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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 2016 ANNUAL REPORT

1. IMPORTANT NOTICE

- 1.1** This summary is extracted from the full text of the 2016 annual report of the Company for the year ended 31 December 2016. Investors who wish to know more details are advised to refer to the full text of the 2016 annual report which will be published on the website (<http://www.sse.com.cn>) of SSE, and on the website (<http://www.hkex.com.hk>) of HKEx or other websites designated by CSRC carefully.
- 1.2** The Board, the Supervisory Committee and the Directors, supervisors and senior management collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this summary and confirm that there are no false information, misleading statements or material omissions in this summary.
- 1.3** The financial reports of 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 unqualified auditors' report in respect thereof.
- 1.4** Profit distribution plan or plan of carrying over reserved funds to equity shares during the Reporting Period as considered by the Board

As audited and confirmed by BDO China Shu Lun Pan Certified Public Accountants LLP: the net profit of the Group attributable to the shareholders of the Company of 2016 amounted to RMB1,508,032,671.07. Based on the net profit of the Company of RMB1,215,121,566.06 in 2016, a 10% statutory surplus reserve in the amount of RMB121,512,156.61 is provided, with the addition of the undistributed profit carried over from last year in the amount of RMB2,949,214,644.89, and after reducing the cash dividends of 2015 by RMB487,737,284.70, the actual distributable profits amounted to RMB3,555,086,769.64.

Based on the actual circumstances of the Company, it is proposed that based on the share capital of 1,625,790,949 shares as at the end of 2016, a cash dividend of RMB2.8 (inclusive of tax) for every 10 shares or an aggregate of RMB455,221,465.72 be distributed. The undistributed portion shall be transferred to the next distribution. There will not be any capitalization of capital reserve for 2016.

The profit distribution plan will be submitted to the 2016 Annual General Meeting for approval.

- 1.5** This summary is prepared in both English and Chinese. In the event of discrepancy in interpretation, the Chinese version shall prevail.
- 1.6** All the information required to be contained in the summary of the 2016 annual report of the Company pursuant to paragraph 45 of Appendix 16 to the Listing Rules of HKEx will be published on the website of HKEx in due course.

2. DEFINITIONS

In this summary, unless the context otherwise requires, the following terms have the meaning as follows:

Company/the Company/GYBYS	Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited
PRC or China	the People's Republic of China
Reporting Period/Year/ the current year	the 12 months ended 31 December 2016
Post Reporting Period	the period after the end of the Reporting Period up to the date of this summary, being 1 January 2017 to 15 March 2017
Group	the Company and its subsidiaries
Board	the board of directors of the Company
Directors	the directors of the Company
Supervisory Committee	the supervisory committee of the Company
CSRC	China Securities Regulatory Commission
SSE	The Shanghai Stock Exchange
HKEx	The Stock Exchange of Hong Kong Limited
Depository Corporation	the Shanghai branch of China Securities Depository and Clearing Corporation Limited

Articles of Association	the articles of association of the Company
Listing Rules of HKEx	the Rules Governing the Listing of Securities on the HKEx
Listing Rules of SSE	the Listing Rules of the Shanghai Stock Exchange
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Model Code	The Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules of HKEx
GPHL	Guangzhou Pharmaceutical Holdings Limited (廣州醫藥集團有限公司)
Xing Qun	Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd. (廣州白雲山星群(藥業)股份有限公司)
Zhong Yi	Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited (廣州白雲山中一藥業有限公司)
Chen Li Ji	Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Company Limited (廣州白雲山陳李濟藥廠有限公司)
Qi Xing	Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. (廣州白雲山奇星藥業有限公司)
Pan Gao Shou	Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (廣州白雲山潘高壽藥業股份有限公司)
Jing Xiu Tang	Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. (廣州白雲山敬修堂藥業股份有限公司)
Wang Lao Ji	Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. (廣州王老吉藥業股份有限公司)
Guangzhou Han Fang	Guangzhou Baiyunshan Han Fang Contemporary Pharmaceutical Co., Ltd. (廣州白雲山漢方現代藥業有限公司)
Guangzhou Bai Di	Guangzhou Baiyunshan Bai Di Bio-technology Co., Ltd. (廣州白雲山拜迪生物醫藥有限公司)
Guangxi Ying Kang	Guangxi Yingkang Pharmaceutical Company Limited (廣西盈康藥業有限責任公司)
WLJ Great Health	Guangzhou WLJ Great Health Industry Co., Ltd. (廣州王老吉大健康產業有限公司)

GP Corp.	Guangzhou Pharmaceuticals Corporation (廣州醫藥有限公司)
Cai Zhi Lin	Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (廣州采芝林藥業有限公司)
Pharmaceutical Import & Export	Guangzhou Pharmaceutical Import & Export Company Limited (廣州醫藥進出口有限公司)
Guangyao Baiyunshan Hong Kong Company	Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited
Nuo Cheng	Guangzhou Promise Biological Products Co., Ltd. (廣州諾誠生物製品股份有限公司)
Baiyunshan	Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (廣州白雲山製藥股份有限公司)
Baiyunshan General Factory	Guangzhou Baiyunshan Pharmaceutical General Factory (廣州白雲山醫藥集團股份有限公司廣州白雲山製藥總廠)
Chemical Pharmaceutical Factory	Guangzhou Baiyunshan Chemical Pharmaceutical Factory (廣州白雲山醫藥集團股份有限公司廣州白雲山化學製藥廠)
He Ji Gong	Guangzhou Baiyunshan Pharmaceutical Co., Ltd. Baiyunshan He Ji Gong Pharmaceutical Factory (廣州白雲山醫藥集團股份有限公司白雲山何濟公製藥廠)
Tian Xin	Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. (廣州白雲山天心製藥股份有限公司)
Guang Hua	Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd., (廣州白雲山光華製藥股份有限公司)
Ming Xing	Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (廣州白雲山明興製藥有限公司)
HWBYS	Hutchison Whamoa Guangzhou Baiyunshan Chinese Medicine Company Limited (廣州白雲山和記黃埔中藥有限公司)
Baxter Qiao Guang	Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd. (廣州百特僑光醫療用品有限公司)
Pharmaceutical Technology	Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd. (廣州白雲山醫藥科技發展有限公司)
Baxter Healthcare	Baxter Healthcare (Guang Zhou) Co., Ltd. (廣州百特醫療用品有限公司)

Guangyao General Institute	Guangzhou Pharmaceutical Research General Institute (廣州醫藥研究總院有限公司)
Baiyunshan Pharmaceutical Marketing	Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd. (廣州白雲山醫藥銷售有限公司)
Baiyunshan Medical and Healthcare Industry Company	Guangzhou Baiyunshan Medical and Healthcare Industry Investment Co., Ltd. (廣州白雲山醫療健康產業投資有限公司)
WLJ Investment	Guangzhou WLJ Investment Co., Ltd. (廣州王老吉投資有限公司)
Medical Instrument Investment Company	Guangzhou Baiyunshan Medical Instrument Investment Company (廣州白雲山醫療器械投資公司)
Guangzhou Baiyunshan Hospital	Guangzhou Baiyunshan Hospital Co., Ltd (廣州白雲山醫院有限公司)
Elim Biotech	Guangzhou Elim Biotech Industrial Venture Capital Management Company (廣州以琳生物產業創業投資管理有限公司)
Sino-Israel Fund	Guangzhou Sino-Israel Bio-industry Investment Fund (LLP) (廣州中以生物產業投資基金合夥企業 (有限合夥))
GZ SOA Development	Guangzhou State-owned Asset Development Holdings Limited (廣州國資發展控股有限公司)
GZ Chengfa	Guangzhou China Life Urban Development Industry Investment Enterprise (Limited Partnership) (廣州國壽城市發展產業投資企業(有限合夥))
Yunfeng Investment	Shanghai Yunfeng Xinchuang equity investment center (limited partnership) (上海雲鋒新創股權投資中心(有限合夥))
Placement Prosperous Age Exclusive Account No. 66	China Universal-Private Placement Prosperous Age Exclusive Account No. 66 Asset Management Scheme (匯添富一定增盛世專戶66號資產管理計劃)

3. COMPANY PROFILE

3.1 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

	Secretary to the Board	Representative of securities affairs
Name	Chen Jing	Huang Xuezhen
Address	45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC	
Telephone	(8620)6628 1218	(8620)6628 1219
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3.2 Profile of the main business and products

Since its establishment, the Company has been committed to the 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 care, health management, health maintenance and elderly care etc..

3.2.1 Great Southern TCM (medicine 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 engaged in the R&D and manufacturing of Chinese patent medicine and western medicine, chemical raw materials, intermediates chemical raw materials, biomedicine and natural medicine, etc..

- 1) The Group is an epitome of the southern TCM. The Company has 12 China time honored brand enterprises such as Zhong Yi, Chen Li Ji, Qi Xing, Jing Xiu Tang, Pan Gao Shou, etc. (including subsidiaries and joint ventures), among which, 6 of them are century old time-honored brand. The Company and its joint ventures has 4 protected Chinese traditional medicine of national grade, and 54 exclusively made Chinese traditional medicine. Main products include Xiao Ke Pill, Hua Tuo Zai Zao Pill, compound Salvia Milltiorrhiz slice, Ban Lan Gen Granule, Qing Kai Ling series, An Gong Niu Huang Pill, Zi Shen Yutai Pill, Zhui Feng Tou Gu Pill etc. The Group boasts clear brand and variety advantages in proprietary Chinese medicines in southern China and even countrywide.
- 2) The Group has a complete antibiotic production chain ranging from raw material medicine to preparation and male medicine, 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 number one brand of oral antibacterial anti-inflammatory. The Group’s chemical medicine includes Cefathiamidine, Cefixime, Amoxicillin and Sildenafil Citrate Tablets, etc..

3.2.2 Great Health Industry

The Group and the joint ventures under the Company engaging in the Great Health Industry are mainly engaged in the production, R&D and sale of beverage, food, healthcare product cosmeceuticals, etc., including the wholly-owned subsidiary, WLJ Great Health and the joint venture of the Company, Wang Lao Ji and the main products include Wang Lao Ji Herbal Tea, ganoderma spore oil capsules, lozenges, tortoise herb jelly etc..

