined by 3.8 percentages in growth rate as compared with 2014; total profit amounted to RMB262.7 billion, representing an increase of 12.9%.

### **(III) Position of the Company in the Industry**

After years of development, the Company achieved the transition from Chinese patent medicine manufacturing and pharmaceutical trading to the whole industrial chain coverage of Chinese patent medicine, Chinese medicine herbal pieces, chemical raw materials, chemical raw materials intermediates, natural medicine, preparation, traditional Chinese medicine, biomedicine, great health products, pharmaceutical business as well as the health care. After years of development, the Group has a leading position in the fields of anti-bacterial and anti-inflammatory treatment, diabetes, cardiovascular treatment, digestive system, detoxification, andrology, pediatric drugs, etc., which has formed a relatively complete product distribution and product chain; thus occupying an important position in the segmentation markets of traditional Chinese medicine, chemical raw materials, chemical medicine preparation etc..

In 2012, the Company founded Wang Lao Ji Great Health. With “Wang Lao Ji” brand leading the great health industry of the Group’s, to open up new growth impetus and strategic space for the Group’s development. The recent years has witnessed the rapid growth in the great health industry of the Group. The main products, namely Wang Lao Ji herbal tea has occupied a leading position in the Chinese herbal tea market.

### 3. PRINCIPAL FINANCIAL DATA

#### 3.1 Principal financial data

Principal financial data	2015	2014		Year on year increase/ (decrease) (%)	2013		2012		2011	
		After restatement	Before restatement		After restatement	Before restatement	After restatement	Before restatement	After restatement	Before restatement
Income from operations (RMB'000)	19,124,658	18,818,232	18,799,881	1.63	17,628,142	17,608,193	12,081,764	12,062,642	8,887,967	8,869,704
Net profit attributable to the shareholders of the Company (RMB'000)	1,300,351	1,194,141	1,192,472	8.89	979,376	980,045	728,150	729,040	544,341	542,763
Net profit attributable to the shareholders of the Company after deducting non-recurring items (RMB'000)	1,128,765	1,092,530	1,112,771	3.32	873,052	891,802	687,910	706,882	495,909	509,456
Net cash flow from operating activities (RMB'000)	1,941,956	1,751,690	1,761,382	10.86	1,341,176	1,339,140	1,003,536	999,230	85,042	83,079
Total profit (RMB'000)	1,628,122	1,468,061	1,467,177	10.90	1,228,521	1,229,190	880,173	881,063	657,699	656,121

Principal financial data	As at 31 December 2015	As at 31 December 2014		Year on year increase/ (decrease) (%)	As at 31 December 2013		As at 31 December 2012		As at 31 December 2011	
		After restatement	Before restatement		After restatement	Before restatement	After restatement	Before restatement	After restatement	Before restatement
Net assets attributable to the shareholders of the Company (RMB'000)	8,450,814	7,705,137	7,739,301	9.68	6,795,505	6,831,768	5,530,786	5,566,352	4,909,310	4,943,960
Total assets (RMB'000)	15,870,577	14,266,903	14,210,784	11.24	12,321,777	12,249,123	9,482,369	9,394,208	7,835,431	7,742,904
Total liabilities (RMB'000)	7,186,644	6,344,908	6,251,805	13.27	5,335,803	5,226,886	3,761,972	3,638,244	2,753,328	2,626,151
Equity attributable to the shareholders of the Company per share (RMB)	6.55	5.97	5.99	9.70	5.26	5.29	4.39	4.41	3.89	3.92
Total equity (RMB'000)	1,291,079	1,291,341	1,291,341	(0.02)	1,291,341	1,291,341	1,261,240	1,261,240	1,261,240	1,261,240

*Note:* The Company acquired 100% equity interest in Guangzhou Pharmaceutical Research General Institute Co., Ltd (“Guangyao General Institute”) under the same parent company in the third quarter of 2015, and restated the previous financial statements in accordance with the accounting standards.

### 3.2 Principal financial indicators

Principal accounting data	2015	2014		Year on year increase/ (decrease) (%)	2013		2012		2011	
		After restatement	Before restatement		After restatement	Before restatement	After restatement	Before restatement	After restatement	Before restatement
Basic earnings per share (RMB)	1.007	0.925	0.923	8.91	0.767	0.768	0.577	0.578	0.432	0.430
Diluted earnings per share (RMB)	1.007	0.925	0.923	8.91	0.767	0.768	0.577	0.578	0.432	0.430
Basic earnings per share after deducting non-recurring items (RMB)	0.874	0.846	0.862	3.33	0.684	0.699	0.545	0.560	0.393	0.404
Weighted average return on net assets ratio (%)	15.91	16.48	16.38	with a decrease of 0.57 percentage point	15.70	15.71	13.87	13.89	11.71	11.50
Ratio of weighted return on net assets after deducting non-recurring items (%)	13.81	15.08	15.29	with a decrease of 1.27 percentage points	13.99	14.30	13.11	13.47	10.67	10.80
Return on total equity attributable to shareholders of the Company (%)	15.39	15.50	15.41	with a decrease of 0.11 percentage point	14.41	14.35	13.17	13.10	11.09	10.98
Ratio on total equity attributable to shareholders of the Company to total assets (%)	53.25	54.01	54.46	with a decrease of 0.76 percentage point	55.15	55.77	58.33	59.25	62.66	63.85
Gearing ratio (%) (note)	45.28	44.47	43.99	with an increase of 0.81 percentage point	43.30	42.67	39.67	38.73	35.14	33.92

Notes:

1. The above financial data and indicators are computed based on the consolidated financial statements.
2. Gearing ratio = Total liabilities ÷ Total assets × 100%
3. The Company acquired 100% equity interest in Guangyao General Institute under the same parent company in the third quarter of 2015, and restated the previous financial statements in accordance with the accounting standards.

### 4. QUARTERS' PRINCIPAL FINANCIAL DATA OF 2015

	The first quarter (January – March) (RMB'000)		The second quarter (April – June) (RMB'000)		The third quarter (July – September) (RMB'000)	The fourth quarter (October – December) (RMB'000)
	After restatement	Before restatement	After restatement	Before restatement		
Income from operations	4,733,064	4,730,148	5,746,283	5,742,008	4,591,467	4,053,844
Net profit attributable to the shareholders of the Company	364,306	365,128	410,671	409,896	185,024	340,350
Net profit attributable to the shareholders of the Company after deducting non-recurring items	352,790	354,418	415,220	415,378	192,601	168,154
Net cash flow from operating activities	243,682	238,588	1,033,439	1,034,733	327,294	337,542

Note: The Company acquired 100% equity interest in Guangyao General Institute under the same parent company in the third quarter of 2015, and restated the previous financial statements in accordance with the accounting standards.



## 5. PRINCIPLE FINANCIAL DATA AND CHANGES OF SHAREHOLDERS

### 5.1 The total number of shareholders and the top ten shareholders as at the end of the Reporting Period

**Total number of shareholders as at the end of the Reporting Period**      **64,601**      **Total number of shareholders as at 29 February 2015**      **67,032**

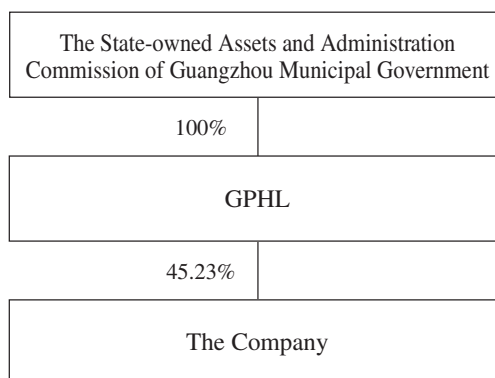
Shareholders	Information on the 10 largest shareholders					
	Increase/ (Decrease) during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Approximate percentage of the total issued share capital (%)	Number of shares subject to selling restrictions (share)	Number of shares pledged or locked (share)	Class of shares
Guangzhou Pharmaceutical Holdings Limited (“GPHL”)	(261,400)	583,966,636	45.23	34,839,645	Nil	Domestic shares
HKSCC Nominees Limited	52,000	219,611,479	17.01	Nil	Unknown	H shares
China Securities Finance Corporation Limited	23,779,677	33,721,611	2.61	Nil	Unknown	Domestic shares
Central Huijin Assets Management Co., Ltd.	15,260,700	15,260,700	1.18	Nil	Unknown	Domestic shares
The Industrial and Commercial Bank of China Co., Ltd. – Southern Consumption Vitality Flexibly Configured Mixed Initiate Securities Investment Funds	7,889,026	7,889,026	0.61	Nil	Unknown	Domestic shares
China Merchants Bank Company Limited – Hui Tian Fu Medical Service Flexibly Configured Mixed Securities Investment Funds	7,776,981	7,776,981	0.60	Nil	Unknown	Domestic shares
Agricultural bank of China Co., Ltd. – Fu Guo Zhong Zheng State-owned Enterprise Reform Index Classification Securities Investment Funds	6,880,821	6,880,821	0.53	Nil	Unknown	Domestic shares
New China life Insurance Co., Ltd. – Dividend – Group Dividends – 018L – FH001 HU	6,380,585	6,380,585	0.49	Nil	Unknown	Domestic shares
The National Social Security Fund – One Two Combination	5,000,000	5,000,000	0.39	Nil	Unknown	Domestic shares
Zhao Xuguang	(1,765,323)	4,968,494	0.38	Nil	47,500	Domestic shares



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

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

## **5.2 Relationship between the Company and its actual controller as at the end of the Reporting Period**



## **5.3 Purchase, sale or redemption of the Company’s shares by the Company or any of its subsidiaries during the Year**

As a follow-up matter of the major asset reorganization, GPLH performed its obligations under the Profit Compensation Agreement, the Company repurchased 261,400 A Shares from GPLH at the consideration of RMB1 and cancelled them thereafter on 24 April 2015. The Repurchased Shares had been transferred to the security account of the Company on 27 April 2015. Meanwhile, the Company had cancelled the Repurchased Shares at the Depository Corporation on 7 May 2015, cancelled the repurchase security account and dealt with the industry and commerce registration changes in a timely manner.

