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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 2019 ANNUAL REPORT

1. IMPORTANT NOTICE

- 1.1** This summary is extracted from the full text of the 2019 annual report of the Company for the year ended 31 December 2019. Investors who wish to know more details are advised to refer to the full text of the 2019 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 carefully.
- 1.2** The Board, the Supervisory Committee and the Directors, Supervisors and senior management of the Company collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this 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 WUYIGE 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 WUYIGE Certified Public Accountants LLP: the net profit of the Group attributable to the shareholders of the Company amounted to RMB3,188,884,638.91 in 2019. Based on the net profit of the Company of RMB1,575,060,228.56 in 2019, a 10% statutory surplus reserve in the amount of RMB157,506,022.86 is provided, with the addition of the undistributed profit carried over from 2018 in the amount of RMB5,261,377,836.18, and after deducting the cash dividends of 2018 in the amount of RMB689,335,362.38, the actual distributable profits amounted to RMB5,989,596,679.50.

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 2019, a cash dividend of RMB5.89 (inclusive of tax) for every 10 shares, amounting to an aggregate of RMB957,590,868.96, be distributed. The undistributed portion shall be carried over to the next distribution. There will not be any capitalization of capital reserve for 2019.

The profit distribution plan will be submitted to the 2019 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 information required to be contained in the summary of the 2019 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 meanings as follows:

Company / the Company / GYBYS	Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (廣州白雲山醫藥集團股份有限公司)
PRC or China	the People's Republic of China
Reporting Period / Year / the current year	From 1 January 2019 to 31 December 2019
Group	the Company and its subsidiaries
Board	the board of Directors
Directors	the directors of the Company
Supervisory Committee	the supervisory committee of the Company
Supervisors	the supervisors of the Company
CSRC	China Securities Regulatory Commission
SSE	The Shanghai Stock Exchange
HKEx	The Stock Exchange of Hong Kong Limited

Guangzhou SASAC	The State-owned Assets Supervision and Administration Commission of Guangzhou Municipal Government
Articles of Association	the articles of association of the Company
Listing Rules of HKEx	the Rules Governing the Listing of Securities on the 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 Baiyunshan Yingkang Pharmaceutical Company Limited (廣西白雲山盈康藥業有限公司)
WLJ Great Health	Guangzhou WLJ Great Health Industry Co., Ltd. (廣州王老吉大健康產業有限公司)

GP Corp.	Guangzhou Pharmaceuticals Corporation (廣州醫藥有限公司)
Cai Zhi Lin	Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (廣州采芝林藥業有限公司)
Pharmaceutical Import & Export	Guangzhou Pharmaceutical Import & Export Company Limited (廣州醫藥進出口有限公司)
Guangyao Baiyunshan Hong Kong Company	Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited (廣藥白雲山香港有限公司)
Chemical Pharmaceutical Factory	Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Baiyunshan Chemical Pharmaceutical Factory (廣州白雲山醫藥集團股份有限公司白雲山化學製藥廠)
He Ji Gong	Guangzhou Baiyunshan Pharmaceutical Holdings 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河濟公製藥廠)
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 Pharmaceutical 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)
Weiling	Baiyunshan Weiling Pharmaceutical Co., Ltd. (白雲山威靈藥業有限公司)
HWBYS	Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited (廣州白雲山和記黃埔中藥有限公司)
WLJ Ya'an Company	Wang Lao Ji Great Health Industry (Ya'an) Co., Ltd. (王老吉大健康產業(雅安)有限公司)
Chemical & Pharmaceutical Technology Company	Guangzhou Baiyunshan Chemical & Pharmaceutical Technology Co., Ltd.(廣州白雲山化學藥科技有限公司)
Guangyao General Institute	Guangzhou Pharmaceutical Research General Institute (廣州醫藥研究總院有限公司)

Baiyunshan Medical and Healthcare Industry Company	Guangzhou Baiyunshan Medical and Healthcare Industry Investment Co., Ltd. (廣州白雲山醫療健康產業投資有限公司)
Medical Instrument Investment Company	Guangzhou Baiyunshan Medical Instrument Investment Company (廣州白雲山醫療器械投資有限公司)
Guangzhou Baiyunshan Hospital	Guangzhou Baiyunshan Hospital Co., Ltd. (廣州白雲山醫院有限公司)
Runkang Confinement Company	Guangzhou Baiyunshan Runkang Confinement Service Center Co., Ltd. (廣州白雲山潤康月子會所有限公司)
Yi Xin Tang	Yixintang Pharmaceutical Group Co.,Ltd. (一心堂藥業(集團)股份有限公司)
Baiyunshan Yi Xin Tang	Guangzhou Baiyunshan Yi Xin Tang Pharmaceutical Investment & Development Co., Ltd.(廣州白雲山一心堂醫藥投資發展有限公司)
GMP	the English abbreviation of Good Manufacturing Practice and it is a set of mandatory standards applicable to the pharmaceutical industry, which requires the pharmaceutical companies to ensure the quality of medicines in the production process shall conform to the national standards in accordance with the GMP requirements.
GPO	group purchasing organizations
DTP Pharmacy	the English abbreviation of Direct to Patient, and it is committed to providing patients with more valuable and professional services directly.
Essential Drug List	the National Essential Drug List (國家基本藥物目錄) (the 2018 edition), which is the basis for medical institutions to prepare and use drugs. The drugs in the Essential Drug List are those adapted to the basic medical and health needs, and are featured by appropriate dosage and form as well as reasonable pricey and supply and availability are guaranteed to the public.