3.2.3 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 principally through the Company’s joint venture, namely GP Corp. and its subsidiary, namely Cai Zhi Lin, and Pharmaceutical Import & Export. The retail business is carried out principally through Cai Zhi Lin pharmacy pharmacychains, Jian Min pharmacy chains and Ying Bang pharmacy, etc.. GP Corp. is the largest pharmaceutical logistics company in Southern China.

3.2.4 Great Medical Care

The Group promoted the industry investments in medical services, health management, health maintenance and elderly care etc., with Baiyunshan Medical and Healthcare Industry Company as the main investment vehicle. At present, the Great Medical Care is still at preliminary stage. In the field of medical services, the Group has completed the acquisition of Guangzhou Baiyunshan Hospital, which will be gradually built into a special integrated medical service institution based on rehabilitation and supplemented by orthopedics and urology. In the field of health maintenance based on traditional Chinese medicine, the Tibetan-style Health-keeping Fort invested by the Group has been completed and put into trial operation.

3.3 Current circumstance of the 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 2016 was RMB2,806.3 billion, representing an increase of 9.7%; total profit amounted to RMB300.3 billion, representing an increase of 13.9%.

3.4 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 medicine, 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 medicine, chemical medicine preparation etc..

In 2012, the Company founded WLJ Great Health, with “Wang Lao Ji” brand leading the great health industry, helping the Group to open up new growth impetus and strategic space. 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.

4 PRINCIPAL FINANCIAL DATA

4.1 Principal financial data

Principal financial data	2016	2015	Year on year Increase/ (Decrease) (%)	2014		2013		2012	
				After restatement	Before restatement	After restatement	Before restatement	After restatement	Before restatement
Income from operations (RMB'000)	20,035,681	19,124,658	4.76	18,818,232	18,799,881	17,628,142	17,608,193	12,081,764	12,062,642
Net profit attributable to the shareholders of the Company (RMB'000)	1,508,033	1,300,351	15.97	1,194,141	1,192,472	979,376	980,045	728,150	729,040
Net profit attributable to the shareholders of the Company after deducting non-recurring items (RMB'000)	1,071,111	1,128,765	(5.11)	1,092,530	1,112,771	873,052	891,802	687,910	706,882
Net cash flow from operating activities (RMB'000)	2,444,672	1,941,956	25.89	1,751,690	1,761,382	1,341,176	1,339,140	1,003,536	999,230
Total profit (RMB'000)	1,945,053	1,628,122	19.47	1,468,061	1,467,177	1,228,521	1,229,190	880,173	881,063
	As at 31 December 2016	As at 31 December 2015	Year on year Increase/ (Decrease) (%)	As at 31 December 2014		As at 31 December 2013		As at 31 December 2012	
				After restatement	Before restatement	After restatement	Before restatement	After restatement	Before restatement
Principal financial data									
Net assets attributable to the shareholders of the Company (RMB'000)	17,345,080	8,450,814	105.25	7,705,137	7,739,301	6,795,505	6,831,768	5,530,786	5,566,352
Total assets (RMB'000)	25,897,170	15,870,577	63.18	14,266,903	14,210,784	12,321,777	12,249,123	9,482,369	9,394,208
Total liabilities (RMB'000)	8,243,380	7,186,644	14.70	6,344,908	6,251,805	5,335,803	5,226,886	3,761,972	3,638,244
Equity attributable to the shareholders of the Company per share (RMB)	10.67	6.55	62.99	5.97	5.99	5.26	5.29	4.39	4.41
Total equity (RMB'000)	1,625,791	1,291,079	25.92	1,291,341	1,291,341	1,291,341	1,291,341	1,261,240	1,261,240

4.2 Principal financial indicators

Principal accounting data	2016	2015	Year on year Increase/ (Decrease) (%)	2014		2013		2012	
				After restatement	Before restatement	After restatement	Before restatement	After restatement	Before restatement
Basic earnings per share (RMB)	1.075	1.007	6.76	0.925	0.923	0.767	0.768	0.577	0.578
Diluted earnings per share (RMB)	1.075	1.007	6.76	0.925	0.923	0.767	0.768	0.577	0.578
Basic earnings per share after deducting non-recurring items (RMB)	0.764	0.874	(12.65)	0.846	0.862	0.684	0.699	0.545	0.560
Weighted average return on net assets ratio (%)	12.75	15.91	A decrease of 3.16 percentage points	16.48	16.38	15.70	15.71	13.87	13.89
Ratio of weighted return on net assets after deducting non-operating items (%)	9.06	13.81	A decrease of 4.75 percentage points	15.08	15.29	13.99	14.30	13.11	13.47
Return on total equity attributable to shareholders of the Company (%)	8.69	15.39	A decrease of 6.70 percentage points	15.50	15.41	14.41	14.35	13.17	13.10
Ratio on total equity attributable to shareholders of the Company to total assets (%)	66.98	53.25	An increase of 13.73 percentage points	54.01	54.46	55.15	55.77	58.33	59.25
Gearing ratio (%)	31.83	45.28	A decrease of 13.45 percentage points	44.47	43.99	43.30	42.67	39.67	38.73

Notes: 1. The above financial data and indicators are computed based on the consolidated financial statements.

2. Gearing ratio = Total liabilities ÷ Total assets × 100%

4.3 Principal financial data of 2016 on quarterly basis

	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)
Income from operations	5,050,887	5,806,381	4,686,416	4,491,997
Net profit attributable to the shareholders of the Company	409,319	422,488	224,616	451,610
Net profit attributable to the shareholders of the Company after deducting non-recurring items	393,747	303,582	173,294	200,488
Net cash flow from operating activities	743,266	969,725	705,391	26,290

5. PRINCIPLE FINANCIAL DATA AND CHANGES OF SHAREHOLDERS

5.1 Total number of shareholders and the top ten shareholders as at the end of the Reporting Period

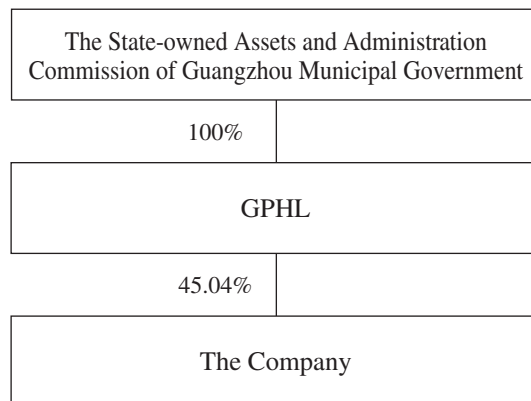
Total number of shareholders as at the end of the Reporting Period	67,969	Total number of shareholders as at 28 February 2017	65,771
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Shareholders	The top ten shareholders of the Company					
	Increase/ (Decrease) during the Reporting Period (share)	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
GPHL	148,338,467	732,305,103	45.04	148,338,467	172,390,000	Domestic shares
HKSCC Nominees Limited	(10)	219,599,469	13.51	Nil	Unknown	H shares
GZ SOA Development	87,976,539	87,976,539	5.41	87,976,539	Unknown	Domestic shares
Guangzhou Chengfa	73,313,783	73,313,783	4.51	73,313,783	Unknown	Domestic shares
China Securities Finance Corporation Limited	2,641,240	36,362,851	2.24	Nil	Unknown	Domestic shares
Yufeng Investment	21,222,410	21,222,410	1.31	21,222,410	Unknown	Domestic shares
Central Huijin Asset Management Co., Ltd.	0	15,260,700	0.94	Nil	Unknown	Domestic shares
The Industrial and Commercial Bank of China Co., Ltd.-Southern Consumption Vitality Flexibly Configured Mixed Initiate Securities Investment Funds	2,056,202	9,945,228	0.61	Nil	Unknown	Domestic shares
New China Life Insurance Co., Ltd.-Dividend – Group Dividend -018L – FH001 Hu	0	6,380,585	0.39	Nil	Unknown	Domestic shares
Agricultural Bank of China Co., Ltd. – Fu Guo Zhong Zheng State-owned Enterprises Reform Index Hierarchical Securities Investment Fund	(1,752,300)	5,128,521	0.32	Nil	Unknown	Domestic shares

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

- A. According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients.
- B. The Company was not aware of any connection among the above top ten shareholders, or whether they were persons acting in concert as provided in the “Rules Governing the Disclosure of Changes 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 Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s shares during the Year.

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 Directors, 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 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

During the Reporting Period, the Group made great efforts in vigorously building “four major segments” of Great Southern TCM, Great Health Industry, Great Commerce and Great Medical Care, and cultivating “three major new forms” of e-commerce, capital finance and medical equipment through the strategic path of “capitalization and going-out” according to the development idea of “year of corporate quality improvement”, in order to actively improve the industrial structure, enhance the industrial quality, improve the industrial efficiency and has achieved steady growth.

In 2016, the Group’s revenue amounted to RMB20,035,681,000, increased by 4.76% year-on-year; the total profit was RMB1,945,053,000, increased by 19.47% year-on-year; and the net profit attributable to shareholders of the Company was RMB1,508,033,000, increased by 15.97% year-on-year.

During the Reporting Period, the Group made the following efforts:

The first is implementing the Great Southern TCM revitalization project to achieve high growth in key products. (a) Promote the healthy development of the pharmaceutical manufacturing enterprises under the Group through measures like top-level design of technological innovation in Great Southern TCM, sales integration, bringing strength into full play to overshadow weakness, growth project list, inactive variety investment invitation, salary incentives; (b) further promote production and operation integration and sales resources integration of the enterprises under the Group. During the Reporting Period, the Group consolidated the marketing of Baiyunshan General Factory, Guang Hua and Jing Xiu Tang into a deep integration stage by using Baiyunshan Pharmaceutical Marketing as a marketing and integration platform; (c) strengthen marketing innovation, focus on cultivating star products, and have achieved good results, Zi Shen Yutai Pill of Zhong Yi, Shu Jin Jianyao Pill of Chen Li Ji and Sildenafil Citrate Tablets (“Jin Ge”) grew rapidly with a year-on-year growth rate of over 70%.