## **5.4 There has been no change in the controlling shareholder of the Company during the Reporting Period.**

## **5.5 Public float**

Based on the publicly available information and to the best knowledge of the board of directors of the Company (the “Director”), the Company has maintained sufficient public float as at the latest practicable date prior to the publication of this summary.

## **5.6 Pre-emptive rights**

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

## 6. REPORT OF THE DIRECTORS

### 6.1 Management Discussion and Analysis

#### 6.1.1 Analysis on Operation

In 2015, based on the main development concept of “Management Efficiency Year”, the Company endeavoured to make the strategic upgrade in four business segments namely “Great Southern TCM, Great Health, Great Commerce, and Great Medical Care” and make the strategic layout for three new businesses of “E-commerce, Capital Finance, and Medical Apparatus”, further strengthened the marketing, risk control, production quality, technological research and development, and capital operation, positively coped with the influence of increased macro-economic downward pressure, tighter medical industry policies, unchanged price reduction trend in the new round of bidding, increased medical insurance cost control strength and increasingly fierce market competition, and has further improved the scale and benefit.

In 2015, the Group’s revenue amounted to RMB19,124,658,000, increased by 1.63% year-on-year; the total profit was RMB1,628,122,000, increased by 10.90% year-on-year; and the net profit attributable to shareholders of the Company was RMB1,300,351,000, increased by 8.89% year-on-year.

During the Reporting Period, the Group accelerated the dual promotion of popularity and reputation of the band and product by strengthening brand building and charity academic marketing, combined with the activities such as the large series of charity activity “Chinese Sexological Science Popularization Project – Male’s Health in China” carried out around China’s first “Viagra” generic drug – Baiyunshan Jin Ge (Sildenafil Citrate Tablets) and Pan Gao Shou Pharmacy’s charity marketing of Mi Lian Chuan Bei Pi Pa Jelly to prevent and cure lung damage caused by PM2.5.

Secondly, the Group strengthened the bidding for the basic medicines, positively coped with the policies of basic medicine bidding and independent pricing cancellation, adopted the pattern of “One Province, One Policy”, implemented the low-price medicine policy and increased the tender price. During the Reporting Period, the Company and its subordinated enterprises had 24 products with the annual sales exceeding RMB100 million, 3 of which exceeded RMB500 million and 5 of which between RMB300 – 500 million.

Thirdly, the Group continuously developed the Great Health segment, focused on the three factors of “fashion, technology and cultures”, and constantly reinforced the status of Wang Lao Ji in the herbal tea industry. (1) Intensified the strategic layout nationwide and strengthened the construction of channels, with 90% distribution rate in traditional channels in 31 provinces of the country; (2) explored the overseas markets and achieved a breakthrough. The Group has explored markets in more than 50 countries and regions; (3) accomplished the legal rights protection and safeguarded rights and interests in order to safeguard the future development; (4) launched the “light-asset model” for capacity planning. The head office of Wang Lao Ji was officially located in Nansha Free Trade Area and Ya’an herbal tea production base was officially put into operation; the innovative industrial base integrating production, scientific research and culture was established in Taizhou of Jiangsu

Province and Yichang of Hubei Province; (5) accomplished culture and charity marketing. The Group tapped into the advantage of the rich history of Wang Lao Ji as the herbal tea creator and established its northern headquarter in Beijing. It also initiated an alliance with the Chinese Century-old Time-honored brand; the Wang Lao Ji Campus Development Fund was established to support the development of youth football. In the Customer Satisfaction Survey Report on the Food and Beverage Industry (Tea Beverage) in 2015, Wang Lao Ji Herbal Tea topped the beverage consumer satisfaction list for three consecutive years.

Fourthly, the Group continued promoting the Great Commerce segment, working on both online and offline. (1) Accelerated resources integration, strove for service improvement and optimized the business process to make steady growth of Great Commerce segment; (2) vigorously developed the e-commerce and the e-commerce platform had achieved a breakthrough. During the Reporting Period, the Group entered into strategic cooperation with Ali Health under Alibaba, signed contracts with Jointown Pharmaceutical Group Co., Ltd. and Saibolan Company to jointly build “Medical Cloud Business”; the website of Guang Yao Jian Min became the first medical insurance designated online drugstore realizing the payment without bank cards in China; and Jianmin Cross-border E-commerce was officially operated, attracted numerous international famous brands to settle down. (3) The modern medicine logistics extension project made substantial progress. During the Reporting Period, the GP Corp. had newly developed ten cooperation hospitals such as Nanfang Hospital and Guangdong Provincial Hospital of Traditional Chinese Medicine; Cai Zhi Lin entered into the logistics extension service cooperation intention with Guangzhou Baiyunshan Hospital and Community Service Center in Hualin Street, Liwan District. (4) Steadily promoted construction of the commercial logistics system, and the logistics distribution capacity has been further strengthened.

Fifthly, the Group actively explored the Great Medical Care business. Multiple projects including Baiyunshan Hospital Project, the project of Tibet Style Health Preservation Castle, and Siemens Cooperation Project have been started.

Sixthly, the Group vigorously promoted technological innovation, which had preliminarily reflected the effectiveness. (1) During the Reporting Period, the Group actively introduced the high-end talents, and built scientific research talent strategic cooperation relationship with the famous domestic universities to build talent cultivation channels; (2) increased the investment in science and technology to constantly support the “Great Southern TCM” Innovation Fund, and contributed RMB150 million to participate in the establishment of Guangzhou Sino-Israel Bio-Industry Investment Fund to lay a foundation for introduction of the Israeli Innovative Biological Medicine Project; (3) Preliminarily set up the concentrated, centralized and unified management platform for scientific research, with Guangyao General Institute as the subject; (4) Steadily promoted the major science and technology projects, and great achievements have been made. During the Reporting Period, 5 provincial enterprise engineering and technological research centers were added in a radicalized manner; 2 provincial enterprise technology centers were certified and 1 new research and development institution was certified by the provincial Science and Technology Department. The Group won 1 national science and technology award, 4 provincial science and technology awards and 5 prefectural science and technology awards.

### 6.1.2 Analysis of principal operations during the Reporting Period

Items	<b>The Reporting Period (RMB'000)</b>	The corresponding period of 2014 (RMB'000)	Increase/ (Decrease) over the same period of 2014 (%)
Revenue	19,124,658	18,818,232	1.63
Include: income from principal operations	18,966,492	18,627,322	1.82
Cost of sales	12,200,500	12,185,665	0.12
Include: cost from principal operations	12,165,563	12,147,803	0.15
Selling and distribution expenses	4,167,681	3,942,804	5.70
General and administrative expenses	1,374,806	1,291,532	6.45
Financial expenses	(21,938)	1,394	(1673.78)
The profit before tax	1,628,122	1,468,061	10.90
Net profit attributable to shareholders of the Company	1,300,351	1,194,141	8.89
Net cash flow from operating activities	1,941,956	1,751,690	10.86
Net cash flow from investing activities	(806,004)	(290,437)	(177.51)
Net cash flow from financing activities	(347,449)	(363,998)	4.55
Research and development expenses	315,736	279,286	13.05

*Notes:*

1. *The financial expenses decreased as compared with the corresponding period of last year was mainly due to the Group's subsidiaries reasonably allocated funds, made full use of idle funds, optimized the deposit types to make sharp increase in the come of interest.*
2. *Net cash flow from investing activities decreased as compared with the same period of last year, mainly because the Group enlarged external investments and optimized market deployment, and increased investments in production, construction of the research bases and production sites and equipment upgrading.*

1. Analysis of revenue and cost

a) Industry, product and regional analysis of the operation result

Operations	Results of principal operations on industry				Profit margin of principal operations	
	Income from principal operations		Cost of principal operations		Profit margin of principal operations	Increase/(Decrease) over 2014 (Percentage point)
	Income from principal operations	Increase/(Decrease) over 2014	Cost of principal operations	Increase/(Decrease) over 2014		
	(RMB'000)	(%)	(RMB'000)	(%)	(%)	
Great Southern TCM	6,759,160	(0.81)	3,746,800	(4.89)	44.57	With an increase of 2.38 Percentage points
Great Health	7,768,458	9.48	4,318,442	12.05	44.41	With a decrease of 1.27 Percentage points
Great Commerce	4,438,327	(5.88)	4,099,881	(5.82)	7.63	With a decrease of 0.06 Percentage point
Other	547	(64.62)	440	(65.03)	19.47	With an increase of 0.95 Percentage point
Total	18,966,492	1.82	12,165,563	0.15	35.86	With an increase of 1.07 Percentage points

Types of products	Results of principal operations on products				Profit margin of principal operations	
	Income from principal operations		Cost of principal operations		Profit margin of principal operations	Increase/(Decrease) over 2014 (Percentage point)
	Income from principal operations	Increase/(Decrease) over 2014	Cost of principal operations	Increase/(Decrease) over 2014		
	(RMB'000)	(%)	(RMB'000)	(%)	(%)	
Chinese patent medicine	3,226,648	(5.75)	1,700,393	(9.89)	47.30	With an increase of 2.42 Percentage points
Chemical medicine	3,532,512	4.17	2,046,407	(0.29)	42.07	With an increase of 2.59 Percentage points
Total of Great Southern TCM	6,759,160	(0.81)	3,746,800	(4.89)	44.57	With an increase of 2.38 Percentage points

Regions	Results of principal operations on regions				Profit margin of principal operations	
	Income from principal operations		Cost of principal operations		Profit margin of principal operations	Increase/(Decrease) over 2014 (Percentage point)
	Income from principal operations (RMB'000)	Increase/(Decrease) over 2014 (%)	Cost of principal operations (RMB'000)	Increase/(Decrease) over 2014 (%)		
Southern China	9,877,336	(1.59)	6,650,628	(3.93)	32.67	With an increase of 1.65 Percentage points
Eastern China	3,705,871	9.12	2,289,385	18.87	38.22	With a decrease of 5.07 Percentage points
Northern China	2,408,726	14.88	1,342,841	9.05	44.25	With an increase of 2.98 Percentage points
North-Eastern China	294,498	20.12	180,234	32.76	38.80	With a decrease of 5.82 Percentage points
South-Western China	1,993,507	21.93	1,239,776	21.87	37.81	With an increase of 0.03 Percentage point
North-Western China	487,747	(19.58)	272,581	(22.26)	44.11	With an increase of 1.92 Percentage points
Exports	198,807	(67.48)	190,118	(66.30)	4.37	With a decrease of 3.35 Percentage points