National Medical Insurance Catalogue	a Catalogue of the List of Pharmaceutical Products under the National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance of the PRC (國家基本醫療保險、工傷保險和生育保險藥品目錄) (the 2017 version), being the national standard payable drugs fees for the basic medical insurance, work-related injury insurance and maternity insurance fund
Provincial Medical Insurance Catalogue	a Catalogue of the List of Pharmaceutical Products under the Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance at the provincial level of the PRC (基本醫療保險、工傷保險和生育保險藥品目錄) issued by every province of the PRC
DRGs Payment	payment according to the disease diagnosis related groups
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))

3. COMPANY PROFILE

3.1 Company profile

Stock abbreviation:	BAIYUNSHAN
Stock code:	600332 (A Share)
Stock exchange:	SSE
Stock abbreviation:	BAIYUNSHAN PH
Stock code:	0874 (H Share)
Stock exchange:	HKEx

	Secretary to the Board	Representative of securities affairs
Name	Huang Xuezhen	Huang Ruimei
Address	45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC	
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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 grown in both of its scale and efficiency. Currently, the Group is principally engaged in: (1) the research and development, manufacturing and sales of Chinese patent medicine, Western medicine, chemical raw materials, natural medicine, biological medicine and chemical raw materials intermediates; (2) the 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 (pharmaceutical manufacturing business)

There are 27 pharmaceutical manufacturing companies and institutions under the Company (including 3 branches, 21 subsidiaries and 3 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., among which, 10 of them are century-old time-honored enterprises. The Group and its joint ventures in aggregate have 321 products which are included in the National Medical Insurance Catalogue, 331 products which are included in the Provincial Medical Insurance Catalogue and 143 products which are included in the Essential Drug List. These main products include Xiao Ke Pill, compound Salvia Milltiorrhiz slice, Ban Lan Gen Granule, Qing Kai Ling series, Zi Shen Yu Tai Pill, Xiao Chai Hu Granule, Hua Tuo Zai Zao Pill, Xia Sang Ju Granule, Xiao Er Qi Xing Cha Granule, Zhuang Yao Jian Shen Pill, An Gong Niu Huang Pill, Shu Jin Jian Yao Pill, Mi Lian Chuan Bei Pi Pa Gao, Ke Gan Li Yan Oral Solution, 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, with products covering commonly used antibiotic varieties and male medicine. 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 and anti-inflammatory drugs. The Group’s chemical medicine includes Cefathiamidine, Cefixime, Sildenafil Citrate Tablets (“Jin Ge”), Cefprozil series and Amoxicillin, etc.

3.2.2 Great Health Industry

The Great Health Industry segment of the Group mainly engaged in the production, R&D and sale of beverage, food, healthcare product and etc., including the subsidiaries, WLJ Great Health and 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 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 subsidiaries, namely GP Corp., Cai Zhi Lin and Pharmaceutical Import & Export. The retail business is carried out principally through Cai Zhi Lin pharmacy chains, Jian Min pharmacy chains, GPC Prescription Pharmacy chains and etc. GP Corp. is the largest pharmaceutical logistics company in Southern China.

3.2.4 Great Medical Care

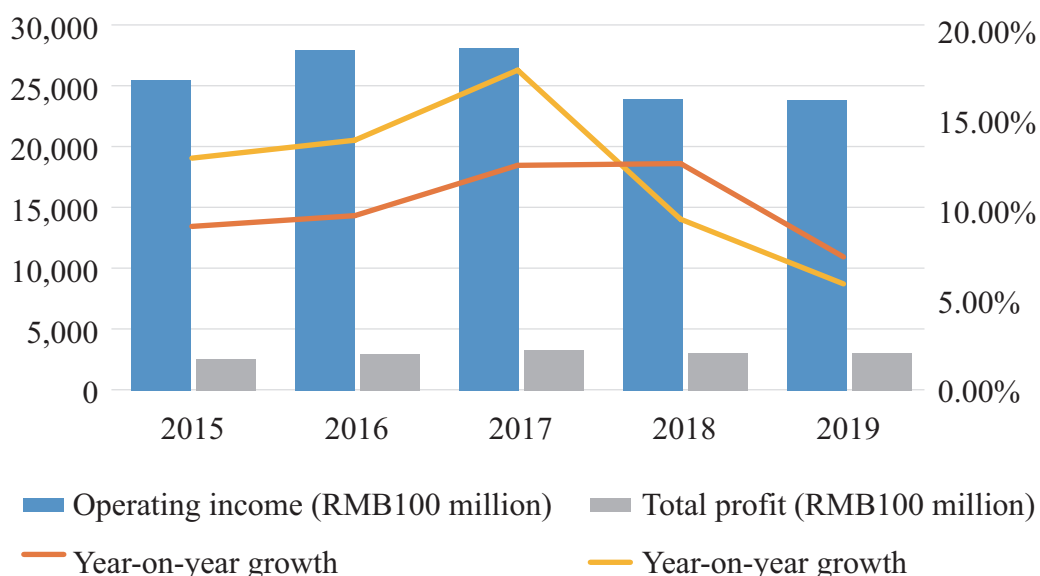
The Group leveraged on Baiyunshan Medical and Healthcare Industry Company and Medical Instrument Investment Company as the main investment vehicle and used various means, including new establishment, joint venture and co-operation to focus on the development of medical services, TCM health maintenance, modern elderly care and the medical device industry.