The second is further consolidating the brand influence and market position of Wang Lao Ji Herbal Tea, actively promoting the diversification of Great Health Industry products category and establish the Great Health Industry product system. (a) Around the priority of “year of catering marketing”, vigorously expand catering channels and promote the new development of the catering market through cooperation with large catering enterprises; (b) Seize the consuming season to create a gift market and maximize the market share of the Wang Lao Ji Herbal Tea; (c) through a number of activities like the establishment of the China Time-Honored Brand Union, development of campus football, establishment of Wang Lao Ji Scholarship in Tsinghua University, implementation of the “Let Love Come Home

Early”, cooperation with Zhejiang TV’s flagship program – “Challenger Union”, sponsoring of the popular IP – Yes Boss! Season II and cross-industry marketing with Taobao and mobile games, consolidate the brand image and market position of Wang Lao Ji Herbal Tea; (d) promote the diversification of Great Health Industry products, introduce the new low-sugar and sugar-free products of Wang Lao Ji Herbal Tea by taking the opportunity of the Summer Davos Forum and cooperate with relevant domestic groups and institutions to develop and expand the walnut drink market and jointly operate Great Health Industry experience stores to achieve the diversification of Great Health Industry product categories.

The third is keeping up with the change and the development trend of pharmaceutical business, attach importance to innovative ideas to expand the sales network and develop new business to achieve Great Commerce transformation and development. (a) Further promote the business extension of pharmaceutical services. As of the end of 2016, the commercial enterprises under the Group have cooperated with more than 90 medical institutions in Guangdong Province to carry out business extension of pharmaceutical services cooperation. Only in Guangzhou, they cooperated with 40 medical institutions (including eight 3A-level hospitals, one 3B-level hospital, six 2A-level hospitals and 25 community medical institutions) in various forms and contents and achieved good social benefits; (b) solidly promote the development of innovative business. In terms of e-commerce, the Company put its shop in Tmall.com into official operation in March and the enterprises under GP Corp., namely Jian Min, explored O2O operation with JD.com’s door-to-door service. In terms of offline retail, Cai Zhi Lin implemented business integration of its chain stores, introduced convenience measures for consumers and constantly explored innovative development modes. GP Corp. opened its 4th new-concept Jian Min, namely the Hengfu store and was highly welcomed by consumers. Jian Min was listed in China’s Top 50 Most Valuable Pharmacies.

The fourth is continuing the expansion of expand Great Health Industry and medical equipment industries and promote the completion of major projects. (a) In terms of Great Health Industry, during the Reporting Period, the Baiyunshan Tibetan-style health-keeping fort project in Nyingchi City, Tibet was successfully opened, which became the new beginning of the Group in terms of health maintenance and rehabilitation; in April 2016, the Baiyunshan Medical and Health Industry Company signed a cooperation framework agreement with CapitalBio Corporation, a domestically leading third-party independent medical examination institution, to make full use of respective advantages for joint development of third-party medical examination based on genetic testing; (b) in terms of the medical equipment industry, the Group will cooperate with Time Medical Holdings Company Limited to jointly build a high-end medical equipment R&D and production base with independent intellectual property rights in the Development Zone of Guangzhou, and work with Guangzhou OSMUNDA Medical Device Technology, Inc., Ltd. to jointly build an “International Medical Equipment R&D and Incubation Industry Platform” for the establishment of a strategic cluster of emerging medical equipment industry.

The fifth is promoting the integration of scientific research and quality management resources of the Group and to rebuild the quality management system. (a) Strengthen the top-level design to ensure corporate investment in scientific research to improve the enthusiasm and initiative of scientific research personnel; (b) strengthen the system development to build up a scientific research integration platform based on Guangyao General Institute, basically realizing centralized management of the Group's scientific research projects. Meanwhile, the Group established Guangzhou Wang Lao Ji Great Health Industry Research Institute to focus on the Group's Great Health Industry research work; (c) strengthen the implementation of project. During the Reporting Period, generic gefitinib API and tablets for non-small cell lung cancer treatment made by the Baiyunshan General Factory passed clinical approval; the "Chinese herbal medicine DNA bar code species identification system" that WLJ Great Health took part in won the second prize of national scientific and technological progress award; the national 863 plan of Wang Lao Ji Herbal Tea achieved stage study results, proving extension of animal life after long-term drinking of Wang Lao Ji Herbal Tea; the "research on and application of key technologies of online allocation of Wang Lao Ji Herbal Tea" won the third prize of scientific and technological progress awarded by China National Light Industry Council; the "one proprietary Chinese medicine for treatment of peptic ulcer and its preparation method" of Zhong Yi, the "application of sarcandra glabra extracts in reducing the susceptibility of influenza virus" of Jing Xiu Tang, the "one proprietary Chinese medicine for treatment of uterine fibroids and its preparation and quality control methods" of Pan Gao Shou and the "preparation method of Xia Sang Ju Granules" of Xing Qun respectively won the 17th China Patent Excellence Awards. During the Reporting Period, the Group received 13 clinical approvals and 9 production approvals, obtained 48 authorized domestic invention patents, 1 authorized foreign patent, 2 utility models and 18 appearance design patents, and newly added 2 provincial key corporate laboratories of provincial level and 4 technology innovation alliances; (d) strengthen quality control and improve quality management level through strengthening of internal quality inspection, implementation of QC activities and standardized technical transformation and other measures.

6.1.2 Analysis of principal operations

Analysis of principal operations

Items	The Reporting Period (RMB'000)	The corresponding period of 2015 (RMB'000)	Increase/ (Decrease) over the same period of 2015 (%)
Revenue	20,035,681	19,124,658	4.76
Include: income from principal operations	19,875,179	18,966,492	4.79
Cost of sales	13,412,063	12,200,500	9.93
Include: cost from principal operations	13,372,298	12,165,563	9.92
Selling and distribution expenses	3,823,589	4,167,681	(8.26)
General and administrative expenses	1,439,734	1,374,806	4.72
Financial expenses	(96,520)	(21,938)	(339.97)
The profit before tax	1,945,053	1,628,122	19.47
Net profit attributable to shareholders of the Company	1,508,033	1,300,351	15.97
Net cash flow from operating activities	2,444,672	1,941,956	25.89
Net cash flow from investing activities	(249,158)	(806,004)	69.09
Net cash flow from financing activities	6,724,722	(347,449)	2,035.46
Research and development expenses	330,368	315,736	4.63

Notes:

1. The financial expenses for the Reporting Period decreased as compared with the same period of last year, mainly due to improvement in the Group's fund management, reduction in bank borrowings, increase in interest income and reduction in financial costs as a result of the Group's reasonable fund allocation, increase in investment financing as well as optimization in types of deposits.
2. Net cash flow from investing activities for the Reporting Period increased as compared with same period of last year, mainly due to decrease in investment of the Group's production sites and equipment and funds paid for investment projects in the year.
3. Net cash flow from financing activities for the Reporting Period increased as compared with the same period of last year, mainly because the Company received proceeds for the non-public offering of Renminbi-denominated ordinary shares (A shares) in the year.

1. Analysis of revenue and cost

In 2016, the main factors leading to changes in the revenue of the Group: the Group had a constant growth in the pharmaceutical sector and focused its resources on the development of the “Great Southern TCM, Great Health, Great Commerce” segment, thereby achieving a rapid growth in its sales revenue.

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

Operations	Results of principal operations by industry				Profit margin of principal operations	
	Income from principal operations		Cost of principal operations		Profit margin of principal operations	Increase/(Decrease) over the same period of 2015
	Increase/		Increase/			
	Income from principal operations (RMB'000)	(Decrease) over the same period of 2015 (%)	Cost of principal operations (RMB'000)	(Decrease) over the same period of 2015 (%)	(%)	(percentage point)
Great Southern TCM	6,906,387	2.18	3,893,998	3.93	43.62	A decrease of 0.95 percentage point
Great Health	7,769,431	0.01	4,601,045	6.54	40.78	A decrease of 3.63 percentage points
Great Commerce	5,148,331	16.00	4,839,249	18.03	6.00	A decrease of 1.63 percentage points
Other	51,030	9,233.54	38,006	8,531.77	25.52	An increase of 6.05 percentage points
Total	19,875,179	4.79	13,372,298	9.92	32.72	A decrease of 3.14 percentage points

Types of products	Results of principal operations by products				Profit margin of principal operations	
	Income from principal operations		Cost of principal operations		Profit margin of principal operations	Increase/(Decrease) over the same period of 2015
	Increase/		Increase/			
	Income from principal operations (RMB'000)	(Decrease) over the same period of 2015 (%)	Cost of principal operations (RMB'000)	(Decrease) over the same period of 2015 (%)	(%)	(percentage point)
Chinese patent medicine	3,218,028	(0.27)	1,763,874	3.73	45.19	A decrease of 2.11 percentage points
Chemical medicine	3,688,359	4.41	2,130,124	4.09	42.25	An increase of 0.18 percentage point
Total of Great Southern TCM	6,906,387	2.18	3,893,998	3.93	43.62	A decrease of 0.95 percentage point

Results of principal operations by regions						
Regions	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2015 (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2015 (%)	Profit margin of principal operations (%)	Increase/(Decrease) over the same period of 2015 (percentage point)
Southern China	10,819,595	9.54	7,645,737	14.96	29.33	A decrease of 3.34 percentage points
Eastern China	3,563,653	(3.84)	2,291,061	0.07	35.71	A decrease of 2.51 percentage points
Northern China	2,262,849	(6.06)	1,310,360	(2.42)	42.09	A decrease of 2.16 percentage points
North-Eastern China	335,257	13.84	206,755	14.71	38.33	A decrease of 0.47 percentage point
South-Western China	2,194,768	10.10	1,495,607	20.64	31.86	A decrease of 5.95 percentage points
North-Western China	629,943	29.15	355,340	30.36	43.59	A decrease of 0.52 percentage point
Exports	69,114	(65.24)	67,438	(64.53)	2.42	A decrease of 1.95 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 the same period of 2015 (%)	Sales Increase/ (Decrease) over the same period of 2015 (%)	Inventory Increase/ (Decrease) over the same period of 2015 (%)
Xiao Ke Pill (thousand bottles)	44,745.08	44,766.06	3,989.43	(30.39)	(14.96)	(55.37)
Sildenafil Citrate Tablets (thousand boxes)	10,418.63	9,865.82	1,068.34	81.00	62.29	83.87
Cephathiamidine for Injection (thousand ampoules)	65,906.80	61,926.74	4,602.51	22.00	3.65	471.31
Cefixime series (thousand boxes)	50,929.35	51,546.13	3,629.28	15.00	11.45	(16.41)
Xiao Chai Hu Granules (thousand packs)	30,992.26	30,431.91	5,590.46	30.94	1.46	10.74
Amoxicillin series (thousand boxes)	44,745.08	33,458.61	8,090.70	(10.00)	6.47	(10.27)
Xia Sang Ju Granules 10g (thousand packs)	347,516.97	329,119.79	39,611.70	21.79	6.77	82.22
Qing Kai Ling Granules (thousand packs)	345,809.96	294,526.29	66,413.13	(23.91)	(35.00)	1.00
Paracetamol Caffeine and Aspirin Powder (thousand boxes)	21,733.29	22,844.52	3,093.49	(4.76)	3.65	(26.48)
Shu Jin Jianyao Pill (thousand bottles)	25,375.00	25,670.00	6,888.00	18.44	81.15	(5.03)