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

b) Analysis of production and sales

Main products	Production	Sales	Inventory	Production increase/ (decrease) over last year (%)	Sales increase/ (decrease) over last year (%)	Inventory increase/ (decrease) over last year (%)
Xiao Ke Pill (ten thousand bottles)	4,094	3,784	565.95	(11.11)	(11.64)	56.14
Qing Kai Ling Granules (ten thousand packs)	45,447	45,233	3,445	0.00	7.00	7.00
Cephathiamidine for Injection (ten thousand bottles)	2,459	2,445	256	10.00	5.80	3.40
Cefixime Capsules (ten thousand bits)	10,974	11,241	132	(8.11)	(1.92)	(79.58)
Cefixime Granules (ten thousand packs)	12,396	12,622	956	8.16	9.34	(36.28)
Sildenafil Citrate Tablets (ten thousand tablets)	1,589	1,495	45	351.38	412.09	33.92
Xiao Chai Hu Granules (ten thousand packs)	31,719	29,679	41,725	(11.10)	(11.53)	46.14
Amoxicillin capsules (ten thousand bits)	128,565	117,517	31,867	(14.31)	(17.27)	47.19
Ke Te Ling capsules (ten thousand bits)	113,744	113,744	0	(14.32)	(21.45)	0
Paracetamol Caffeine and Aspirin Powder (ten thousand packs)	2,283	2,272	1,381	0.42	0.00	21.56

Description on changes of production, sales and ending inventory of products:

1. The ending inventory of Xiao Ke Wan increased by 56.14% year on year, which was mainly because that sale of Xiao Ke Wan was lower than its production as a result of price rise, which caused the increase in ending inventory of Xiao Ke Wan.
2. The ending inventories of cefixime Capsules and cefixime granules decreased by 79.58% and 36.28% year on year respectively, mainly because the manufacturing enterprise of such products strengthened product validity management, optimized channel inventories, and appropriately controlled inventory of the products.



3. The production of Sildenafil Citrate Tablets increased by 351.38% year on year, and its sales increased by 412.09% year on year, mainly because the product recorded a low base in 2014 as it went on sale in October 2014. The ending inventory of Sildenafil Citrate Tablets increased by 33.92% year on year, mainly because its normal stock increased following the increase in its production and sales, as compared with a small production and sales in 2014.
4. The ending inventory of Xiao Chai Hu granules increased by 46.14% year on year, and the ending inventory of amoxil capsules increased by 46.14% year on year, mainly because the manufacturing enterprise of the products appropriately increased their inventories to ensure the normal sales of the products, which caused the ending inventories to increase accordingly.

c) Analysis of cost

Principal operation	Items of constitute	Results on industry		2014		Percentage of changes in the proportion (%)
		2015		Amount (RMB'000)	Percentage of the proportion of operation (%)	
		Amount (RMB'000)	Percentage of the proportion of operation (%)			
Great Southern TCM	Raw materials	2,564,685	68.45	2,733,187	69.38	(6.17)
	Fuel	94,419	2.52	104,001	2.64	(9.21)
	Labor costs	270,894	7.23	279,001	7.10	(3.15)
	Others	816,802	21.80	822,556	20.88	(0.70)
Great Health	Raw materials	3,410,274	78.97	3,069,748	79.65	11.09
	Fuel	3,455	0.08	—	—	—
	Labor costs	4,318	0.10	—	—	—
	Others	900,395	20.85	784,299	20.35	14.80
Great Commerce	Procurement costs	4,099,881	100.00	4,353,052	100.00	(5.82)
Other	Other costs	440	100.00	1,259	100.00	(65.03)

2. Expenses

During the Reporting Period, the Group's selling and distribution expenses was approximately RMB4,167,681,000 with a growth of 5.70% as compared with last year, mainly due to the Group's active marketing efforts to increase sales revenue in the Year. Sales associated expenses and other expenses increased during the Year.

During the Reporting Period, the Group's general and administrative expenses was approximately RMB1,374,806,000, representing a growth of 6.45% as compared with last year, mainly due to the increase in sales revenue, remuneration of the employees, research and development expenses of the Group following its sales growth.

During the Reporting Period, the Group's financial expense was approximately minus RMB21,938,000, representing a decrease of 1,673.78% as compared with last year, mainly due to: the subsidiaries of the Company had a great increase in interest income through allocated funds accordingly and improved efficiency of operating funds.

During the Reporting Period, the Group's income tax expenses was approximately RMB282,835,000, with a growth of 10.25% as compared with last year, mainly due to the increase in profit of the Company's subsidiaries.

3. Research and development expenses

Current cost of research and development expenses ( <i>RMB'000</i> )	313,848
Current capitalization of research and development expenses ( <i>RMB'000</i> )	1,888
Total research and development expenses ( <i>RMB'000</i> )	315,736
Ratio of total research and development expenses to net assets (%)	3.64
Ratio of research and development expenses to total operating income (%)	1.65
Ratio of research and development expenses to income from principal operations of the Great Southern TCM (%)	4.67

#### 4. Cash flow

Items	The Reporting Period (RMB'000)	The corresponding period of 2014 (RMB'000)	Increase/ (Decrease) as The compare with the same period of 2014 (%)	Reason
Net cash flow from operating activities	1,941,956	1,751,690	10.86	Increase was mainly due to that the Group actively developed high quality suppliers, obtained more favourable credit policy and received government support funds and subsidies during the Reporting Period.
Net cash flow from investing activities	(806,004)	(290,437)	(177.51)	During the Reporting Period, the Group strengthened its investment and merger business, and increased its injection into construction of production and R & D bases, production sites and equipment upgrading.
Net cash flow from financing activities	(347,449)	(363,998)	4.55	The Company paid special dividend for year 2013 in 2014.

## 6.2 Analysis of financial conditions

### A. Liquidity

As at 31 December 2015, the current ratio of the Group was 1.44 (31 December 2014: 1.47), and its quick ratio was 1.06 (31 December 2014: 1.04). Accounts receivable turnover rate was 20.41 times, representing a decrease of 3.61% as compared with 2014. Inventory turnover rate was 4.69 times, representing a decrease of 5.70% as compared with 2014.

### B. Financial resources

As at 31 December 2015, cash and cash equivalents of the Group amounted to RMB3,837,604,000 (2014: RMB3,049,529,000), of which approximately 99.32% and 0.68% were denominated in Renminbi and foreign currencies, like Hong Kong dollar, respectively.

As at 31 December 2015, the Group had bank borrowings of RMB669,439,000 (31 December 2014: RMB560,530,000), including short-term borrowings of RMB629,684,000 (31 December 2014: RMB560,530,000) and long-term borrowings of RMB39,755,000 (31 December 2014: Nil).

C. *Capital structure*

As at 31 December 2015, the Group's current liabilities amounted to RMB6,828,500,000 (31 December 2014: RMB6,078,824,000), representing an increase of 12.33% as compared with 2014, and its long-term liabilities was RMB358,144,000 (31 December 2014: RMB266,085,000), with an increase of 34.60% as compared with 2014. The shareholders' equity attributable to the shareholders of the Company amounted to RMB8,450,814,000 (31 December 2014: RMB7,705,137,000), with an increase of 9.68% as compared with 2014.

D. *Capital expenditure*

The Group expects that the capital expenditure for 2016 to be approximately RMB907 million (2015: RMB593 million), which would be mainly applied in construction of production sites, and information system construction, etc.. The Group will raise funds to meet the capital requirements of capital expenditure by resorting to its internal funds, bank loans, etc.

E. *Assets and liabilities*

Item	As at 31 December 2015 (RMB'000)	% of the total assets	As at 31 December 2014 (RMB'000)	% of the total assets	Increase/ (Decrease) over the end of 2014 (%)	Reason of changes
Financial assets measured at fair value and change of which recognized profit or loss	6,500	0.04	4,686	0.03	38.71	The increase was due to price rise in shares of Zhong Zhi and Ha Yao held by the Company.
Other receivables	209,264	1.32	306,793	2.15	(31.79)	The decrease was mainly due to the decrease in cash deposits of the Group at 31 December 2015.
Other current assets	108,318	0.68	20,082	0.14	439.37	As at 31 December 2015, the VAT input tax without deduction of the Group increased.
Available-for-sale financial assets	328,372	2.07	133,964	0.94	145.12	The increase was mainly due to the investment in Chongqing Pharmaceutical and Chuangmei Pharmaceutical by the Company.

Item	As at 31 December 2015 (RMB'000)	% of the total assets	As at 31 December 2014 (RMB'000)	% of the total assets	Increase/ (Decrease) over the end of 2014 (%)	Reason of changes
Intangible assets	540,175	3.40	395,202	2.77	36.68	The increase was mainly due to the Company's acquisition of land use rights of Guangyao General Institute and lands purchased by the Company's subsidiaries.
Goodwill	2,283	0.01	0	0.00	–	It was due to the difference between the fair value and the cost of the purchase of equity interest in Guangzhou Pharmaceutical Haima Brands Integration and Communication Co., Ltd (“Guangyao Hima”).
Long-term prepaid expenses	24,112	0.15	10,333	0.07	133.35	As at 31 December 2015, the renovation costs from the subsidies of the Company increased.
Taxes payable	74,514	0.47	176,729	1.24	(57.84)	As at 31 December 2015, the decrease was mainly due to the decrease in the enterprise income tax which had not been paid by the Group.
Interests payable	360	0.00	237	0.00	51.96	As at 31 December 2015, the increase was mainly due to the increase in interest which had not been paid by the Group.
Long-term borrowings	39,755	0.25	0	0.00	–	As at 31 December 2015, the increase was mainly due to the increase in bank loans of the subsidiaries of the Company.