Currently, the Great Medical Care segment is at the stage of development and investment expansion. In the medical service field, Guangzhou Baiyunshan Hospital has developed from a community hospital into a Class II healthcare service institution, with rapid growth in the number of hospital beds. In the health maintenance field, the construction of the Tibetan-style Health Preservation Castle in Nyingchi of Tibet has been fully completed; Runkang Confinement Company strives to commence trial operation as soon as possible. In the medical device field, Guangzhou Zhongcheng Medical Device Industry Development Co., Ltd. (廣州眾成醫療器械產業發展有限公司) builds an operating platform for innovative medical device incubation parks, and vigorously promotes the development of the medical device industry.

3.3 Current circumstances of the development of the industry

In 2019, under the influence of various medical policies, including the full-scale promotion on the quality consistency evaluation for generic drug, the streamlining examination of clinical research data, the formal implementation and expansion of the “4+7” centralized volume-based drug procurement, the official implementation of new Drug Administration Law and Vaccine Administration Law, the monitoring of rational use of key drugs, the tightening of prescription rights of TCM, and the adjustment of the National Medical Insurance Catalogue, the effect of the transformation and upgrading of the pharmaceutical industry was evident as the growth in scale slowed down but the profitability continued to increase. In 2019, the added value of the pharmaceutical manufacturing industry increased by 5.7%, representing a decrease of 0.5 percentage point compared with 2018. In 2019, the revenue of pharmaceutical manufacturing enterprises of above designated size in China was RMB2,390.86 billion, representing a year-on-year increase of 7.4%, which represents a decrease of 5.0 percentage points compared with the year-on-year growth rate in 2018; the industry achieved a total profit of RMB311.95 billion, representing a year-on-year increase of 5.9%, which represents a decrease of 3.6 percentage points compared with the year-on-year growth rate in 2018.

Pharmaceutical Manufacturing Enterprises of above Designated Size in China from 2015 to 2019



Note: Source: National Bureau of Statistics.

3.4 Position of the Company in the Industry

The Group is one of the largest pharmaceutical manufacturing companies in the PRC. After years of meticulous development and rapid expansion, the Group basically achieved the whole industrial chain layout of biomedicine and health industry and formed the four business segments of Great Southern TCM, Great Health, Great Commerce and Great Medical Care and three new types of operation of e-commerce, capital finance and medical equipment.

4. PRINCIPAL FINANCIAL DATA

4.1 Principal financial data

Principal financial data	2019	2018	Year on year	2017	2016	2015
			increase/ (decrease) (%)			
Income from operations <i>(RMB'000)</i>	64,951,778	42,233,838	53.79	20,954,225	20,035,681	19,124,658
Net profit attributable to the shareholders of the Company <i>(RMB'000)</i>	3,188,885	3,440,980	(7.33)	2,061,652	1,508,033	1,300,351
Net profit attributable to the shareholders of the Company after deducting non-recurring items <i>(RMB'000)</i>	2,746,248	2,131,485	28.84	1,935,560	1,071,111	1,128,765
Net cash flow from operating activities <i>(RMB'000)</i>	5,022,367	5,216,888	(3.73)	1,833,691	2,544,672	1,941,956
Total profit <i>(RMB'000)</i>	4,128,533	4,018,730	2.73	2,492,976	1,945,053	1,628,122

Principal financial data	As at	As at	Year on year	As at	As at	As at
	31 December 2019	31 December 2018	increase/ (decrease) (%)	31 December 2017	31 December 2016	31 December 2015
Net assets attributable to the shareholders of the Company <i>(RMB'000)</i>	24,184,797	21,684,909	11.53	18,871,521	17,345,080	8,450,814
Total assets <i>(RMB'000)</i>	56,893,659	51,482,184	10.51	28,314,713	25,897,170	15,870,577
Total liabilities <i>(RMB'000)</i>	30,904,172	28,338,451	9.05	9,051,560	8,243,380	7,186,644
Equity attributable to the shareholders of the Company per share <i>(RMB)</i>	14.88	13.34	11.53	11.61	10.67	6.55
Total equity <i>(RMB'000)</i>	1,625,791	1,625,791	—	1,625,791	1,625,791	1,291,079

4.2 Principal financial indicators

Principal accounting data	2019	2018	Year on year	2017	2016	2015
			increase/ (decrease) (%)			
Basic earnings per share (<i>RMB/share</i>)	1.961	2.116	(7.33)	1.268	1.075	1.007
Diluted earnings per share (<i>RMB/share</i>)	1.961	2.116	(7.33)	1.268	1.075	1.007
Basic earnings per share after deducting non-recurring items (<i>RMB/share</i>)	1.689	1.311	28.84	1.191	0.764	0.874
Weighted average return on net assets ratio (%)	13.87	16.93	A decrease of 3.06 percentage points	11.34	12.75	15.91
Ratio of weighted return on net assets after deducting non-recurring items (%)	11.94	10.48	An increase of 1.46 percentage points	10.64	9.06	13.81
Return on total equity attributable to shareholders of the Company (%)	13.19	15.87	A decrease of 2.68 percentage points	10.92	8.69	15.39
Ratio on total equity attributable to shareholders of the Company to total assets (%)	42.51	42.12	An increase of 0.39 percentage point	66.65	66.98	53.25
Gearing ratio (%)	54.32	55.05	A decrease of 0.73 percentage point	31.97	31.83	45.28