Description on changes on production, sales and inventory as at the end of the Reporting Period of products:

- ① Production and inventory as at the end of the Reporting Period of Xiao Ke Pills fell by 30.39% and 55.37% respectively year on year, mainly due to excessive market inventory, production decrease and inventory reduction;

- ② Production of Sildenafil Citrate Tablets increased by 81.00% year on year, mainly due to increase in sales demand and expansion of mass production. The sales volume increased by 62.29% year on year, mainly due to the expansion of the market and the implementation of promotional tools, which drove increase in ultimate sale; inventory as at the end of the Reporting Period increased by 83.87% year on year, mainly due to increase in inventory year on year with increasing market demand;
- ③ Inventory as at the end of the Reporting Period of cephalosporanamidine for injection increased 471.31% year on year, mainly due to: substantial increase in inventory year on year with increasing market demand
- ④ Production of Xiao Chai Hu Granules increased by 30.94% year on year, mainly due to increase in market demand and resulting increase in sales;
- ⑤ Inventory as at the end of the Reporting Period of Xia Sang Ju Granules 10g increased by 82.22% year on year, mainly due to reasonable increase in product inventory to ensure the normal sales of products;
- ⑥ Sales of Qing Kai Ling Granules fell by 35.00% year on year, mainly due to the excessive inventory at the beginning of the year and the weak terminal work, thus leading to reduced sales.

c) Analysis of cost

Principal Operation	Components	Principal operations by regions		2015		Percentage of Changes in the proportion
		2016	Percentage of the proportion of operation	Amount	Percentage of the proportion of operation	
		Amount (RMB'000)	cost (%)	Amount (RMB'000)	cost (%)	proportion (%)
Great Southern TCM	Raw materials	2,604,306	66.88	2,564,685	68.45	1.54
	Fuel	107,864	2.77	94,419	2.52	14.24
	Labor costs	284,262	7.30	270,894	7.23	4.93
	Others	897,566	23.05	816,802	21.80	9.89
Great Health	Raw materials	3,567,190	77.53	3,410,274	78.97	4.60
	Fuel	7,822	0.17	3,455	0.08	126.41
	Labor costs	9,202	0.20	4,318	0.10	113.09
	Others	1,016,831	22.10	900,395	20.85	12.93
Great Commerce	Procurement costs	4,839,249	100.00	4,099,881	100.00	18.03
Others	Other costs	38,006	100.00	440	100.00	8,531.77

d) Major suppliers and sale

During the year, sales of goods and services to the 5 largest customers amounted to RMB2,592,605,000 (2015: RMB2,047,539,000) representing approximately 13.04% of the total sales (2015: 10.80%). The sales to the 5 largest customers included RMB1,685,412,000 being sale to related parties representing 8.48% of the total sales.

During the year, purchases of goods and services from the 5 largest suppliers amounted to RMB2,267,462,000 (2015: RMB2,101,636,000) representing approximately 21.14% of the total purchases (2015: 20.05%). The purchases from the 5 largest suppliers included RMB1,779,868,000 being purchases from related parties representing 16.59% of the total purchases.

The Group maintains good cooperative relationships with its customers and suppliers, both parties shall, settle payment for goods in accordance with the normal commercial terms.

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

2. Expense

During the Reporting Period, the Group's selling and distribution expenses was approximately RMB3,823,589,000 (2015: 4,167,681,000) representing a decrease of 8.26% as compared with last year, mainly due to changes in the settlement method of the Group, thus significantly reduced the expenses on publicity.

During the Reporting Period, the Group's general and administrative expenses was approximately RMB1,439,734,000 (2015: 1,374,806,000) representing a growth of 4.72% as compared with last year, mainly due to the Group's continuous expansion of business and increase in employee remuneration and R&D costs.

During the Reporting Period, the Group's financial expense was approximately RMB(96,520,000) representing a decrease of 339.97% as compared with last year, mainly due to improvement in the Group's fund management, reduction in bank borrowings, increase in interest income and reduction in financial costs as a result of the Group's reasonable fund allocation, increase in investment financing as well as optimization in types of deposits.

During the Reporting Period, the Group's income tax expenses was approximately RMB386,379,000 with a growth of 36.61% as compared with last year, mainly due to the increase in the profits of the Company's subsidiaries.

3. Research and development expenses

Current cost of research and development expenses (<i>RMB'000</i>)	330,368
Current capitalization of research and development expenses (<i>RMB'000</i>)	0
Total research and development expenses (<i>RMB'000</i>)	330,368
Ratio of research and development expenses to income from operations	1.65
Ratio of research and development expenses to income from principal operations of the Great Southern TCM (%)	4.78
Total research and development expenses accounted for the proportion of net assets (%)	1.87
Number of the research and development personnel of the Company	674
Percentage of total number of the research and development personnel in the total number of personnel of the Company (%)	3.02
Percentage of the research and development of capitalization (%)	0

4. Cash flow

Items	The Reporting Period (RMB'000)	The corresponding period of 2015 (RMB'000)	Increase/ (Decrease) as compare with the same period of 2015 (%)	Reasons
Net cash flow from operating activities	2,444,672	1,941,956	25.89	As a result of that enterprises affiliated to the Company received land requisition compensation and government subsidy, the interest incomes increased on a year-on-year basis, and the paid taxes decreased during the Reporting Period.
Net cash flow from investing activities	(249,158)	(806,004)	69.09	As a result of that investment of the Group in production sites and equipment and funds paid for investment projects decreased in the Reporting Period to some extent on a year-on-year basis.
Net cash flow from financing activities	6,724,722	(347,449)	2,035.46	As a result of that the Company received the funds raised in the non-public offering of RMB ordinary shares (A-share) during the Reporting Period.

6.2 Analysis of financial conditions

6.2.1 Liquidity

As at 31 December 2016, the current ratio of the Group was 2.63 (31 December 2015: 1.44), and its quick ratio was 2.25 (31 December 2015: 1.06). Accounts receivable turnover rate was 20.18 times, representing a decrease of 1.08% as compared with the corresponding period of 2015. Inventory turnover rate was 4.97 times, representing an increase of 6.05% as compared with the corresponding period of 2015.

6.2.2 Financial resources

As at 31 December 2016, cash and cash equivalents of the Group amounted to RMB12,756,470,000 (31 December 2015: 3,837,604,000), of which approximately 99.87% and 0.13% were denominated in Renminbi and foreign currencies, such as Hong Kong dollar, respectively.

As at 31 December 2016, the Group had bank borrowings of RMB58,718,000 (31 December 2015: RMB669,439,000), including short-term borrowings of RMB25,216,000 (31 December 2015: RMB629,684,000) and long-term borrowings of RMB33,502,000 (31 December 2015: RMB39,755,000).

6.2.3. Capital structure

As at 31 December 2016, the Group's current liabilities amounted to RMB7,422,448,000 (31 December 2015: RMB6,828,500,000), representing an increase of 8.70% as compared with the corresponding period of 2015, and its long-term liabilities was RMB820,932,000 (31 December 2015: RMB358,144,000), with an increase of 129.22% as compared with the corresponding period of 2015. The shareholders' equity attributable to the shareholders of the Company amounted to RMB17,345,080,000 (31 December 2015: RMB8,450,814,000), with an increase of 105.25% as compared with the corresponding period of 2015.

6.2.4 Capital expenditure

The Group expects that the capital expenditure for 2017 to be approximately RMB987 million (2016: RMB293 million), which would be mainly applied in the construction of production sites and information system. The Group will raise funds to meet the capital requirements of capital expenditure by resorting to its internal funds, bank loans, etc.

6.2.5 Assets and liabilities

Item	As at		As at		Increase/ (Decrease) over 2015 (%)	Reasons for changes
	31 December 2016 (RMB'000)	% of the total assets (%)	31 December 2015 (RMB'000)	% of the total assets (%)		
Cash at bank and on hand	13,091,008	50.55	4,118,291	25.95	217.87	As a result of that the Company has raised funds through the non-public offering of RMB ordinary shares (A-share) and increased the recoupment of funds by 31 December 2016.
Advances to suppliers	414,074	1.60	316,796	2.00	30.71	As a result of the Company's subsidiaries have increased the advance payment for purchasing raw medical materials and wrapping materials by 31 December 2016.
Dividends receivable	52,939	0.20	0	0.00	100.00	As a result of the increase in dividends receivables of the Company's subsidiaries from joint ventures as at 31 December 2016.