Item	As at		As at		Increase/ (Decrease) over the end of 2014 (%)	Reason of changes
	31 December 2015 (RMB'000)	% of the total assets	31 December 2014 (RMB'000)	% of the total assets		
Deferred tax liabilities	29,064	0.18	15,500	0.11	87.51	As at 31 December 2015, it is mainly due to the increase in the difference of the income tax payable in the future.
Other comprehensive income	(733)	0.00	11,901	0.08	(106.16)	As at 31 December 2015, the decrease was mainly due to the fall in the price of the available-for-sale financial assets of the Group.

*F. Exposure to fluctuations in exchange rates*

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

*G. Main cash resources and applications*

As at 31 December 2015, cash and cash equivalents of the Group were amounted to RMB3,837,604,000 with an increase of RMB788,075,000 as compared with the beginning of 2015. The net cash inflow derived from operating activities amounted to RMB1,941,956,000, with an increase of RMB190,266,000 as compared with 2014. The increase was mainly due to the Group actively developed high quality suppliers, achieved good commercial credit policy, and received government support funds and subsidies.

*H. Contingent liabilities*

As at 31 December 2015, the Group had no material contingent liabilities.

*I. Charge on the Group's assets*

As at 31 December 2015, Guangyao Baiyunshan Hong Kong Company Limited, a wholly-owned subsidiary of the Company, had a general banking facility of HK\$300,000, a letter of credit and a letter of trust with total limit of HK\$100,000,000 and drew up an unearned credit with US\$232,000 granted by Bank of China (Hong Kong) Limited with a charge over its fixed assets, properties and buildings with original value of HK\$8,893,000 and net value of HK\$6,473,000 and investment properties with original value of HK\$6,843,000 and net value of HK\$3,993,000.

*J. Bank loans, overdraft and other borrowings*

As at 31 December 2015, the bank loans of the Group amounted to RMB669,439,000 (31 December 2014: RMB560,530,000), with an increase of RMB108,909,000 as compared with the beginning of 2015. The above bank loans included short-term loans of RMB629,684,000 and long-term loans of RMB39,755,000.

*K. Gearing ratio*

As at 31 December 2015, the Group's gearing ratio (total liabilities/total assets×100%) was 45.28% (31 December 2014: 44.47%).

*L. Material investment*

As at 31 December 2015, the Group did not have any other material additional investment.

### 6.3 Employees

*A. Employees*

Numbers of the employees of the headquarter	175
Numbers of the employees of the major subsidiaries	14,721
Total	14,896
Retired employees of the Company and subsidiaries whose expenses were assumed by the Company and major subsidiaries	10,975
Gross payroll of the Group	RMB1,315 million

#### Profession composition

Category	Number
Production staff	4,942
Sales personnel	5,135
Technical staff	2,245
Finance staff	443
Administrative staff	2,131
Total	14,896

#### Educational Level

Category	Number
Graduate	380
Post-Bachelor	4,337
Junior college	4,140
Secondary and below	6,039
Total	14,896



## *B. Remuneration policy*

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

The Group realized the great importance to improving the overall quality of its staff and has formulated various plans for talent training, thereby constantly enhancing corporate management standards and market competitiveness. In 2015, the Group carried out relevant training in accordance with the integrated management system and ensured the normal operation of various systems as required.

## *C. Training plans*

In 2016, the Group will, on the basis of "talent upgrading" strategy, carry out more training in respect of knowledge, skill and professional ability for the staff to constantly enhance their comprehensive quality and operational ability, so as to consolidate the talent base for the Group to achieve transformation and upgrading. Firstly, the Group will focus on corporate need and carry out training respectively for senior management talents and various types of professional talents. Secondly, the Group will train all staff and carry out pre-job training for college graduates to stimulate a positive and initiative working attitude of the staff and team work spirit. Thirdly, the Group will raise the integrated quality of its internal trainer team and build a continuing education platform for professionals to promote staff development through multiple channels.

## **6.4 Discussion and analysis on future development**

### *(I) Competition within and development trend of the industry*

As a sunrise industry, the biological medical health industry is embracing the era which offers favorable opportunities for strategic development. "Healthy China" is a concept which has been elevated to the level of national strategy, and has been listed in the National "Thirteenth Five Year Plan" and the Government Work Report of the State Council. In the Made in China 2025, the Chinese version of "Industry 4.0" planning, "biopharmaceutics" and "high-performance medical apparatus" is listed as one of the ten major areas for focused development in the next decade. In the next five years, the Group will be exposed to various opportunities such as acceleration of aging of the population, the national initiative of smart manufacturing, relevant policies encouraging the operation of non-public hospitals, promoting nationwide coverage of medical insurance, fueling the development of TCM, as well as the two children policy, further reform of state-owned enterprises, and huge potential of the online pharmacy and healthcare industry.

(II) *Development strategy and annual work plan for year 2016*

Year 2016 has been marked as “the year of quality enhancement of enterprises” of the Group. The Group will commit to further promoting the “upgrade of the three major areas”, namely industrial upgrade, asset upgrade and talents upgrade. Such upgrade will be achieved by adhering to the three main lines of action, namely scientific management, risk control and driving force of innovation, as well as through dedicated efforts to strengthen the Group’s capacity in product competitiveness, production and operational capacity, independent innovation capacity, fundamental management, talent management and organization capacity, global market expansion capacity as well as overall quality of our staff, etc. The Group will also endeavor to optimize “Great Southern TCM” and “Great Health”, reinforce “Great Commerce” and “Great Medicare”, expand the e-commerce, capital finance and medical apparatus segments, while promoting various key projects in a highly efficient manner, thus achieving the stable, healthy and rapid development of the operation of the Group.

In year 2016, the principal tasks of the Group include:

1. Revitalizing the “Great Southern TCM”: to further promote the integration of the sales resources of some pharmaceutical manufacturing companies, deepen the operation model of “industrial operation + commercial platform” of industrial and commercial enterprises, and forge the marketing advantage of the “Great Southern TCM” segment; to develop main products and revitalize dormant products, as well as actively foster main pharmaceutical products with market potential and strategic prospect; to further streamline the distribution of production capacity and strengthen the coordination and management of the overall production capacity development of the Group; to focus on the development of our TCM business, and reinforce the implementation of the Group’s branding strategy.
2. Developing “Great Health”: to build the global image of Wang Lao Ji based on the principle of “focusing, improving”, strengthen the establishment of channels, while focusing on promoting the sales through catering and other channels; to accelerate the establishment of market presence of Wang Lao Ji in Southeast Asia, take an active approach in the development of overseas sample market; to integrate the “Great Health” business of the Group, and make efforts to facilitate the coordinated development of the “Great Health” segment; to actively develop the “Great Health” product cluster, and materialize the “Great Health” product cluster featuring single core and diversified portfolio.
3. Upgrading “Great Commerce”: to accelerate the deep integration with the “Internet+”; to stimulate the wide coverage of the extended service of modern hospital logistics; to speed up the horizontal expansion of the terminal network; to advance the multi-dimensional construction of modern logistics.
4. Expanding “Great Medical Care”: to upgrade the Baiyunshan Hospital based on scientific planning; to step up our efforts in external collaboration and introduction of teams, with the aim of consolidating the base for the development of various segments; to explore effective approach to the gradual development of health nursing industry; to boost the industry of medical apparatus to enhance the Group’s strength in the industry and increase the share of medical apparatus products.

5. Capital operation: to complete the private placement and the employee stock ownership plan to fuel the appreciation of the capital assets; to continue to proceed with the investment and merger and acquisition of the four major segments, and set up scientific investment management system.
6. Science and technology enhancement: to establish the integrated innovation platform of the Group by following the main guideline of “integration”; to materialize a series of major project for scientific research and innovation with the benefits of “cooperation”; to enhance the level of management quality by leveraging on “management”.
7. Refinement of management: to strength the standardized management, lean management, integrated management and informationized management to enhance corporate governance and reduce operational costs.
8. Going global: to facilitate the development of the industry by promoting the export of industrial, capital and cultural elements.
9. Innovation and entrepreneurship: to establishing “innovation + entrepreneurship” demonstration base; to explore the development model of innovation and entrepreneurship, such as equity participation of operators, internal crowd-funding, with a view to injecting new momentum to the development of the company; to speed up the establishment of system for internal innovation and entrepreneurship to ensure the smooth operation of in-house innovation and entrepreneurship efforts.

*(III) Potential challenges and risks*

Potential challenges and risks that the Group faces include: (1) the global economy is expected to deliver sluggish performance, while the national economy will enter into the new normal state, which will be accompanied by the volatility of the capital market; (2) the overall growth rate of the pharmaceutical and healthcare industry will see further slowdown due to a number of factors, such as more restriction on spending of medical insurance, reform on tendering policies, more stringent regulation on the approval of new drugs, and the separation of medical consultation and drug dispensary, etc.; (3) the over-capacity and high level of inventory in the society lead to continuous fall in the prices of industrial products; (4) intensification of competition within the industry as a result of the growing trend of profound mergence of industrial capital and cross-industry expansion, as well as the rising competition as a result of pharmaceutical enterprises and non-pharmaceutical enterprises tapping into the healthcare industry; (5) continuous decrease in the purchasing power of consumers, and the stalling of growth momentum in consumer products.

## **7 OTHER MATTERS**

### **7.1 Corporate Governance**

During the Reporting Period, the Company complied with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules (“CG Code”) and the code provisions of the CG Code except that (i) Ms. Cheng Ning and Ms. Liu Juyan, executive directors of the Company, and Mr. Chu Xiaoping, an independent non-executive director, were

unable to attend the annual general meeting in 2014 due to business which constituted deviation from code provision A.6.7, and (ii) an independent non-executive director, namely Mr. Wong Lung Tak Patrick, was unable to attend the extraordinary general meeting in 2015 due to business which constituted a deviation from code provision A.6.7.

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

## **7.2 The Audit Committee**

In August 1999, the Company established the Audit Committee. Its principal responsibilities include: to review and monitor the quality and procedure of the Group's financial reporting; to review and examine the Company's financial control, internal control system, internal audit, risk management system and their implementations; to consider the appointment of independent auditors and to co-ordinate relevant matters and to review the efficiency and quality of their work.