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

4.3 Principal financial data of 2019 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	18,055,312	15,285,516	16,721,545	14,889,405
Net profit attributable to the shareholders of the Company	1,406,844	1,140,718	611,960	29,364
Net profit attributable to the shareholders of the Company after deducting non-recurring items	1,372,716	832,443	540,926	164
Net cash flow from operating activities	(2,798,689)	1,872,946	1,948,189	3,999,922

Note: Reasons for the great fluctuations among the quarters mainly include: (1) WLJ Great Health, a wholly-owned subsidiary of the Company, continued to focus on the festival market strategy in the Year and thoroughly developed the core idea of “Ji Culture”, reinforced the promotion of gift market during the Spring Festival, Mid-Autumn Festival and Nation Day and etc., which resulted in the great fluctuations in the operating performance among four quarters of WLJ Great Health. In particular, the sales revenue increased significantly due to the Spring Festival during the first quarter and accounted for a relatively large proportion in the annual income; WLJ Great Health received government subsidies of RMB313 million in the second quarter; during the second half of the year, with the off-season coming, WLJ Great Health enhanced the sales promotion and started devoting to advertising campaign for the new products and therefore the operating results of the second half of the Year substantially decreased as compared with the first half of the Year; (2) increasing purchase prices of raw materials and packaging materials of the Company’s subsidiaries, increasing investment in environmental protection due to the implementation of new environmental protection policies, and the suspension of production to make improvement in order to pass the GMP certification caused an increase in the operating costs and a decrease in the gross profit margin.

5. SHAREHOLDERS

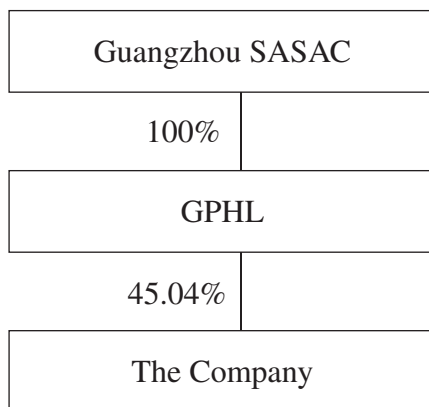
5.1 Total number of shareholders and the top ten shareholders as at the end of the Reporting Period

Total number of shareholders as at the end of the Reporting Period	84,136
Total number of shareholders as at 28 February 2020	104,913

Shareholders	The top ten shareholders of the Company						Nature of Shareholder
	Increase/ (Decrease) during the Reporting Period (<i>share</i>)	Number of shares held as at the end of the Reporting Period (<i>share</i>)	Approximate percentage of the total issued share capital (%)	Number of shares subject to selling restrictions (<i>share</i>)	Number of shares pledged or locked (<i>share</i>)		
GPHL	0	732,305,103	45.04	0	0	State-owned legal person	
HKSCC Nominees Limited	(32,020)	219,707,389	13.51	0	0	Others	
GZ SOA Development	(6,687,039)	81,289,500	5.00 ^{Note}	0	0	State-owned legal person	
GZ Chengfa	0	73,313,783	4.51	0	0	Others	
China Securities Finance Corporation Limited	0	47,278,008	2.91	0	0	Others	
HKSCC	10,180,134	20,352,743	1.25	0	0	Others	
Central Huijin Asset Management Co., Ltd.	0	15,260,700	0.94	0	0	Others	
Yunfeng Investment	(10,607,551)	10,614,859	0.65	0	0	Others	
China AMC – Agricultural Bank – Huaxia China Securities Financial Asset Management Plan	0	8,795,136	0.54	0	0	Others	
Zhongou AMC – Agricultural Bank – Zhongou China Securities Financial Asset Management Plan	0	8,680,636	0.53	0	0	Others	
Explanation on the connection or persons acting in concert among the above shareholders	(1)	According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients.					
	(2)	The Company was not aware of any connection among the above top ten shareholders, or whether they were persons acting in concert as provided in the “Rules Governing the Disclosure of Changes in Shareholders’ Shareholding in Listed Companies”.					

Note: As at 31 December 2019, GZ SOA Development held 81,289,500 shares of the Company, accounting for 4.9999971% of the total issued share capital and it is no longer the shareholder holding over 5% share capital of the Company.

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 Reporting Period.

5.4 There was no change in the controlling shareholder of the Company during the Reporting Period.

5.5 The Company did not issue or subscribe for corporate bonds during the Reporting Period.

5.6 Public float

Based on 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.