Item	As at 31 December 2016 (RMB'000)	% of the total assets (%)	As at 31 December 2015 (RMB'000)	% of the total assets (%)	Increase/ (Decrease) over 2015 (%)	Reasons for changes
Other current assets	250,191	0.97	108,318	0.68	130.98	As a result of the Company's subsidiaries have pre-paid more enterprise income taxes and had relocated assets to be disposed by 31 December 2016.
Construction in progress	255,276	0.99	555,906	3.50	(54.08)	As a result of that the Group has gradually completed the construction projects of production bases by 31 December 2016.
Development costs	3,017	0.01	5,509	0.03	(45.24)	As a result of that the ending balance of the Group's development expenses has decreased by 31 December 2016.
Goodwill	11,500	0.04	2,283	0.01	403.71	As a result of the Company's subsidiaries have purchased the equities of Guangzhou Baiyunshan Hospital by 31 December 2016.
Long-term prepaid expenses	37,939	0.15	24,112	0.15	57.35	As a result of the Company's subsidiaries have increased expenses on reconstruction of fixed assets under operating lease by 31 December 2016.
Other non-current assets	35,970	0.14	0	0.00	100.00	As a result of that the assets purchased by the Company's subsidiaries by making payment have still been in the stage of going through formalities for transfer of property right by 31 December 2016.
Short-term borrowings	25,215	0.10	629,683	3.97	(96.00)	As a result of the Company's subsidiaries have gradually repaid their bank loans and the bank loans have decreased by 31 December 2016.

Item	As at	% of the	As at	% of the	Increase/	Reasons for changes
	31 December		31 December		(Decrease)	
	2016	total assets	2015	total assets	over 2015	
	(RMB'000)	(%)	(RMB'000)	(%)	(%)	
Advances from customers	1,552,886	6.00	974,514	6.14	59.35	As a result of that the moneys for goods received from distributors in advance by the Company's subsidiaries have increased by 31 December 2016.
Employee benefits payable	546,523	2.11	413,030	2.60	32.32	As a result of that the payroll payable but not paid by the Group in this period has increased by 31 December 2016.
Taxes payable	384,192	1.48	74,514	0.47	415.59	As a result of that the value-added tax and enterprise income tax payable but not paid by the Group have increased by 31 December 2016.
Deferred income	612,084	2.36	183,588	1.16	233.40	As a result of the Company's subsidiaries have received more land requisition compensation and subsidy from the government by 31 December 2016.
Deferred tax liabilities	76,581	0.30	29,064	0.18	163.49	As a result of that the difference in income tax payable by Group in the future has increased by 31 December 2016.
Capital surplus	9,875,173	38.13	2,346,435	14.78	320.86	As a result of premium in the capital stock of RMB ordinary shares (A-share) offered in a non-public manner by the Company by 31 December 2016.
Other comprehensive income	9,788	0.04	(733)	0.00	1,435.93	As a result of that the prices of financial assets available for sale held by the Group have gone up by 31 December 2016.

6.2.6 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.

6.2.7 Main cash resources and applications

As at 31 December 2016, cash and cash equivalents of the Group amounted to RMB12,756,470,000 with an increase of RMB8,918,866,000 as compared with the beginning of 2016. The net cash inflow derived from operating activities amounted to RMB2,444,672,000 with an increase of RMB502,716,000 as compared with 2015, mainly due to the Company's subsidiaries received land requisition compensation and government subsidy, the interest incomes increased on a year-on-year basis, and the paid taxes decreased in this year.

6.2.8 Contingent liabilities

As at 31 December 2016, the Group had no material contingent liabilities.

6.2.9 Charge on the Group's assets

As at 31 December 2016, Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, acquired the overdraft amounted to HKD300,000, letter of credit and 90 days credit total amounted to HKD100,000,000 from Bank of China (Hong Kong) Co., Ltd., secured by the original value amounted to HKD8,893,000, the net value HKD6,417,000 of the buildings of fixed assets and the original value amounted to HKD6,843,000, the net value amounted to HKD3,877,000 of investment properties, and the issued but undue L/C amounted to USD638,000.

6.2.10 Bank loans, overdraft and other borrowings

As at 31 December 2016, the bank loans of the Group amounted to RMB58,718,000 (31 December 2015: RMB669,439,000), with a decrease of RMB610,721,000 as compared with the beginning of 2016. The above bank loans included short-term loans of RMB25,216,000 and long-term loans of RMB33,502,000.

6.2.11 Gearing ratio

As at 31 December 2016, the Group's gearing ratio (total liabilities/total assets×100%) was 31.83% (31 December 2015: 45.28%).

6.2.12 Material investment

As at 31 December 2016, the Group did not have any other material additional investment.

6.2.13 The major assets at the end of the Reporting Period were limited

Applicable Not applicable

6.3 Employees

6.3.1 Employees

Numbers of the employees of the parent Company	2,432
Numbers of the employees of the major subsidiaries	19,921
Total	22,353
Retired employees of the Company and major subsidiaries whose expenses were assumed by the Company and major subsidiaries	11,152
Gross payroll of the Group	RMB2.032 billion

Composition

Category constitution	a number of constitute staff
Production staff	5,033
Sales personnel	12,821
Technical staff	2,420
Finance staff	369
Administrative staff	1,710
Total	22,353

Educational Level

	Number
Post Graduate	403
Undergraduate	5,316
University college	6,749
Secondary and below	9,885
Total	22,353

6.3.2 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.

6.3.3 Training plan

The Group regard staff as its precious wealth, adhere to the "people oriented" principle, respect their legitimate rights and interests, strives to provide them with extensive career development platform, care of their lives and constantly enhance their happiness and sense of belonging.

In 2016, the Group on the basis of “talent upgrading” strategy, carried 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 provide powerful talent support for the Group to achieve transformation and upgrading and to complete the strategic objective.

6.3.4 Employee stock ownership scheme

In order to motivate the employees of the Group, the Employee Stock Ownership Scheme (2015) was approved at the Board meeting held on 12 January 2015 and at the first extraordinary shareholders’ general meeting in 2015, the Class Meeting of Holders of Domestic Shares, the Class Meeting of Holders of Overseas Listed Foreign Capital Shares held on 13 March 2015 by the independent shareholders. The target participants of the Ownership Scheme are all employees of the Group as at 1 January 2015, including Directors (excluding independent non-executive Directors), supervisors, senior management and other employees of the Group. Total size of the Ownership Scheme will be no more than the maximum number of A Shares to be subscribed for under the Employee Scheme Subscription, being 21,189,000 A Shares (initially 21,189,000 A Shares and subsequently adjusted to 21,440,821 A Shares) and no more than the maximum subscription amount of approximately RMB505 million under the Employee Scheme Subscription.

The Employee Stock Ownership Scheme was completed on 17 August 2016, a total of 1,209 employees participated in the Employee Stock Ownership Scheme, subscribing a total of 3,860,500 shares at the amount of RMB of 90,953,380.00. On the same day, the Placement Prosperous Age Exclusive Account No. 66 (as the trustee of the Employee Stock Ownership Scheme (2015)) which held 3,860,500 A shares of the Company, completed the registration of the newly-issued shares on Depository Corporation. The newly-offered shares are limited tradable shares with a lock-up period of 36 months and can be traded on the SSE on the second trading day following the expiration of the lock-up period.

For details of the Stock Ownership Scheme, please refer to the announcements dated 12 January 2015 and 17 March 2015 published in Shanghai Securities Journal, Securities Times, China Securities Journal, Securities Daily, the websites of SSE and HKEx and the circulars dated 26 February 2015 and 16 February 2016.

6.4 Discussion and analysis on future development

6.4.1 Competition within, and the development trend of, the industry

In recent years, the government has implemented a number of reforms in pharmaceutical industry, pharmaceutical distribution, medical insurance payments and terminal medical services, and the release of the Outline of “Healthy China 2030” Plan provides a programmatic guidance for the development of the pharmaceutical industry; elimination of backward production capacity, mergers and acquisitions have become the long-term trends. Since China’s pharmaceutical and health industry standards continue to improve, the past extensive growth mode is difficult to continue and is replaced by the overall speeding and shifting

of the industry, as well as differentiation development and structural adjustment of sub-industries. These all indicate the arrival of the era of healthy development, standardized development and differential development, therefore only those enterprises who actively make positive changes that follow industry trends could obtain long-term growth.

Overall, the pharmaceutical industry in 2017 will not only be affected by the macroeconomic downturn, but also more prominently by the national policy. 2017 will be key in terms of implementation of policies like consistency evaluation and “two-vote system”; meanwhile, with the increasingly strict medical insurance cost control will further curb the growth of hospital terminals, the pharmaceutical industry reshuffle will step up and mergers and acquisitions between enterprises will be more intense; the direction of drug R& D will be gradually transferred from focus on generic drug priority to innovative medicine; with the government support, the Great Health Industry and traditional Chinese medicine will see growth in market shares and major varieties of proprietary Chinese medicine will have development opportunities; the macro supporting policy for the future online pharmaceutical transactions will continue to be favorable and pharmaceutical e-commerce will be further developed. From the long-term development point of view, the pharmaceutical and health industry development policy environment will be more favorable, the industrial environment will be more standardized and the market environment will be more complex.

6.4.2 Development strategy and annual work plan for year 2017

2017 will be the Group’s “year of quality and benefits” when the Group will practice its development concepts of innovation, coordination, environmentally-friendliness, opening-up and sharing, and carry out various work with focus on improving corporate development quality and benefits:

1. Polish up China’s well-known trademarks and time-honored brands and enhance the quality benefits of Great Southern TCM: implement the famous brand strategy and on the basis of high-quality and fashion-oriented, continuously enhancing the brand awareness and impact, while increasing brand investment and promotion efforts; implement the big variety strategy to make good product echelon design, integrate advantageous resources to build strategic big varieties and revitalize inactive varieties with development potential; implement the strategy of corporate strength enhancement using traditional Chinese medicine to make the traditional Chinese medicine industry bigger, stronger and more high-quality; implement the resource integration strategy to give full play to the synergistic effect of the pharmaceutical manufacturing enterprises under the Group and the trade enterprises under the Group and establish the marketing advantage of Great Southern TCM.
2. In continued accordance with the brand strategy of “fashion, science and technology, culture”, promote the Wang Lao Ji brand to be popularized, mass-oriented, modernized and internationalized, continue to strengthen the development of catering and other channels, develop clusters of big products of Great Health Industry and enhance quality benefits of Great Health Industry.