The Audit Committee of the sixth session of the Board was established on 28 January 2014, comprised Mr. Wong Lung Tak Patrick (chairman of the Audit Committee), Mr. Qiu Hongzhong, Mr. Fang Shuting and Mr. Chu Xiaoping. On 17 March 2015, Mr. Jiang Wenqi was approved to be the member of Audit Committee instead of Mr. Fang Shuting at the 9th meeting of the sixth session of the Board. Currently, the Audit Committee comprised of Mr. Wong Lung Tak Patrick (chairman of the Audit Committee), Mr. Qiu Hongzhong, Mr. Chu Xiaoping and Mr. Jiang Wenqi. All four of them were independent non-executive Directors and were qualified under the relevant requirements. The term of office of the members of Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong and Mr. Chu Xiaoping commenced from 28 January 2014 to the date of election of the new session of the Board and the term of office of Mr. Jiang Wenqi was from 17 March 2015 up to the date on which members of the new session of the Board are elected.

Major tasks accomplished by the Audit Committee in 2015 include:

- (A) held two meetings in 2015 to review the 2014 Annual Report and 2015 Interim Report of the Group as well as the recommendations on management issued by external auditors and the respective response by the Company's management. Each of the members of the committee attended all the meetings;
- (B) reviewed the accounting policies adopted by the Group and the relevant issues regarding accounting practice;
- (C) advised the Board for the re-appointment of auditing firm for the year;
- (D) advised the Company on major events of the Company or reminding the management of relevant risks.

The works on the annual audit for 2015 and relevant jobs regarding the preparation of the Annual Report are as follows:

In accordance with the issue of the “Notice on preparation of the 2015 Annual Report in an orderly manner by Listed Companies” by the SSE on 31 December 2015, all members of the Audit Committee reviewed the relevant requirements seriously. The Audit Committee actively coordinate with the Company in respect of the audit for 2015 and the preparation of the annual report for 2015 in pursuance of the Rules on the Annual Report of the Audit Committee, including:

- (A) the Committee negotiated with the auditors of the Company and the Company’s Finance Department regarding the time line for audit and the relevant arrangements and set out the “Action plan for the Preparation of 2015 Annual Report” and reviewed the audit plan submitted by the auditors.
- (B) On 16 March 2016, the Audit Committee reviewed the draft of the financial reports prepared by the Company and issued written recommendations thereon.
- (C) After the auditors’ completion of the preliminary auditing work, the Audit Committee reviewed the financial reports again and issued written recommendations regarding the audit work. The Audit Committee believed that the 2015 financial reports of the Company reflected the state of affairs of the Company truly, accurately and fairly, and agreed to submit the reports to the Board for approval.
- (D) On 18 March 2016, the Audit Committee convened the first meeting in 2016 and considered and passed the 2015 Annual Report and its summary of the Company and the Company’s 2015 Financial Report. At the same time, the Audit Committee finalized its evaluation on the audit work of the auditor and believes that the auditor has carried out the audit work for the Company with cautious, independent and objective standards, and managed to abide by their professional work ethics, followed closely the auditing regulations, fulfilled their auditing responsibilities and submitted the auditors’ report in time, as well as having issued fair and unbiased management recommendations to the management of the Company, and completed the audit work satisfactorily.

### **7.3 The Group’s purchase and disposal of assets, enterprise merger and acquisitions and other transactions during the Reporting Period**

- (1) As approved at the 23th meeting of the fifth session of the Board, Wang Lao Ji Great Health, a wholly-owned subsidiary of the Company, proposed to establish Wang Lao Ji herbal tea production base in Ya’an, Si Chuan province to offer more jobs opportunities, the total investment of the project was expected to be RMB298 million for the construction of two canning production lines. The project had succeeded in production line debugging as planned on 20 April 2015 and entered the stage of quantity production. At present, the project is at the stage of auditing in relation to its completion and it’s expected to complete before late October 2016.

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



- (2) As approved at the 4th meeting of the Strategic Development and Investment Committee in 2014, Wang Lao Ji Great Health, the wholly-owned subsidiary of the Company and Murad Biotechnology Group Ltd. (穆拉德生物科技集團有限公司) established a joint venture, Guangzhou WLJ Murad Biotechnology Co., Ltd. (廣州王老吉穆拉德生物科技股份有限公司) (the “Joint Venture”) with 50% equity interest each. Wang Lao Ji Great Health would make a contribution of RMB5 million in cash. The transaction mentioned above is in progress.
- (3) As approved at the 1st meeting of the Strategic Development and Investment Committee in 2015, Guangyao Baiyunshan Hong Kong Company would acquire 25% equity interest of Qi Xing, a wholly-owned subsidiary of the Company, held by Guangyong Financial Co., Ltd. through transfer agreement. The transaction mentioned above has been completed.
- (4) As approved at the 1st meeting of the Strategic Development and Investment Committee in 2015, the Company made additional capital injection of RMB10 million to Medical and Healthcare Industry Company, a wholly-owned subsidiary of the Company. The registered capital of which had been increased from RMB10 million to RMB20 million after the capital injection. The capital injection mentioned above has been completed.
- (5) At the 2nd meeting of the Strategic Development and Investment Committee in 2015, the resolution on the additional capital injection from the Company to Wang Lao Ji Great Health and the establishment of Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. (“Nansha Subsidiary”) were approved. After the capital injection, the registered capital of Wang Lao Ji Great Health would increase from RMB10 million to RMB100 million. The registered capital of the newly established Nansha Subsidiary is RMB10 million. Wang Lao Ji Great Health held 100% equity interest of that company. At present, the transactions mentioned above have been completed.
- (6) As approved at the 3rd meeting of the Strategic Development and Investment Committee in 2015, Medical and Healthcare Industry Company, a wholly-owned subsidiary of the Company, would acquire equity interest in Baiyunshan Hospital by way of contributing RMB46.5 million in cash into Baiyunshan Hospital and would hold 51% equity interest thereafter. At present, the transaction mentioned above have been completed.
- (7) As approved at the 4th meeting of the Strategic Development and Investment Committee in 2015, the Company contributed RMB25 million in cash as registered capital to Medical and Healthcare Industry Company. Upon completion of the capital injection, the registered capital of Medical and Healthcare Industry Company had increased from RMB20 million to RMB45 million. The transaction mentioned above has been completed.
- (8) According to the arrangements of the industrial structure adjustment, 11 enterprises under the Company plan to relocate to the Baiyun base in the Biological Medicine Town of Guangzhou Pharmaceutical Group (“Baiyun base”), which covers a gross area of about 2,460 mu (of which an area of about 2,000 mu meets land planning requirements). The government of Baiyun district will provide integrated land plots for industrial use in four phases within the Guangzhou Pharmaceutical Industry Zone. A total land area of 474.41 mu (of which an area of 303.09 mu can be used for construction) will be provided in the first phase.

Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd, Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd, Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd and GP Corp., subordinated enterprises of the Company, have obtained the land use rights of the land available for construction (303 mu) in the first phase, with a total land bidding price of about RMB221.29 million. At present, the relevant work mentioned above is currently in progress.

- (9) As approved at the 5th meeting of the Strategic Development and Investment Committee in 2015, the Company participated in the subscription of 10 million private share placement of Chongqing Pharmaceutical (Group) Co., Ltd. as a strategic investor at the price of RMB15 per share. The subscription amount is RMB150 million in total, and the Company will hold 2.18% equity interest of Chongqing Medicines. The final shareholding will be subject to the ratio calculated on the basis of the actual paid equity upon the completion of the capital increase of Chongqing Medicines. At present, the transaction mentioned above has been completed. The Company holds 2.22% equity interest in Chongqing Medicines with an capital injection of RMB150 million.
- (10) As approved at the 6th Strategic Development and Investment Committee Meeting of the Company in 2015, the Company increased RMB46,500,000 as registration capital in Medical and Healthcare Industry Company for the investment and construction of Baiyunshan Hospital. The above capital increase has been completed.
- (11) As approved by the 15th meeting of the six session of the Board of Directors, the Company proposed to set up a cooperative company (“Cooperative Company”) with Hygiene and Family Planning Commission of Jining (濟寧市衛生和計劃生育委員會), Shenzhen Costone Ventures Investment Management Company Limited\* (深圳市基石創業投資管理有限公司) and the Management Committee of the High and New Technology Industry Development Zone of Jining\* (濟寧高新技術●業開發區管理委員會), which will act as the main body to carry out investment in hospitals and take part in the construction, operation and management therein. According to the Framework Agreement entered into by all parties, the Company intended to invest in cash of RMB100 million into the Cooperative Company, and was expected to hold 33% equity interest therein. For details, please refer to the announcements dated 20 August 2015, which were published by the Company in Shanghai Securities News, Securities Times, China Securities Journal, Securities Daily and on the websites of SSE and HKEx.
- (12) As approved at the 7th Strategic Development and Investment Committee Meeting of the Company in 2015, the Company invested RMB150,000,000 to subscribe LP Shares in Guangzhou Sino-Israeli Bio-Industry Investment Fund (or other names approved by the industrial and commercial administrative department) (the “Sino-Israeli Fund”) and contributed RMB500,000 (representing 10%) to the establishment of Guangzhou Elim Biotech Industrial Venture Capital Management Company, the ordinary partner of the Sino-Israeli Fund. For more details, please refer to the announcement published by the Company in Shanghai Securities News, Securities Times, China Securities journal, Securities Daily and on the website of the SSE and HKEx on 29 October 2015. Currently, such matters are in progress.