5.7 Pre-emptive rights

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

6. REPORT OF THE DIRECTORS

6.1 Management Discussion and Analysis

During the Reporting Period, the Group actively adapted to the development theme of “year of risk control and efficiency enhancement”, actively responded to the opportunities and challenges brought by the policies on the pharmaceutical industry, constantly met the requirements for high-quality development, insisted on progress while maintaining stability, strictly adhered to risk control, improved quality and increased efficacy, so the Group’s operational performance maintained a steady growth. In 2019, the Group’s revenue amounted to RMB64,951,778,000, increased by 53.79% year on year; the total profit was RMB4,128,533,000, increased by 2.73% year on year; the net profit attribute to shareholders of the Company was RMB3,188,885,000, decreased by 7.33% year on year and the net profit attributable to the shareholders of the Company after deducting non-recurring items was RMB2,746,248,000, increased by 28.84% year on year.

Without taking into account the income generated from the acquisition of equity interest in GP Corp. and Wang Lao Ji and the gain on change in fair value, the operating results of the Group during the Reporting Period increased as compared with 2018, mainly due to: (1) during the Reporting Period, all business segments of the Group further developed, and its principal business recorded steady growth. In particular, WLJ Great Health, a wholly-owned subsidiary of the Company, achieved significant growth of profit arising from the implementation of cost control and price maintenance measures and the receipt of government grants; (2) during the Reporting Period, as a result of including the income of GP Corp. and Wang Lao Ji in the scope of consolidated financial statements for the Company, the revenue and profit from principal business of the Group has increased as compared with the corresponding period of 2018.

During the Reporting Period, the Group made solid progress in the following aspects.

Firstly, the Group continued to focus on the “Big Products” to enhance the driving force for development.

- (1) Focusing on “Big Products”, we continued to enhance efforts in building channels and promoting “Big Products”, and cultivated “fashionable Chinese medicine” and “Diva brands” to further increase the sales of products and enhance the momentum to drive the development of business segments. During the Year, sales of “Big Products” including Zi Shen Yu Tai Pill, Cefixime series, Cephalopropylene series, Cefpiramide, Ke Te Ling series, Jin Ge, and Ke Gan Li Yan Oral Solution, achieved significant growth.
- (2) During the Reporting Period, the Group continued to advance the business connection with the top 100 chain stores such as Laobaixing Pharmacy (老百姓大藥房), Yifeng Pharmacy (益豐大藥房), Yi Xin Tang (一心堂), Jinkang Pharmacy (金康藥房), etc. in an orderly manner to increase the sales of products.

- (3) The Group further promoted the internal resources integration of the Great Southern TCM, leveraged the distribution network and logistics advantages of the Great Commerce to strengthen industrial and commercial cooperation within the Group, and brought into play the synergy generated between the Great Southern TCM and the Great Commerce, which brought about mutual promotion and advancement and in-depth fusion between the two business segments of the Company.

Secondly, we continued to implement “one core product with diversification” as the core product strategy, deepened the channels, thoroughly developed the core idea of “Ji Culture”, and created diversified new products to enhance the comprehensive competitiveness of the Great Health segment, and consolidate the Company’s market position in the industry.

- (1) We explored the connotation of “Ji Culture” and continuously strived to build Wang Lao Ji into a new symbol for auspicious culture. During the festivals including the Spring Festival and Mid-Autumn Festival, WLJ Great Health successively launched the use of slogans such as “drinking red-can Wang Lao Ji to enjoy an auspicious year (過吉祥年，喝紅罐王老吉)”, “drinking red-can Wang Lao Ji to enjoy family reunion in Mid-Autumn Festival (中秋團圓，喝紅罐王老吉)” and carried out public welfare activity “Let love go home in time (讓愛吉時回家)” on social media platforms such as Douyin, WeChat, Moment of Wechat, and applets, etc., which increased the brand value and promoted brand recognition among consumers.
- (2) We consolidated and optimized our brand rejuvenation strategy, actively developed new products, and diversified our new products to create incremental markets. In order to expand our market share in the young consumer market, WLJ Great Health launched multi-dimensional and multi-media brand rejuvenation marketing activities, including increasing the product’s applications in response to the summer marketing slogan “the hotter, the better (越熱越愛走出去)” and using a new celebrity spokesperson to launch online and offline promotion in the core market. At the same time, we actively developed new products and accelerated the diversification of new products. During the Reporting Period, the new product Wang Lao Ji “Ci Ning Ji” series and Wang Lao Ji Jasmine Flavor Herbal Tea were officially released for sale.
- (3) We further developed channels and promoted cost control and price maintenance. During the Reporting Period, WLJ Great Health further refined channel management, improved the efforts to build good image, and standardized the implementation standards in terminals to increase ultimate market share. In addition, WLJ Great Health continued to control cost and maintain price, reduced channel costs, and stabilized the prices of products in an orderly manner, which effectively improved profitability.

Thirdly, further implementing the core strategy of “further development + expansion”, we accelerated the transformation and upgrading of the Great Commerce.