3. Optimize service brand and enhance the quality benefits of Great Commerce: With the existing large-scale hospital projects as a benchmark, actively expand logistics extension services of 3A-level hospitals, specialist hospitals and grass-roots hospitals for better logistics extension services; in response to the implementation of the “two-vote system”, speed up the downward penetration of the terminal medical service, establish a three-level network connecting urban public hospitals, county hospitals, community and township hospitals and optimize terminal delivery services; expand the chain store business through acceleration of self-opened stores, retail mergers and acquisitions, development of single-store alliance, and optimize retail service through “products + services” complemented by online and offline multi-channel marketing; upgrade the existing product e-commerce platform, strengthen cooperation with external well-known e-commerce platforms, optimize pharmaceutical e-commerce services; speed up the logistics project construction work and optimize logistics services.
4. Scientifically operate and upgrade Guangzhou Baiyunshan Hospital, gradually expand the health maintenance and elderly care industry, pragmatically promote the progress of medical and medical equipment projects, and establish Baiyunshan medical brand to enhance the quality benefits of Great Medical.
5. Speed up the implementation of investment projects, continue to promote investment and acquisition projects, and optimize the quality of investment cooperation and the investment management system to enhance the quality of Great Capital benefits.
6. Optimize the scientific research and product quality, enhance the quality benefits of science and technology: set “quality” as the core and enhance the overall quality management level; set “integration” as the main line and strengthen the construction of the innovation system; set “cooperation” as the starting point and promote the establishment of a number of major science and technology innovation projects.
7. Further optimize the capacity layout, focus on the integration of resources to cut overcapacity; speed up the implementation of production base projects, promote optimized allocation of a variety of manufacturing resources and construct innovative the trinity industry base.
8. Expend great efforts in standardized management, cost management, safety management, integrated management and efficient management, optimize the quality of operation and improve quality benefits of management.
9. Take the initiative to “go out” and actively “introduce” to enhance the ability to pool resources and enhance quality benefits of internationalization.
10. Build dual innovation demonstration bases, speed up the implementation of mass innovation projects, explore innovation and business start-up modes like shareholding by operators and internal crowd fund raising, speed up development of institutional mechanisms for internal innovation and startup, and enhance innovation and startup ability.

6.4.3 Potential challenges and risks

The challenges and risks faced by the Group principally include: (a) the global economy is in a downturn, the national economy enters into a new normal state and the capital market is not active; (b) due to the impact of factors like insurance cost control, bidding policy reform and increasingly strict new drug approval, the overall growth of pharmaceutical and health industry will slow down; (c) social overcapacity and serious social stock makes industrial product prices continue to decline; (d) deep integration and cross-border expansion of industrial capitals tend to be prominent and pharmaceutical enterprises and non-pharmaceutical enterprises compete to establish presence in the pharmaceutical and health industry, hence intensified industry competition; (e) consumer purchasing power continues to decline and mass consumer goods slow down its growth rate.

7. OTHER MATTERS

7.1 Corporate Governance

During the Reporting Period, the Company complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (“CG Code”) and the code provisions of the CG Code except that (i) Ms. Liu Juyan and Mr. Wang Wenchu, executive Directors, were unable to attend the annual general meeting in 2015 due to business reasons which constituted deviation from code provision A.6.7, and (ii) Mr. Chen Mao and Mr. Wang Wenchu, executive Directors, Mr. Wong Lung Tak Patrick and Mr. Qiu Hongzhong, independent non-executive Directors,, were unable to attend the first extraordinary general meeting in 2016, the first general meeting of shareholders of holding domestic shares in 2016 and the first general meeting of shareholders of holding overseas listed foreign shares in 2016 due to business which constituted a deviation from code provision A.6.7, and (iii) Mr. Chen Mao and Mr. Wang Wenchu, executive Directors, Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong and Mr. Chu Xiaoping, independent non-executive Directors, were unable to attend the second extraordinary general meeting in 2016 due to business reasons 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.

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 the completeness and effectiveness of the Company’s internal control system; to consider the appointment of independent auditors and to co-ordinate and to review the efficiency and quality of their work.

The Audit Committee of the sixth session of the Board was established on 28 January 2014, comprising 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 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 2015 to the date of election of the new session of the Board, the term of office of Mr. Jiang Wenqi was from 17 March 2015 up to the date of members of the new session of the Board are elected.

Major tasks accomplished by the Audit Committee in 2016 including:

- (A) held three meetings in 2016 to review the 2015 Annual Report and 2016 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 re-appointing on the re-appointment of the auditing firm for the year;
- (D) advised the Company on major events of the Company or reminding the management of relevant risks.

The work on the annual audit for 2016 and relevant jobs regarding the preparation of the Annual Report are as follows:

In accordance with "the Notice on preparation of the 2016 Annual Report in an orderly manner by Listed Companies" issued by the SSE on 31 December 2016, 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 2016 and the preparation of the annual report for 2016 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 2016 Annual Report" and reviewed the audit plan submitted by the auditors.

- (B) On 13 March 2017, 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 2016 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 15 March 2017, the Audit Committee convened the first meeting in 2017 and considered and passed the 2016 Annual Report and this summary and the Company's 2016 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 with satisfactory performance.

7.3 The Group's purchase and disposal of assets or enterprise merger and other transactions during the Reporting Period

- (A) As approved at the 23rd meeting of the fifth session of the Board, WLJ Great Health, a wholly-owned subsidiary of the Company, proposed to establish Wang Lao Ji herbal tea production base in Ya'an, Sichuan 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 was completed on 8 July 2015 as planned and had succeeded in production line debugging as planned on 20 April 2016. At present, it has a comprehensive production and the factory currently in good operation.

For details, please refer to the announcement 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 website of the SSE and the announcement dated 16 July 2013 published on the website of HKEx.

- (B) According to the arrangements of the industrial structure adjustment, 11 enterprises under the Company planned to relocate to the Baiyun base in the Biological Medicine Town of GPLH ("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.

Ming Xing (98.8 mu), He Ji Gong (36 mu), HYBYS (99.7 mu) and GP Corp. (68.5 mu), which are under the Group, have obtained the land use rights of the land available for construction (303 mu) in the first phase, with a total land bidding price of about RMB221.29 million. The relevant work mentioned above is currently in progress.

- (C) As approved at the 7th meeting of the Strategic Development and Investment Committee of the Company in 2015, the Company invested RMB150,000,000 to subscribe LP Shares in the Sino-Israel Fund and contributed RMB500,000 (representing 10%) to the establishment of Elim Biotech. Elim Biotech has been established and the Company has paid the first contribution of RMB50 million for interests in the limited partnership fund in accordance with the agreement.

For more details, please refer to the announcement published by the Company in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities journal (中國證券報), Securities Daily (證券日報) and on the websites of the SSE and HKEx on 29 October 2015.

- (D) As approved at the 8th meeting of the Strategic Development and Investment Committee 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 Herbal Pieces Factory. After the capital increase, the registered capital of Guangzhou Medicine Company Chinese Herbal Pieces Factory will increase to RMB20,000,000. At present, the above transaction has completed.
- (E) As approved at the 11th meeting of the Strategic Development and Investment Committee 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. The first phase of capital increase of RMB58,464,000 has completed on 23 December 2015.
- (F) As approved at the 2nd Strategic Development and Investment Committee Meeting of the Company in 2016, the Company contributed addition capital of RMB20.4 million to its controlled subsidiary Guangzhou Guangyao Yigan Biological Products Co., Ltd. (“Yi Gan”). After the capital increase, the registered capital of Yi Gan had been increased to RMB55 million. At present, the capital increase of RMB5.1 million in the first phase has been completed.
- (G) As approved at the 3rd Strategic Development and Investment Committee Meeting of the Company in 2016, the Company’s subsidiary, Xing Qun, participated in the publicly listed auction for 28 proprietary pharmaceutical production technologies of eight dosage forms from Guangzhou Zhujiang Pharmaceutical Company at a price of no more than RMB38 million. The Company acquired the aforementioned 28 proprietary pharmaceutical manufacturing technologies with RMB34.35 million.
- (H) As approved at the 5th Strategic Development and Investment Committee Meeting of the Company held in 2016, the Company and GPLH have signed an Office Lease Contract in relation with the lease of the office located on the 5th Floor, No. 45, North Shamian Street, Liwan District, Guangzhou (with an area of 531 square metres) to GPLH. The term for lease of the above property is three years, commenced from 1 July 2016 to 30 June 2019, and the total rent for the lease for three years is RMB1,240,800.

- (I) As approved at the 5th Strategic Development and Investment Committee Meeting of the Company held in 2016, the Company's subsidiary, Xing Qun, intended to invest RMB3 million to establish a wholly-owned subsidiary Guangzhou Baiyunshan Xing Qun Health Technology Co., Ltd. ("this Company"), which will mainly focus on operating the Great Health products of Xing Qun. The above project has completed.
- (J) As approved at the 5th Strategic Development and Investment Committee Meeting of the Company held in 2016, the Company's subsidiary, Guangzhou Baidi intended to participate in the establishment of Guangzhou Baiyunshan Southern Antitumor Biological Products Co., Ltd. (the "Project Company") for the development and application of novel anti-tumor vaccines. The Project Company's registered capital is expected to be RMB99.50 million and Guangzhou Baidi proposed to hold 50% equity interest in the Project Company through valuation of intangible assets. The above project is under way.
- (K) As approve at the 5th Meeting of the Company's Strategic Development and Investment Committee in 2016, the Company intended to contribute additional capital of RMB15 million in cash to its wholly-owned subsidiary, Baiyunshan Medical and Healthcare Industry Company will inject such amount of capital into Tibet Linzhi Baiyunshan Tibetan-style Health Castle Management Company Limited (the "Tibet Company"). Upon completion of the above capital increase, the registered capital of the Tibet Company will be RMB50 million. The above project has completed.
- (L) As approved by the 5th Meeting of the Company's Strategic Development and Investment Committee in 2016, Guangzhou Baiyunshan Chemical & Pharmaceutical Technology Co., Ltd. ("Chemical & Pharmaceutical Technology Company") and the Management Committee of Zhuhai Fushan Industrial Park ("Fushan Industrial Park") had signed the Investment Agreement between the Management Committee of Zhuhai Fushan Industrial Park and Guangzhou Baiyunshan Chemical & Pharmaceutical Technology Co., Ltd. In accordance with the Investment Agreement, upon the approval of the project environmental evaluation, the Fushan Industrial Park will transfer a piece of class-III industrial land of 133,340 square meters (200 mu) to Chemical & Pharmaceutical Technology Company for the construction of the relocated chemical and pharmaceutical plant which will involve a preliminary investment of RMB55 million. The above project is under way.
- (M) The 6th Strategic Development and Investment Committee of the Company in 2016 reviewed and approved the proposal that the Company would establish a wholly-owned subsidiary "WLJ Investment" with a registered capital of RMB10 million. At present, WLJ Investment has already been established.
- (N) The 7th Strategic Development and Investment Committee of the Company in 2016 considered and approved the proposal that the Company would establish Medical Instrument Investment Company with a registered capital of RMB10 million. At present, the incorporation of the company is in progress.
- (O) The 7th Strategic Development and Investment Committee of the Company in 2016 considered and approved the proposal that the Company's subsidiary Guangyao Baiyunshan Hong Kong Company would establish a company in Macau with a registered capital of MOP 1 million. At present, the establishment of this company is in progress.