- (13) As approved at the 8th Strategic Development and Investment Committee Meeting of the Company in 2015, Cai Zhi Lin, a wholly-owned subsidiary of the Company, increased capital of RMB19,199,000 in cash to its wholly-owned enterprise Guangzhou Medicine Company Chinese Medicine Yin Pian Factory. After the capital increase, the registration capital of Guangzhou Medicine Company Chinese Medicine Yin Pian Factory will increase to RMB20,000,000. Currently, the aforesaid matter is in progress.
- (14) As approved at the 8th Strategic Development and Investment Committee Meeting of the Company in 2015, the Company injected capital in Guangyao General Institute in the amount of RMB70,000,000 in cash, of which RMB32,335,378.89 was accounted into paid in capital, and the remaining RMB37,664,622.11 was accounted into capital reserve. After the capital increase, the registered capital of Guangyao General Institute had increased to RMB80,000,000. The aforesaid matter have been completed.
- (15) As approved at the 9th Strategic Development and Investment Committee Meeting of the Company in 2015, Guangyao Baiyunshan Hongkong Company, a wholly-owned subsidiary of the Company, as a cornerstone investor, subscribed for 7,906,500 H Shares of Chuangmei Pharmaceutical listed in Hongkong by initial offer at a price of HK\$68,691,100, representing 7.3% of the share equity of Chuangmei Pharmaceutical after public offer. For more details, please refer to the announcements published by the Company in Shanghai Securities News, Securities Times, China Securities journal, Securities Daily and on the website of the SSE and HKEx on 11 December 2015.
- (16) As approved at the 11th Strategic Development and Investment Committee Meeting of the Company in 2015, the capital of HK\$177,500,000 or the equivalent amount of RMB was injected to Guangyao Baiyunshan Hongkong Company by the Company, which could be paid by installment. Currently, such capital increase is in progress.

#### **7.4 Explanatory notes on other major events**

Trading in the shares of the Company was suspended from 3 December 2014 to 12 January 2015 for the preparation of non-public issue of shares. On 12 January 2015, the Board approved the proposed placing at the 7th meeting of the sixth session of the Board, pursuant to which the Company proposed to issue no more than 419,463,087 new A Shares to 5 subscribers in total, being GPHL, Guangzhou State-owned Asset Development Holdings Limited\* (廣州國資發展控股有限公司), Guangzhou China Life Insurance Urban Development Industry Investment Enterprises (Limited Partnership)\* (廣州國壽城市發展產業投資企業), Shanghai Yunfeng Xinchuang Investment Management Company Limited\* (上海雲峰創新投資管理有限公司) and China Universal Asset Management Company Limited\* (匯添富基金管理股份有限公司) (as trustee of the Employee Stock Trust) at the subscription price of RMB23.84 per new A Share, representing a maximum amount of gross proceeds of approximately RMB10,000 million (the“Proposed Placing”).

As GPHL, the controlling shareholder of the Company, holding 45.23% of the total share capital of the Company, is regarded as a connected person of the Company, the Proposed Placing constituted connected transactions under Chapter 14A of the Listing Rules of HKEx.

The Proposed Placing was approved by independent shareholders at by poll at the first extraordinary general meeting, the general meeting of holders of A shares and general meeting of holders of H shares held on 13 March 2015. For details of the Proposed Placing, please refer to the announcements of the Company dated 12 January 2015, 17 March 2015 and circulars dated 26 February 2015 and 16 February 2016.

As approved by the 20th meeting of the sixth session of the Board, the Company respectively convened the first extraordinary general meeting, the general meeting of holders of A shares and general meeting of holders of H Shares for approving the resolution on the extension of the effective period of the Proposed Placing and the authorization on 10 March 2016, due to the reasons that the Company has not yet received written approval document(s) of the Proposed Placing from the CSRC, the implementation will take some time even after the Company has received the written approval document(s) and the effective period of the Shareholders' resolutions for the Proposed Placing will be expired. The resolution on the extension of the effective period of the Proposed Placing and the authorization have been approved at such general meetings. Except for the extension of the effective period, the contents of the former plan and authorization of the Proposed Placing remain unchanged.

For details, please refer to the announcement of the Company dated 15 January 2016 published in Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報), Securities Daily (證券日報), and on the website of the SSE ([www.sse.com.cn](http://www.sse.com.cn)) and the website of the HKEx ([www.hkex.com.hk](http://www.hkex.com.hk)), the circular of the shareholders of H Shares dated 16 February 2016 and the poll results announcement of the annual general meeting dated 10 March 2016.

## 8. FINANCIAL REPORTS

### 8.1 Financial statements prepared in accordance with the China Accounting Standards for Business Enterprises

(All amounts in Renminbi yuan unless otherwise stated)

#### Consolidated Balance Sheet

ITEMS	<i>Note</i>	31 December 2015	31 December 2014
<b>Current assets</b>			
Cash at bank and on hand		4,118,291,426.52	3,201,280,198.61
Financial assets based on fair value to confirm profit or loss		6,499,789.60	4,686,023.00
Notes receivable		1,450,035,581.39	1,465,748,952.32
Accounts receivable	8.1.3	1,051,642,996.39	1,011,087,173.83
Advances to suppliers		316,795,764.49	326,857,283.13
Interest receivable		-	-
Dividends receivable		-	-
Other receivables		209,264,412.47	306,793,208.73
Inventories		2,543,866,145.35	2,581,256,983.61
Current portion of non-current assets		-	-
Other current assets		108,317,835.73	20,082,244.47
<b>Total current assets</b>		<b>9,804,713,951.94</b>	<b>8,917,792,067.70</b>
<b>Non-current assets</b>			
Available-for-sale financial assets		328,372,231.24	133,964,228.25
Held-to-maturity investments		-	-
Long-term receivables		-	-
Long-term equity investments		2,111,212,976.44	1,950,765,099.35
Investment properties		234,615,086.24	237,111,837.23
Fixed assets		1,933,901,738.15	1,845,953,897.47
Construction in progress		555,906,380.17	441,809,706.14
Construction materials		-	-
Fixed assets pending for disposal		-	-
Intangible assets		540,174,651.69	395,201,774.39
Development costs		5,509,098.53	4,252,391.49
Goodwill		2,282,952.18	-
Long-term prepaid expenses		24,112,146.30	10,332,935.57
Deferred tax assets		329,776,054.32	329,719,136.32
Other non-current assets		-	-
<b>Total non-current assets</b>		<b>6,065,863,315.26</b>	<b>5,349,111,006.21</b>
<b>TOTAL ASSETS</b>		<b>15,870,577,267.20</b>	<b>14,266,903,073.91</b>

ITEMS	Note	31 December 2015	31 December 2014
<b>Current liabilities</b>			
Short-term borrowings		629,683,464.69	560,530,090.45
Financial liabilities based on fair value to confirm profit or loss		–	–
Notes payable		292,607,099.65	356,573,197.95
Accounts payable	8.1.4	2,636,474,108.05	2,075,921,273.45
Advances from customers		974,514,210.30	892,456,520.06
Employee benefits payable		413,029,738.15	412,093,088.25
Taxes payable		74,514,458.11	176,729,443.26
Interest payable		359,628.56	236,666.66
Dividends payable		52,066,098.91	46,931,687.19
Other payables		1,755,251,103.41	1,557,351,681.94
Current portion of non-current liabilities		–	–
Other current liabilities		–	–
<b>Total current liabilities</b>		<b>6,828,499,909.83</b>	<b>6,078,823,649.21</b>
<b>Non-current liabilities</b>			
Long-term borrowings		39,755,174.34	–
Debentures payable		–	–
Long-term payables		22,219,899.34	22,361,807.40
Payables for specific projects		19,058,160.00	19,058,160.00
Provisions		64,162,534.32	54,726,969.19
Deferred income		183,587,858.83	154,141,906.32
Deferred tax liabilities		29,063,935.23	15,499,610.21
Long-term employee remuneration payable		296,646.40	296,382.47
<b>Total non-current liabilities</b>		<b>358,144,208.46</b>	<b>266,084,835.59</b>
<b>Total liabilities</b>		<b>7,186,644,118.29</b>	<b>6,344,908,484.80</b>
<b>Shareholders' equity</b>			
Share capital		1,291,079,250.00	1,291,340,650.00
Capital surplus		2,346,435,108.64	2,526,638,830.11
Less: Treasury share		–	–
Other comprehensive income		(732,678.19)	11,900,689.68
Surplus reserve		930,522,262.36	815,487,206.38
Undistributed profits		3,883,510,490.48	3,059,769,635.87
<b>Total equity attributable to shareholders of the Company</b>		<b>8,450,814,433.29</b>	<b>7,705,137,012.04</b>
<b>Minority interest</b>		<b>233,118,715.62</b>	<b>216,857,577.07</b>
<b>Total shareholders' equity</b>		<b>8,683,933,148.91</b>	<b>7,921,994,589.11</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		<b>15,870,577,267.20</b>	<b>14,266,903,073.91</b>

## Consolidated Income Statement

ITEMS	Note	Year ended 31 December	
		2015	2014
<b>1. Revenue</b>	8.1.5	<b>19,124,658,298.90</b>	18,818,231,986.73
Less: Cost of sales	8.1.5	<b>12,200,500,049.92</b>	12,185,664,875.74
Taxes and surcharges		<b>169,627,790.27</b>	155,732,374.42
Selling and distribution expenses		<b>4,167,680,901.54</b>	3,942,803,578.59
General and administrative expenses		<b>1,374,805,685.81</b>	1,291,531,676.22
Financial expenses		<b>(21,937,825.02)</b>	1,393,955.19
Asset impairment losses		<b>36,312,870.62</b>	61,199,064.82
Add: Profit arising from changes in fair value		<b>1,813,766.60</b>	1,323,355.80
Investment income		<b>210,852,957.10</b>	161,001,362.02
Including: Share of profit of associates and jointly controlled entities		<b>206,845,139.58</b>	156,172,120.15
<b>2. Operating profit</b>		<b>1,410,335,549.46</b>	1,342,231,179.57
Add: Non-operating income		<b>331,198,578.33</b>	204,118,126.20
Including: Gain on disposal of non-current assets		<b>698,961.19</b>	258,591.74
Less: Non-operating expenses		<b>113,412,054.19</b>	78,287,923.06
Including: Losses on disposal of non-current assets		<b>1,992,658.12</b>	9,197,692.83
<b>3. Total profit</b>		<b>1,628,122,073.60</b>	1,468,061,382.71
Less: Income tax expenses	8.1.6	<b>282,835,101.41</b>	256,533,350.01
<b>4. Net profit</b>		<b>1,345,286,972.19</b>	1,211,528,032.70
– Attributable to shareholders' of the Company		<b>1,300,351,292.59</b>	1,194,141,273.24
– Minority interest		<b>44,935,679.60</b>	17,386,759.46