- (1) Adhering to the terminal-oriented strategy, we accelerated the expansion of health institution business segment, and increased the proportion of hospital terminal sales. During the Reporting Period, GP Corp., a holding subsidiary of the Company, firmly grasped the development opportunities arising from the GPO and volume-based purchase in Guangzhou, Shenzhen and other places, and put great efforts to develop the health institution business segment, and we achieved a significant increase in the proportion of GPO orders in hospitals, and a sharp increase in the proportion of hospital terminal sales. Cai Zhi Lin focused on the TCM decoction-piece segment and the development of TCM decoction-piece products, and strengthened the distinctive TCM decoction-pieces services such as decoction and identification of TCM which increased the market share of TCM decoction-pieces in hospitals, and helped achieve remarkable growth of sales of TCM decoction-pieces in health institutions.
- (2) We further increased retail outlets and regional coverage, and opened DTP Pharmacies to promote further growth in retail business. As at the end of the Reporting Period, GP Corp. has 75 retail outlets in total and the retail stores achieved rapid growth in sales throughout the Year. Cai Zhi Lin continued to build the characteristic “TCM medical center”, and actively explored and developed the “medicine + doctor” TCM chain model.
- (3) We optimized the capital structure, improved the quality of operation, and reduced operation risks. During the Reporting Period, in order to further expand the financing channels, GP Corp. carried out the asset-backed securitization of accounts receivables and in December 2019, the phase 1 asset-backed special scheme was successfully established. As at the end of the Reporting Period, the accumulated assets sold under the asset-backed securitization of GP Corp. amounted to RMB1.889 billion. The Company also officially launched the overseas spin-off listing of GP Corp. in September 2019, so as to further expand the financing channels of GP Corp.

Fourthly, guided by “characterization and differentiation”, we strived to enhance the market expansion capabilities of the Great Medical Care segment. During the Reporting Period, Guangzhou Baiyunshan Hospital partnered up with Guangdong 999 Brain Hospital to establish a healthcare alliance and a children treatment and rehabilitation center. It also worked with the team of Guangdong Second Traditional Chinese Medicine Hospital to build a TCM rehabilitation department, and actively developed partnership projects in postpartum and eldercare services, etc. At the same time, the Group continued to cultivate new forms of medical device businesses and continued to lay a solid foundation for medical device business development.

Fifthly, we vigorously promoted the project of “driving the development of enterprises by science and technology”, making breakthroughs in scientific and technological innovation. During the Reporting Period, the “Canine Experimental Animal Resource Database” of the Guangyao General Institute was selected as the only canine experimental animal resource platform in China and became a technology resource sharing service platform of the Group. As at the end of the Reporting Period, the Group has 10 national scientific research platforms and 39 provincial scientific research platforms. Furthermore, Xing Qun, Jing Xiu Tang, Guang Hua, Guangzhou Han Fang, and Tian Xin were rated as the National Intellectual Property Superior Enterprises (國家知識產權優勢企業) in 2019. Wang Lao Ji’s “Pneumatic Pill Packaging Machine (氣動式丸劑包裝機)”, Ming Xing’s “Removal Method of Toxic Components of Brucea Javanica Oil (鴉膽子油毒性成分的去除方法)” and HWBYS “Ethyl Acetate Extract of Persimmon Leaf for Preventing and/or Treating Glycolipid Metabolism-Related Disease (柿葉乙酸乙酯提取物用於預防和／或治療糖脂代謝相關疾病)” obtained the 21st China Patent Excellence Award. Chemical Pharmaceutical Factory and Wang Lao Ji passed the national intellectual property rights management system certification (國家知識產權管理體系貫標認證). Jing Xiu Tang was awarded the title of “Innovative Enterprise in Guangdong Province (廣東省創新型企業)” and “Guangzhou Innovation Benchmarking Enterprise (廣州市創新標杆企業)”. Chen Li Ji was awarded the title of “Innovative Enterprise in Guangdong Province”. Guangxi Ying Kang was awarded the titles of “Gazelle Enterprise in Guangxi Province(廣西瞪羚企業)”, “Technology Innovation Demonstration Enterprise in Guangxi Province (廣西技術創新示範企業)” and “Top 100 High-tech Enterprise in Guangxi Province (廣西高新技術企業百強)”.

During the Reporting Period, the Group applied for a total of 8 production approvals and supplementary application approvals, obtained 1 approval for clinical research, and 13 production approvals (including supplementary application approvals). The Group obtained 17 Chinese patents for inventions, 8 utility model patents and 1 foreign invention patent authorization. The Group won 1 first prize, 1 second prize, and 2 third prizes of provincial and ministerial science and technology award (省部級科學技術獎), and 3 China Patent Excellence Awards, 5 companies of the Group were rated as National Intellectual Property Superior Enterprises and 4 companies were rated as Guangdong Intellectual Property Demonstration Enterprises.

Sixthly, we steadily carried out related work in capital operations and external mergers and acquisitions. During the Reporting Period, the Company successfully completed the purchase of the “Wang Lao Ji” series trademark assets by cash, and thus resolved the separation of trademark use rights and ownership of “Wang Lao Ji” series products. We commenced related work in the overseas spin-off listing of GP Corp., focusing on expanding financing channels for the Great Commerce segment. A number of investment mergers and acquisitions have been carried out to accelerate business expansion and promote scientific research and innovation.

Seventhly, we improved the safety production management system and comprehensively implemented quality control. During the Reporting Period, the Group carried out special internal control evaluation on quality inspections, and comprehensive quality inspections on subsidiaries, off-site workshops, and commission points, strictly assessed accountability, and thereby establishing a “big safety (大安全)” management mechanism to ensure the stable operation of the Group.

Eighthly, we continued to strengthen the implementation of party building, strategy, appraisal, regulation, cost, risk, safety and environmental protection, etc., continued to strengthen internal management, further improved the internal audit system, and implemented “risk control and efficiency enhancement” to improve management effectiveness.