- (P) The 7th Strategic Development and Investment Committee of the Company in 2016 considered and approved the proposal that the Company's subsidiary Chen Li Ji would establish a joint venture Guangzhou Chen Li Ji Great Health Company with Guangdong Juxiangzhai Great Health Industry Co., Ltd. and Guangzhou Pusheng Dazheng Pharmaceutical Co., Ltd. The company mainly produces and operates Great Health Industry-related products like food, health supplements, cosmetics made of traditional Chinese medicine and daily chemical products. The company has a registered capital of RMB15 million, of which Chen Li Ji contributes RMB6.6 million in cash, holding 44% stake. At present, the establishment of this company is in progress.

7.4 Explanatory notes on other major events

The Company's non-public offering of A shares and the Stock Ownership Scheme had been approved at the eighth meeting of the sixth session of the Board and the first extraordinary meeting of the shareholders in 2015, the first meeting of holders of domestic shares in 2015 and the first meeting of holders of overseas listed foreign shares in 2015. The thirteenth, sixteenth and eighteenth meetings of the sixth session of the Board held respectively on 9 July 2015, 28 October 2015 and 26 November 2015 approved matters relating to the amendments of the Company's proposal on non-public offering of A-shares. On 15 January 2016, the twentieth meeting of the sixth session of the Board considered and approved the Proposal on Extending the Period of Validity of the Resolution of the Meeting of Shareholders on the Company's Non-public Offering of A Shares and other related proposals, which were further considered and approved at the first extraordinary meeting of shareholders in 2016, the first meeting of holders of domestic shares in 2016 and the first meeting of holders of overseas listed foreign shares in 2016. On 3 May 2016, the Company received the Approval on the Non-public Offering of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. ([2016] No. 826 Zhengjian Xuke) from the CSRC.

On 12 August 2016, BDO China Shu Lun Pan CPAs LLP issued the Capital Verification Report of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. as at 11 August 2016 (Xinhuishibaozi[2016] No. 410605). After verification, as at 11 August 2016, the Company, through the non-public offering of 334,711,699 ordinary shares (A shares) denominated in RMB at an offering price of RMB23.56 per share, raised total proceeds of RMB7,885,807,628.44 and the net proceeds of RMB7,863,446,528.33 after deducting all offering expenses of RMB22,361,100.11. The registration and custody procedures for the newly-offered shares had been completed at the Depository Corporation on 17 August 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	Note	31 December 2016	31 December 2015
Current assets			
Cash at bank and on hand		13,091,007,880.23	4,118,291,426.52
Financial assets based on fair value to confirm profit or loss		6,026,123.94	6,499,789.60
Notes receivable		1,604,767,885.21	1,450,035,581.39
Accounts receivable	8.1.3	1,108,363,607.29	1,051,642,996.39
Advances to suppliers		414,073,610.15	316,795,764.49
Interest receivable		-	-
Dividends receivable		52,938,523.45	-
Other receivables		205,120,876.85	209,264,412.47
Inventories		2,781,495,711.45	2,543,866,145.35
Current portion of non-current assets		-	-
Other current assets		250,191,094.03	108,317,835.73
Total current assets		19,513,985,312.60	9,804,713,951.94
Non-current assets			
Available-for-sale financial assets		327,889,324.24	328,372,231.24
Held-to-maturity investments		-	-
Long-term receivables		-	-
Long-term equity investments		2,290,443,462.70	2,111,212,976.44
Investment properties		228,575,391.31	234,615,086.24
Fixed assets		2,107,109,957.69	1,933,901,738.15
Construction in progress		255,276,101.16	555,906,380.17
Construction materials		-	-
Fixed assets pending for disposal		-	-
Intangible assets		668,305,151.10	540,174,651.69
Development costs		3,017,046.84	5,509,098.53
Goodwill		11,499,562.74	2,282,952.18
Long-term prepaid expenses		37,939,444.42	24,112,146.30
Deferred tax assets		417,159,182.77	329,776,054.32
Other non-current assets		35,970,282.97	-
Total non-current assets		6,383,184,907.94	6,065,863,315.26
TOTAL ASSETS		25,897,170,220.54	15,870,577,267.20

ITEMS	Note	31 December 2016	31 December 2015
Current liabilities			
Short-term borrowings		25,215,424.88	629,683,464.69
Financial liabilities based on fair value to confirm profit or loss		-	-
Notes payable		320,811,521.98	292,607,099.65
Accounts payable	8.1.4	2,267,279,067.87	2,636,474,108.05
Advances from customers		1,552,885,731.40	974,514,210.30
Employee benefits payable		546,523,380.87	413,029,738.15
Taxes payable		384,192,155.39	74,514,458.11
Interest payable		257,658.10	359,628.56
Dividends payable		57,301,541.02	52,066,098.91
Other payables		2,267,981,520.69	1,755,251,103.41
Current portion of non-current liabilities		-	-
Other current liabilities		-	-
Total current liabilities		7,422,448,002.20	6,828,499,909.83
Non-current liabilities			
Long-term borrowings		33,502,083.03	39,755,174.34
Debentures payable		-	-
Long-term payables		20,558,783.65	22,219,899.34
Payables for specific projects		16,842,773.80	19,058,160.00
Provisions		61,045,873.15	64,162,534.32
Deferred income		612,084,162.58	183,587,858.83
Deferred tax liabilities		76,581,360.14	29,063,935.23
Long-term employee benefits payable		316,733.72	296,646.40
Total non-current liabilities		820,931,770.07	358,144,208.46
Total liabilities		8,243,379,772.27	7,186,644,118.29
Shareholders' equity			
Share capital		1,625,790,949.00	1,291,079,250.00
Capital surplus		9,875,172,584.68	2,346,435,108.64
Less: Treasury share		-	-
Other comprehensive income		9,788,066.97	(732,678.19)
Surplus reserve		1,052,034,418.97	930,522,262.36
Undistributed profits		4,782,293,720.24	3,883,510,490.48
Total equity attributable to shareholders of the Company		17,345,079,739.86	8,450,814,433.29
Minority interest		308,710,708.41	233,118,715.62
Total shareholders' equity		17,653,790,448.27	8,683,933,148.91
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		25,897,170,220.54	15,870,577,267.20

Consolidated Income Statement

ITEMS	Note	Year ended 31 December	
		2016	2015
1. Revenue	8.1.5	20,035,681,499.37	19,124,658,298.90
Less: Cost of sales	8.1.5	13,412,062,896.03	12,200,500,049.92
Taxes and surcharges		189,309,156.99	169,627,790.27
Selling and distribution expenses		3,823,589,490.19	4,167,680,901.54
General and administrative expenses		1,439,734,312.47	1,374,805,685.81
Financial expenses		(96,520,258.97)	(21,937,825.02)
Asset impairment losses		6,728,893.84	36,312,870.62
Add: Profit arising from changes in fair value		(473,665.66)	1,813,766.60
Investment income		206,321,948.46	210,852,957.10
Including: Share of profit of associates and jointly controlled entities		194,459,911.23	206,845,139.58
2. Operating profit		1,466,625,291.62	1,410,335,549.46
Add: Non-operating income		554,792,542.30	331,198,578.33
Including: Gain on disposal of non-current assets		17,866,008.79	698,961.19
Less: Non-operating expenses		76,364,435.58	113,412,054.19
Including: Losses on disposal of non-current assets		2,622,479.73	1,992,658.12
3. Total profit		1,945,053,398.34	1,628,122,073.60
Less: Income tax expenses	8.1.6	386,379,403.17	282,835,101.41
4. Net profit		1,558,673,995.17	1,345,286,972.19
– Attributable to owners of the parent company		1,508,032,671.07	1,300,351,292.59
– Minority interest		50,641,324.10	44,935,679.60

ITEMS	Note	Year ended 31 December	
		2016	2015
5. Other comprehensive net income after tax		10,516,712.10	(12,635,534.89)
Other comprehensive net income after tax attributable to shareholders' equity of parent company		10,520,745.16	(12,633,367.87)
(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		10,520,745.16	(12,633,367.87)
1) Portion of items will be classified into profit or loss when under equity method		(218,435.84)	91,910.16
2) Profit or loss arising from changes in fair value of available for sale financial assets		6,796,748.61	(12,722,126.94)
3) Differences arising from translation of foreign currency financial statements		3,942,432.39	(3,151.09)
Other comprehensive net income after tax attributable to minority shareholders' equity		(4,033.06)	(2,167.02)
6. Total comprehensive income		1,569,190,707.27	1,332,651,437.30
(1) Total comprehensive income attributable to shareholders' equity of parent company		1,518,553,416.23	1,287,717,924.72
(2) Total comprehensive income attributable to minority shareholders' equity		50,637,291.04	44,933,512.58
7. Earnings per share			
– Basic earnings per share	8.1.7	1.075	1.007
– Diluted earnings per share	8.1.7	1.075	1.007

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 2016 and as of 31 December 2016 as follows:

	Great Southern						
	TCM	Great Health	Great Commerce	Other	Elimination	Total	
Revenue	7,019,333,990.54	7,769,472,680.57	5,170,595,594.73	76,279,233.53	-	20,035,681,499.37	
Inter-segment revenue	362,058,069.77	14,409,500.90	6,211,880,839.11	132,586,479.33	(6,720,934,889.11)	-	
Interest income	(24,537,249.28)	(56,898,929.13)	(4,346,084.48)	(38,254,530.89)	1,850,210.41	(122,186,583.37)	
Interest expenses	21,801,112.56	-	48,349,681.46	18,730,302.15	(68,197,035.17)	20,684,061.00	
Share of profit or loss of associates and jointly controlled entities	6,877,946.28	-	801,062.50	184,378,081.23	2,402,821.22	194,459,911.23	
Asset impairment losses	(1,271,157.67)	263,769.80	971,484.77	934,282.20	5,830,514.74	6,728,893.84	
Depreciation and Amortization	200,324,561.75	17,074,294.30	7,383,704.06	18,306,310.05	(144,105.00)	242,944,765.16	
Total profit	936,405,138.93	621,205,532.83	73,083,539.18	785,504,217.43	(471,145,030.03)	1,945,053,398.34	
Income tax expenses	53,410,776.16	188,857,254.61	17,424,259.48	113,599,134.78	13,087,978.14	386,379,403.17	
Net profit (Including: minority interest)	882,994,362.77	432,348,278.22	55,659,279.70	671,905,082.65	(484,233,008.17)	1,558,673,995.17	
Total assets	8,215,356,021.51	4,536,823,808.46	4,006,996,218.57	16,144,661,530.04	(7,006,667,358.04)	25,897,170,220.54	
Total liabilities	4,671,712,476.03	3,777,036,736.50	3,737,139,513.69	609,593,407.39	(4,552,102,361.34)	8,243,379,772.27	
Long-term equity investments in associates and jointly controlled entities	81,955,813.17	-	61,624,075.01	2,146,863,574.52	-	2,290,443,462.70	
Additions of non-current assets other than long-term equity investments	463,602,322.19	105,722,329.63	8,500,773.52	50,728,219.02	-	628,553,644.36	

- (2) 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	

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:

	The year ended 31 December 2016	The year ended 31 December 2015
Revenue from external customers		
PRC	19,966,567,906.17	18,925,851,715.62
Other countries/regions	69,113,593.20	198,806,583.28
	<u>20,035,681,499.37</u>	<u>19,124,658,298.90</u>
Total non-current assets	31 December 2016	31 December 2015
PRC	5,920,389,492.25	5,639,816,203.36
Other countries/regions	19,704,081.33	19,855,998.99
	<u>5,940,093,573.58</u>	<u>5,659,672,202.35</u>

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:

	31 December 2016	31 December 2015
Within 1 year	982,667,101.58	895,601,374.31
1 to 2 years	36,338,691.74	188,310,732.65
2 to 3 years	138,822,487.95	16,312,026.02
3 to 4 years	9,523,619.45	4,481,955.06
4 to 5 years	2,646,065.97	3,734,629.21
Over 5 years	12,868,153.61	12,829,505.70
	<u>1,182,866,120.30</u>	<u>1,121,270,222.95</u>
Less: Provision for bad debts	<u>74,502,513.01</u>	<u>69,627,226.56</u>
	<u>1,108,363,607.29</u>	<u>1,051,642,996.39</u>

8.1.4 Accounts payable

The ageing of accounts payable is analyzed as follows:

	31 December 2016	31 December 2015
Within 1 year	2,073,358,531.89	2,452,193,485.28
Over 1 year	193,920,535.98	184,280,622.77
	<u>2,267,279,067.87</u>	<u>2,636,474,108.05</u>

8.1.5 Revenue and cost of sales

	The year ended 31 December 2016		
	Principal operation	Other operation	Subtotal
Revenue	19,875,179,176.98	160,502,322.39	20,035,681,499.37
Cost of sales	13,372,297,606.33	39,765,289.70	13,412,062,896.03
Gross profit	6,502,881,570.65	120,737,032.69	6,623,618,603.34
	The year ended 31 December 2015		
	Principal operation	Other operation	Subtotal
Revenue	18,966,491,916.90	158,166,382.00	19,124,658,298.90
Cost of sales	12,165,563,069.12	34,936,980.80	12,200,500,049.92
Gross profit	6,800,928,847.78	123,229,401.20	6,924,158,248.98

8.1.6 Income tax expenses

	The year ended 31 December	
	2016	2015
Current income tax	425,896,218.16	268,720,343.83
Deferred income tax	(39,516,814.99)	14,114,757.58
	<u>386,379,403.17</u>	<u>282,835,101.41</u>

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

	The year ended 31 December	
	2016	2015
Total profit	1,945,053,398.34	1,628,122,073.60
Income tax expenses calculated at 25%	486,263,349.59	407,030,518.40
Tax effect of different rates applicable to subsidiaries	(162,646,170.96)	(99,445,526.71)
Adjust effect for income tax of previous period	(2,936,163.85)	(2,578,259.68)
Gain or loss belong to associates & joint venture	(29,508,374.06)	(32,624,742.09)
Non-taxable revenue	(2,025,468.61)	(1,723,504.36)
Expenses not deductible for tax purposes	4,420,280.84	7,264,809.04
Effect of opening balance of deferred income tax arising from changes in tax rate	84,252,750.07	–
Tax effect of deductible temporary differences & deductible loss which are not recognized in current period	8,854,698.28	7,023,747.80
Tax effect of unrecognized deferred income tax assets	(295,498.13)	(2,111,940.99)
Income tax expenses	<u>386,379,403.17</u>	<u>282,835,101.41</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 Company 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 Han Fang (No. GR201444000631), Jing Xiu Tang (No. GR201444001464), Qi Xing (No. GR201444001047), Chen Li Ji (GR201444001125), Tian Xin (No. GR201444000895), Guang Hua (No. GR201544000485), Ming Xing (No. GR201444001349), Guangxi Yingkang (No GR201545000083) WLJ Great Health (GR201644006480).

In accordance with <The Chinese Ministry of Finance Customs Head Office the Notice on Taxation Policy Issues concerning the In-depth Implementation of the Western Development Strategy>, Wanglaoji Great Health Ya'an Industrial (Ya'an) Co., Ltd. has 15% of tax preference.

8.1.7 Earnings per share

(a) Basic earnings per share

(i) Weighted Average Basic Earnings per share

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

	<u>The year ended 31 December</u>	
	2016	2015
Consolidated net profit attributable to ordinary shareholders of the Company	1,508,032,671.07	1,300,351,292.59
Weighted average number of ordinary shares outstanding	1,402,649,816	1,291,188,167
Weighted average Basic Earnings per share	<u>1.075</u>	<u>1.007</u>

(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.

	The year ended 31 December	
	2016	2015
Consolidated net profit attributable to ordinary shareholders of the Company	1,508,032,671.07	1,300,351,292.59
Number of ordinary share outstanding	1,625,790,949	1,291,079,250
Overall diluted basic earnings per share	0.928	1.007

(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. For the year ended 31 December 2016, there were no potential ordinary shares (year ended 31 December 2015: nil), diluted earnings per share is equal to basic earnings per share.

8.1.8 Dividends

Pursuant to the resolution of the extraordinary general meeting held on 11 November 2016, the Group distributed cash dividends amounted to RMB487,737 thousand which was calculated by issued shares amounted to 1,625,790,949 to all shareholders; total distributed cash dividends was RMB0.30 per share.

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

8.2.1 Implement <Provisions on the accounting treatment of value-added tax>

The Chinese Ministry of Finance issued <Provisions on the accounting treatment of value-added tax> (No. CH [2016]22) on 3 December, 2016, which applies to related transactions since 1 May, 2016. The main impact of the company's implementation of the provisions is as follows:

Content and changes of accounting policies	Vetting process	Affected item and amount
(1) The "Business taxes and surcharges" item in the income statement was adjusted to "Taxes and surcharges" item.	Approved by board of directors	Taxes and surcharges
(2) Real-estate tax, Land use tax, Vehicle use tax and Stamp tax on business activities since May 1, 2016 were reclassified from the "General and administrative expenses" item to "Taxes and surcharges" item and taxes and fees before May 1, 2016 were not be adjusted. Comparative data was not adjusted.	Approved by board of directors	Increased taxes and surcharges amounted RMB48,437,089.20, reduced general and administrative expenses amounted RMB48,437,089.20.
(3) Debit balances of detail accounts such as "VAT payable", "Unpaid VAT", "Deductible input VAT", "Certifiable input VAT", "VAT retained", etc. under the subject of "Taxes payable" were reclassified to "Other current assets" (or "Other non-current assets") item. Comparative data was not adjusted.	Approved by board of directors	Increased ending balance of other current assets amounted to RMB89,543,811.41, increased ending balance of non-current assets amounted RMB0.00, increased ending balance of taxes payable amounted RMB89,543,811.41.

8.3 There is no significant change in accounting policies, estimation and audit method when compared with the 2015 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	Ratio of acquiring equity (%)	Mode of acquiring equity	Acquisition date	Determination basis of acquisition date	Income of acquiree from acquisition date to the end of period	Net profit of acquiree from acquisition date to the end of period
Guangzhou Baiyunshan Hospital	April 2016	46,500,000.00	51.00	Acquisition	April 2016	Transfer of corporate control	51,030,046.48	3,559,315.86

8.5.2 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	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
Guizhou Guangyao Chinese Herb Development Co., Ltd.	-	67.67	liquidation	Nov 2016	The company cancelled	-	-	-	not applicable	not applicable	not applicable	-

8.5.3 Changes in scope of consolidation arising from other reason:

The reason for the increase of the 4 companies in scope of consolidation comparing to the previous period are:

- (1) Xing Qun, a subsidiary of the Company, established Guangzhou Baiyunshan Xingqun Health Technology Co., Ltd. in May 2016 with registered capital of RMB3 million, and holds 100% equity interest.
- (2) The Company established WLJ Investment in June 2016 with registered capital of RMB10 million, and holds 100% equity interest.
- (3) Baiyunshan Pharmaceutical Marketing, a subsidiary of the Company, established Guangzhou Baiyunshan Jin Ge Male Health Consulting Co., Ltd. in August 2016 with registered capital of RMB1 million, and holds 100% equity interest.
- (4) WLJ Investment, a subsidiary of the Company, established Guangzhou Wang Lao Ji Food & Beverage Management Development Co., Ltd. in September 2016 with registered capital of RMB20 million, and holds 80% equity interest.

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, 15 March 2017

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.