ITEMS	Note	Year ended 31 December	
		2015	2014
<b>5. Other comprehensive net income after tax</b>		<b>(12,635,534.89)</b>	12,734,509.65
Other comprehensive net income after tax attributable to shareholders' equity of parent company		<b>(12,633,367.87)</b>	12,718,554.92
(1) Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period		–	–
1) Portion of items will not be classified into profit or loss when under equity method		–	–
(2) Items will be classified into profit or loss when satisfied with certain conditions at following accounting period		<b>(12,633,367.87)</b>	12,718,554.92
1) Portion of items will be classified into profit or loss when under equity method		<b>91,910.16</b>	233,768.27
2) Profit or loss arising from changes in fair value of available for sale financial assets		<b>(12,722,126.94)</b>	12,360,099.02
3) Differences arising from translation of foreign currency financial statements		<b>(3,151.09)</b>	124,687.63
Other comprehensive net income after tax attributable to minority shareholders' equity		<b>(2,167.02)</b>	15,954.73
<b>6. Total comprehensive income</b>		<b>1,332,651,437.30</b>	1,224,262,542.35
(1) Total comprehensive income attributable to shareholders' equity of parent company		<b>1,287,717,924.72</b>	1,206,859,828.16
(2) Total comprehensive income attributable to minority shareholders' equity		<b>44,933,512.58</b>	17,402,714.19
<b>7. Earnings per share</b>			
– Basic earnings per share	8.1.7	<b>1.007</b>	0.925
– Diluted earnings per share	8.1.7	<b>1.007</b>	0.925

Business combination involving enterprises under common control at current period, merged party's net profit before merger amounted to RMB(372,567.56), net profit before merger at last period amounted to RMB884,514.90.

#### *8.1.1 Foundation of preparation of the financial statements*

##### (1) Basis of preparation

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

##### (2) Going concern

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

#### *8.1.2 Segment Information*

With the strategic management and business development, the Group basically completed the industrial chain layout and internal structure of 4 sectors, which include "Great Southern TCM", "Great Commerce", "Great Health", "Great Medical Care", according to the requirements of regulatory laws, regulations and company management, 4 sectors are divided into 4 operating segments, as business scale of "Great Medical Care" is fail to 10%, details for other segments are as below:

- "Great Southern TCM": Research, development, manufacturing and sales for Chinese and Western medicine, chemical raw medicine, natural drug, biological medicine and intermediates of chemical raw medicine;
- "Great Health": Research, development, manufacturing and sales for the products of Great Health;
- "Great Commerce": Wholesale, retail, import and export for Western medicine, Chinese medicine and medical apparatus and instruments.

Price transfer between segments are carried out in accordance with the price of sales to third party.

Assets and liabilities are allocated based on the segment operations, expenses attributable indirectly to each segment are allocated among segments based on the portion of revenue.



(1) The segment information for the year ended 31 December 2015 and as of 31 December 2015 as follows:

	Great Southern TCM	Great Health	Great Commerce	Other	Elimination	Total
Revenue	6,865,581,579.02	7,768,545,826.20	4,460,171,397.89	30,359,495.79	-	19,124,658,298.90
Inter-segment revenue	2,528,796,429.66	14,324,671.82	6,338,750,490.42	119,023,463.64	(9,000,895,055.54)	-
Interest income	(14,494,877.34)	(38,840,735.75)	(13,647,554.93)	(6,411,454.41)	8,348,716.50	(65,045,905.93)
Interest expenses	28,286,228.36	371,888.38	69,126,445.92	27,809,036.77	(84,878,879.26)	40,714,720.17
Share of profit or loss of associates and jointly controlled entities	11,196,316.81	-	-	198,837,752.58	(3,188,929.81)	206,845,139.58
Asset impairment losses	6,247,251.92	6,505.17	40,378,282.05	-	(10,319,168.52)	36,312,870.62
Depreciation and Amortization	191,320,358.76	8,825,361.94	7,392,484.35	16,475,299.77	(144,105.00)	223,869,399.82
Total profit	719,144,624.97	522,681,959.48	45,363,190.73	762,791,912.55	(421,859,614.13)	1,628,122,073.60
Income tax expenses	50,699,668.72	132,138,504.96	10,444,321.98	77,704,798.00	11,847,807.75	282,835,101.41
Net profit (Including: minority interest)	668,444,956.24	390,543,454.52	34,918,868.75	685,087,114.55	(433,707,421.87)	1,345,286,972.19
Total assets	7,704,680,636.46	3,883,794,696.88	4,374,126,249.76	8,017,210,356.26	(8,109,234,672.16)	15,870,577,267.20
Total liabilities	4,442,907,371.01	3,275,323,820.46	4,142,247,157.89	1,067,328,341.52	(5,741,162,572.59)	7,186,644,118.29
Long-term equity investments in associates and jointly controlled entities	128,016,390.34	-	-	1,983,196,586.10	-	2,111,212,976.44
Additions of non-current assets other than long-term equity investments	309,237,055.63	146,876,826.70	19,207,211.50	129,766,380.84	-	605,087,474.67

(2) The segment information for the year ended 31 December 2014 and as of 31 December 2014 as follows:

	Great Southern TCM	Great Health	Great Commerce	Other	Elimination	Total
Revenue	6,941,672,648.92	7,096,130,102.12	4,733,832,523.82	46,596,711.87	-	18,818,231,986.73
Inter-segment revenue	1,434,397,516.40	13,959,061.66	4,933,224,315.02	120,540,442.03	(6,502,121,335.11)	-
Interest income	(11,462,462.10)	(26,222,416.26)	(4,319,856.84)	(2,554,789.30)	4,972,076.46	(39,587,448.04)
Interest expenses	29,503,650.31	-	50,910,158.37	22,863,089.28	(65,283,703.64)	37,993,194.32
Share of profit or loss of associates and jointly controlled entities	66,599,571.84	-	-	94,337,405.27	(4,764,856.96)	156,172,120.15
Asset impairment losses	32,742,317.86	(6,798.75)	39,544,330.01	(4,172.07)	(11,076,612.23)	61,199,064.82
Depreciation and Amortization	176,737,478.56	4,459,120.34	6,209,047.92	16,483,743.07	(180,131.25)	203,709,258.64
Total profit	799,969,985.35	456,837,076.56	97,493,360.33	603,219,356.29	(489,458,395.82)	1,468,061,382.71
Income tax expenses	61,118,818.25	116,481,326.85	22,646,086.78	71,221,591.03	(14,934,472.90)	256,533,350.01
Net profit (Including: minority interest)	738,851,167.10	340,355,749.71	74,847,273.55	531,997,765.26	(474,523,922.92)	1,211,528,032.70
Total assets	6,994,484,860.19	3,184,115,579.92	3,447,254,130.94	7,342,354,791.65	(6,701,306,288.79)	14,266,903,073.91
Total liabilities	3,940,714,590.81	2,782,321,432.54	3,281,426,753.02	967,715,107.47	(4,627,269,399.04)	6,344,908,484.80
Long-term equity investments in associates and jointly controlled entities	146,820,073.53	-	-	1,803,945,025.82	-	1,950,765,099.35
Additions of non-current assets other than long-term equity investments	264,577,433.31	148,967,886.54	17,216,329.44	1,576,862.60	-	432,338,511.89

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

	<b>Year ended</b> <b>31 December 2015</b>	Year ended 31 December 2014
<b>Revenue from external customers</b>		
PRC	<b>18,925,851,715.62</b>	18,206,934,674.44
Other countries/regions	<b>198,806,583.28</b>	611,297,312.29
	<b><u>19,124,658,298.90</u></b>	<b><u>18,818,231,986.73</u></b>
<b>Total non-current assets</b>		
PRC	<b>5,639,816,203.36</b>	4,967,151,714.60
Other countries/regions	<b>19,855,998.99</b>	20,033,099.69
	<b><u>5,659,672,202.35</u></b>	<b><u>4,987,184,814.29</u></b>

### 8.1.3 Accounts receivable

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

(a) The ageing of accounts receivable is analyzed as follows:

	<b>31 December 2015</b>	31 December 2014
Within 1 year	<b>895,601,374.31</b>	949,994,485.81
1 to 2 years	<b>188,310,732.65</b>	78,706,663.12
2 to 3 years	<b>16,312,026.02</b>	6,868,859.64
3 to 4 years	<b>4,481,955.06</b>	5,239,589.65
4 to 5 years	<b>3,734,629.21</b>	788,470.95
Over 5 years	<b>12,829,505.70</b>	12,098,245.12
	<b><u>1,121,270,222.95</u></b>	<b><u>1,053,696,314.29</u></b>
Less: Provision for bad debts	<b>69,627,226.56</b>	42,609,140.46
	<b><u>1,051,642,996.39</u></b>	<b><u>1,011,087,173.83</u></b>

### 8.1.4 Accounts payable

The ageing of accounts payable is analyzed as follows:

	<b>31 December 2015</b>	31 December 2014
Within 1 year	<b>2,452,193,485.28</b>	2,014,931,574.60
Over 1 year	<b>184,280,622.77</b>	60,989,698.85
	<b><u>2,636,474,108.05</u></b>	<b><u>2,075,921,273.45</u></b>

### 8.1.5 Revenue and cost of sales

	<b>Year ended 31 December 2015</b>		
	<b>Main operation</b>	<b>Other operation</b>	<b>Subtotal</b>
Revenue	<b>18,966,491,916.90</b>	<b>158,166,382.00</b>	<b>19,124,658,298.90</b>
Cost of sales	<b>12,165,563,069.12</b>	<b>34,936,980.80</b>	<b>12,200,500,049.92</b>
Gross profit	<b>6,800,928,847.78</b>	<b>123,229,401.20</b>	<b>6,924,158,248.98</b>
	<b>Year ended 31 December 2014</b>		
	Main operation	Other operation	Subtotal
Revenue	18,627,321,779.49	190,910,207.24	18,818,231,986.73
Cost of sales	12,147,803,116.81	37,861,758.93	12,185,664,875.74
Gross profit	6,479,518,662.68	153,048,448.31	6,632,567,110.99