6.2 Analysis of principal operations

Analysis of change in certain items in income statement and cash flow statement

Items	The Reporting Period (RMB'000)	The corresponding period of 2018 (RMB'000)	Increase/ (Decrease) over the corresponding period of 2018 (%)
Revenue	64,951,778	42,233,838	53.79
Include: income from principal operations	64,682,984	41,980,378	54.08
Cost of sales	52,081,136	32,164,392	61.92
Include: cost from principal operations	52,020,471	32,106,055	62.03
Selling and distribution expenses	6,384,900	5,056,821	26.26
General and administrative expenses	1,978,870	1,699,062	16.47
Research and development expenses	576,511	585,498	(1.53)
Financial expenses	117,117	(6,655)	1,859.96
Profit before tax	4,128,533	4,018,730	2.73
Net profit attributable to shareholders of the Company	3,188,885	3,440,980	(7.33)
Net cash flow from operating activities	5,022,367	5,216,888	(3.73)
Net cash flow from investing activities	(1,028,395)	1,109,718	(192.67)
Net cash flow from financing activities	(2,231,813)	(2,751,337)	18.88
Other income	430,020	196,111	119.27
Investment income	198,459	1,271,314	(84.39)
Gains from changes in fair value	31,623	115,575	(72.64)
Impairment losses in respect of credit	(110,034)	(39,327)	(179.79)
Impairment losses in respect of assets	(11,485)	(180,187)	93.63
Gains on disposal of assets	1,274	707	80.12
Non-operating income	109,180	197,573	(44.74)
Non-operating expenses	35,659	14,796	141.00
Income tax expenses	687,246	485,014	41.70
Minority interest	252,403	92,736	172.17

Notes:

- Revenue for the Reporting Period increased as compared with the same period of last year, due to: the inclusion of GP Corp. in the scope of consolidation for the Company following the completion of acquisition of 30% equity interest in GP Corp. in May 2018, which was a joint venture of the Company from January to May 2018; and the inclusion of Wang Lao Ji in the scope of consolidation for the Company following the completion of acquisition of 48.05% equity interest in Wang Lao Ji in September 2018, which was a joint venture of the Company from January to September 2018 (“**Note 1**”). As a result of the inclusion of GP Corp. and Wang Lao Ji in the scope of consolidation for the Company, such item for the Year increased by RMB20,209 million.

2. Cost of sales for the Reporting Period increased as compared with the same period of last year, due to: (1) as stated in Note 1, GP Corp. and Wang Lao Ji were included in the scope of consolidation for the Company during the Year, and such item for the Year increased by RMB18,216 million. (2) increasing purchase prices of raw materials and packaging materials of the Company's subsidiaries, increasing investment in environmental protection due to the implementation of new environmental protection policies, and the suspension of production to make improvement in order to pass the GMP certification caused an increase in the cost of sales.
3. Financial expenses for the Reporting Period increased as compared with the same period of last year, due to: as stated in Note 1, GP Corp. and Wang Lao Ji were included in the scope of consolidation for the Company during the Year, and such item for the Year increased by RMB117 million.
4. Net profit attributable to the shareholders of the Company for the Reporting Period decreased as compared with the same period of last year, due to: (1) the income generated from the acquisition of equity interest in GP Corp. and Wang Lao Ji by the Company as a result of the inclusion of GP Corp. and Wang Lao Ji in the scope of consolidation for the Company last year, as well as the gain on change in fair value of Yi Xin Tang held by the Company, were both non-taxable items; (2) the increase in minority interest resulting from inclusion of GP Corp. and Wang Lao Ji in the scope of consolidation for the Company during the Year and newly-established subsidiaries of the Company.
5. Net cash flow from investing activities for the Reporting Period decreased as compared with the same period of last year, due to: (1) the Company paid the consideration for the acquisition of the "Wang Lao Ji" series trademarks, being RMB1,472 million (inclusive of value-added tax) during the Year; (2) the Company and its subsidiaries increased expenses for construction projects.
6. Other income for the Reporting Period increased as compared with the same period of last year, due to: the increase in government grants received by subsidiaries of the Company during the Year.
7. Investment income for the Reporting Period decreased as compared with the same period of last year, due to: as stated in Note 1, the Company purchased part of the equity interest in GP Corp. and Wang Lao Ji and recognized the increase in the value of long-term equity investment based on its shareholding prior to the date of acquisition at the fair value at the date of acquisition in 2018. However, there was no such amount incurred during the Year, resulting in the year-on-year decrease in investment income during the Year.
8. Gains on changes in fair value for the Reporting Period decreased as compared with the same period of last year, due to: (1) the gain on change in fair value of Yi Xin Tang was recognized last year, while there was no such amount incurred during the Year.
9. Impairment losses in respect of credit for the Reporting Period decreased as compared with the same period of last year, due to: as stated in Note 1, GP Corp. was included in the scope of consolidation for the Company during the Year, which resulted in the increase in provision for bad debt by RMB67 million.