### 8.1.6 Income tax expenses

	<b>Year ended 31 December</b>	
	<b>2015</b>	2014
Current income tax	<b>268,720,343.83</b>	309,523,166.18
Deferred income tax	<b>14,114,757.58</b>	(52,989,816.17)
	<b><u>282,835,101.41</u></b>	<b><u>256,533,350.01</u></b>

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	<b>Year ended 31 December</b>	
	<b>2015</b>	2014
Total profit	<b>1,628,122,073.60</b>	1,468,061,382.71
Income tax expenses calculated at 25%	<b>407,030,518.40</b>	367,015,345.68
Tax effect of different rates applicable to subsidiaries	<b>(99,445,526.71)</b>	(82,354,266.23)
Adjust effect for income tax of previous period	<b>(2,578,259.68)</b>	(141,464.84)
Gain or loss belong to associates & joint venture	<b>(32,624,742.09)</b>	(30,800,503.75)
Non-taxable revenue	<b>(1,723,504.36)</b>	(2,495,764.97)
Expenses not deductible for tax purposes	<b>7,264,809.04</b>	7,601,224.86
Effect of opening balance of deferred income tax arising from changes in tax rate	–	(4,272,184.96)
Tax effect of deductible temporary differences & deductible loss which are not recognized in current period	<b>7,023,747.80</b>	7,312,942.82
Tax effect of unrecognized deferred income tax assets	<b>(2,111,940.99)</b>	(5,331,978.60)
Income tax expenses	<b><u>282,835,101.41</u></b>	<u>256,533,350.01</u>

The Group companies in the PRC pay the enterprise income tax in accordance with “PRC Enterprise Income Tax Law” and “Implementation Rules of PRC Enterprise Income Tax Law” and the applicable enterprise income tax rate of these entities is 25%.

Guangyao Baiyunshan (Hong Kong) Co., Ltd. of the Group, pays the corporation profits tax in accordance with “Hong Kong Inland Revenue Ordinance” at the corporate profit tax rate of 16.5%.

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

The following subsidiaries of the Group enjoy preferential tax rate of 15% at current period, including: the Company (No.GR201444000590), Zhong Yi (No.GR201444000836), Guangzhou Baiyunshan Han Fang Contemporary Pharmaceutical Co., Ltd. (“Han Fang”) (No. GR201444000631), Jing Xiu Tang (No.GR201444001464), Qi Xing (No.GR201444001047), Chen Li Ji (No.GR201444001125), Guangzhou Buiyunshan Tian Xin Pharmaceutical Co., Ltd. (“Tian Xin”) (No.GR201444000895), Ming Xing (No.GR201444001349).

Guang Hua Pharmaceutical, a subsidiary of the Group, obtained the certificate of High/ New Technology Enterprise in the year of 2012 (No GR201244000487), for which the validity period is 3 years. Due to the certificate expiration in the year of 2014, Guang Hua is applying for a renewal, which is in public notification period, and it temporarily uses preferential tax rate of 15% for declaration and prepayment of enterprise income tax.

### 8.1.7 Earnings per share

#### (a) Basic earnings per share

##### (i) Weighted Average Basis Earnings per share

Weighted average basis earnings per share is calculated by dividing consolidated net profit for current year attributable to ordinary shareholders of the company by the weighted average number of ordinary share outstanding:

	<b>Year ended 31 December</b>	
	<b>2015</b>	2014
Consolidated net profit attributable to ordinary shareholders of the Company	<b>1,300,351,292.59</b>	1,194,141,273.24
Weighted average number of ordinary shares outstanding	<b>1,291,188,166.67</b>	1,291,340,650.00
Weighted average Basic Earnings per share	<b>1.007</b>	0.925

(ii) Overall diluted Basic earnings per share

Overall diluted basic earnings per share is calculated by dividing consolidated net profit for current year attributable to ordinary shareholders of the Company by the number of ordinary shares outstanding at the end of the period.

	<b>Year ended 31 December</b>	
	<b>2015</b>	2014
Consolidated net profit attributable to ordinary shareholders of the Company	<b>1,300,351,292.59</b>	1,194,141,273.24
Number of ordinary share outstanding	<b>1,291,079,250.00</b>	1,291,340,650.00
Overall diluted basic earnings per share	<b><u>1.007</u></b>	<u>0.925</u>

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing adjusted consolidated net profit for the current period attributable to ordinary shareholders by the adjusted weighted average number of ordinary shares outstanding. Year ended 31 December 2015, there were no potential ordinary shares (Year ended 31 December 2014: nil), diluted earnings per share is equal to basic earnings per share.

*8.1.8 Dividends*

Pursuant to the resolution of the 2014 annual general meeting at 26 June 2015, the Group distributed cash dividends amounted to RMB361,575 thousand which was calculated by issued shares amounted to 1,291,340,650 to all shareholders; total distributed cash dividends was RMB0.28 per share.



**8.2** Explanation on changes in accounting policies as compared with the previous annual report.

<b>Content and changes of accounting policies</b>	<b>Vetting process</b>	<b>Affected item and amount</b>
Changes on segment report. With the strategic management and business development, the Group basically completed the industrial chain layout and internal structure of 4 sectors in its business, including “Great Southern TCM”, “Great Commerce”, “Great Health”, and “Great Medical Care”. According to the requirements of regulatory laws, regulations and corporate management, 4 sectors are divided into 4 operating segments. As the business scale of Great Medical Care is below 10% of the Group, it was shown as “others”.	Approved by the Board of Directors.	The item of financial statements is not affected except for reporting segment. The comparative figures for the year of 2014 has been re-stated by the revised segment report.

**8.3** There is no significant change in accounting policies, estimation and audit method when compared with the 2014 annual report.

**8.4** There is no major correction of accounting error during the Reporting Period.

**8.5** Explanation on changes in scope of consolidation as compared with the previous annual report

*8.5.1 Business combination involving enterprises not under common control:*

Acquiree	Time of acquiring equity	Cost of acquiring equity (RMB)	Ratio of acquiring equity (%)	Method of acquiring equity	Acquisition date	Determination basis of acquisition date	Income of acquiree from acquisition date to the end of period (RMB)	Net profit of acquiree from acquisition date to the end of period (RMB)
Guangzhou Haima	January 2015	7,000,000.00	100.00	Acquisition	January 2015	Transfer of corporate control	565,003,499.91	1,289,922.99

### 8.5.2 Business combination involving enterprises under common control at current period:

Name of merged party	Equity ratio of business combination	Basis of business combination involving enterprises under common control	Merger date	Basis of merger date	Merged party's income from the beginning period of combination to merger date (RMB)	Merged party's profit from the beginning period of combination to merger date (RMB)	Merged party's income during comparing period (RMB)	Merged party's net profit during comparing period (RMB)
Guangyao General Institute	100%	Controlled by the same parent company	31 August 2015	Transfer of control right to company	9,858,146.71	(372,567.56)	19,655,788.37	884,514.90

### 8.5.3 Details of once disposal for the ceased control arising from investment to subsidiaries:

Name of subsidiary	Amount of disposal for equity	Disposal ratio(%)	Mode of disposal	Time of control ceases	Recognition	Differences arising from disposal amount and portion of net assets held by disposal investment for the range of consolidated financial statements (RMB)	Ratio of the remaining equity	Book value of the remaining equity at the date of ceased control	Fair value of the remaining equity at the date of ceased control	Gain or loss arising from the remaining equity re-measured at fair value	Recognition and assumption for fair value	Profit or loss arising from transformation of other comprehensive income which is related to equity investment
Guangzhou Pan Gao Shou Food Beverage Co., Ltd.	-	87.77	liquidation	October 2015	cancellation	8,499.86	-	-	N/A	N/A	N/A	-
Chongqing Guangyao Chinese Herb Development Co., Ltd.	-	100.00	liquidation	May 2015	cancellation	-	-	-	N/A	N/A	N/A	-

### 8.5.4 Changes in scope of consolidation arising from other reasons:

The reasons for the increase of the 6 companies in scope of consolidation comparing to the previous period are:

- (1) Baiyunshan Medical and Health Industry Company, a subsidiary of the Company, established Tibet Linzhi Baiyunshan Tibetan Health Castle Management Co., Ltd. in January 2015 with registered capital of RMB35 million, and holds 100% of the equity interest therein.
- (2) Wang Lao Ji Great Health, a subsidiary of the Company, established Guangzhou Wang Lao Ji Industry Company in January 2015 with registered capital of RMB1 million, and holds 100% of the equity interest therein.

- (3) Wang Lao Ji Great Health, a subsidiary of the Company, established Wang Lao Ji Great Health Industry (Beijing) Sales Co., Ltd. in February 2015 with registered capital of RMB5 million, and holds 100% of the equity interest therein.
- (4) The Company established Guangzhou Baiyunshan Pharmaceutical Sales Co., Ltd. in March 2015 with registered capital of RMB10 million, and holds 100% of the equity interest therein.
- (5) Wang Lao Ji Great Health, a subsidiary of the Company, established Guangzhou Wang Lao Ji Great Health Enterprise Development Co., Ltd. in April 2015 with registered capital of RMB10 million, and holds 100% of the equity interest therein.
- (6) Wang Lao Ji Great Health, a subsidiary of the Company, established Guangzhou Wang Lao Ji Great Health Industry (Meizhou) Co., Ltd. in July 2015 with registered capital of RMB50 million, and holds 100% of the equity interest therein.

**8.6** There is no explanation from the Board and the Supervisory Committee on any non-standard audit report issued by the auditors during the Reporting Period.

The Board of  
**Guangzhou Baiyuanshan Pharmaceutical Holdings Company Limited**

Guangzhou, the PRC, 18 March 2016

*As at the date of this summary, the Board comprises Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong, Mr. Wu Changhai and Mr. Wang Wenchu as executive directors, and Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong, Mr. Chu Xiaoping and Mr. Jiang Wenqi as independent non-executive directors.*