10. Impairment losses in respect of assets for the Reporting Period increased as compared with the same period of last year, due to: (1) the Company made provision for impairment on goodwill of RMB118 million last year, and no such provision was required during the Year; (2) the loss on decline in value of inventories of subsidiaries of the Company decreased year-on-year.
11. Gains on disposal of assets for the Reporting Period increased as compared with the same period of last year, due to: a year-on-year increase in the revenue from the transfer of equipment by subsidiaries of the Company.
12. Non-operating income for the Reporting Period decreased as compared with the same period of last year, due to: as a result of the inclusion of Wang Lao Ji in the scope of consolidation for the Company last year, the Company recognized the difference between the acquisition cost of Wang Lao Ji's equity interest held and the fair value of the identifiable net assets which was included in such item. However, there was no such amount incurred during the Year.
13. Non-operating expenses for the Reporting Period increased as compared with the same period of last year, due to: the inventory scrap of the subsidiaries of the Company increased year-on-year during the Year.
14. Income tax expenses for the Reporting Period increased as compared with the same period of last year, due to: (1) the income generated from the acquisition of equity interest in GP Corp. and Wang Lao Ji by the Company as a result of the inclusion of GP Corp. and Wang Lao Ji in the scope of consolidation for the Company last year, as well as the gain on change in fair value of Yi Xin Tang held by the Company, were both non-taxable items; (2) as stated in Note 1, the amount incurred for such item increased by RMB72 million for the Year as a result of the inclusion of GP Corp. and Wang Lao Ji in the scope of consolidation for the Company; (3) the amount incurred for such item increased as a result of the increase in profits of the subsidiaries of the Company for the Year.
15. Minority interest for the Reporting Period increased as compared with the same period of last year, due to: (1) minority interest of newly-established subsidiaries of the Company increased; (2) as stated in Note 1, GP Corp. and Wang Lao Ji were included in the scope of consolidation for the Company during the Year, and such line item for the Year increased by RMB51 million.

6.2.1 Analysis of revenue and cost

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

Operations	Results of principal operations by industry					
	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Increase/ (decrease)		Increase/ (decrease)		Profit margin of principal operations	Increase/ (decrease) over the same period of 2018
	Income from principal operations	over the same period of 2018	Cost of principal operations	over the same period of 2018		
(RMB'000)	(%)	(RMB'000)	(%)	(%)	(percentage point)	
Great Southern TCM	11,649,901	20.91	7,194,745	31.31	38.24	A decrease of 4.89 percentage points
Great Health	10,478,864	10.45	5,154,767	(3.96)	50.81	An increase of 7.38 percentage points
Great Commerce	42,388,829	86.37	39,552,069	86.82	6.69	A decrease of 0.22 percentage point
Other	165,390	45.50	118,890	34.49	28.12	An increase of 5.89 percentage points
Total	64,682,984	54.08	52,020,471	62.03	19.58	A decrease of 3.94 percentage points

Types of products	Results of principal operations by products					
	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Increase/ (decrease)		Increase/ (decrease)		Profit margin of principal operations	Increase/ (decrease) over the same period of 2018
	Income from principal operations	over the same period of 2018	Cost of principal operations	over the same period of 2018		
(RMB'000)	(%)	(RMB'000)	(%)	(%)	(percentage point)	
Chinese patent medicine	4,667,051	21.31	2,716,655	24.31	41.79	A decrease of 1.41 percentage points
Chemical medicine	6,982,850	20.64	4,478,090	35.95	35.87	A decrease of 7.22 percentage points
Total of Great Southern TCM	11,649,901	20.91	7,194,745	31.31	38.24	A decrease of 4.89 percentage points

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 2018 (%)	Cost of principal operations (RMB'000)	Increase/ (decrease) over the same period of 2018 (%)	Profit margin of principal operations (%)	Increase/ (decrease) over the same period of 2018 (percentage point)
Southern China	49,204,612	70.55	41,731,391	74.50	15.19	A decrease of 1.91 percentage points
Eastern China	5,951,593	30.64	3,626,635	48.02	39.06	A decrease of 7.16 percentage points
Northern China	2,596,096	9.59	1,643,584	22.06	36.69	A decrease of 6.47 percentage points
North-Eastern China	560,691	(46.25)	407,220	(54.60)	27.37	An increase of 13.35 percentage points
South-Western China	4,301,813	19.40	3,004,039	28.85	30.17	A decrease of 5.12 percentage points
North-Western China	2,034,419	34.21	1,575,064	40.23	22.58	A decrease of 3.32 percentage points
Exports	33,760	(23.29)	32,538	(24.11)	3.62	An increase of 1.05 percentage points

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

Notes:

- (1) Income from principal operations and cost of principal operations of the Great Commerce segment increased significantly as compared with the same period of last year, due to: the inclusion of GP Corp. in the scope of consolidation for the Company following the completion of acquisition of 30% equity interest in GP Corp. in May 2018, which was a joint venture of the Company from January to May 2018.
- (2) Cost of principal operations of the Great Southern TCM segment increased significantly as compared with the same period of last year, mainly due to: increasing purchase prices of raw materials and packaging materials of the Company's subsidiaries, increasing investment in environmental protection due to the implementation of new environmental protection policies, and the suspension of production to make improvement in order to pass the GMP certification caused an increase in the operating costs and a decrease in the gross profit margin.
- (3) Income from principal operations and cost of principal operations of the Other segment increased significantly, mainly due to: the expansion of business scope of Guangzhou Baiyunshan Hospital under the Company during the Year.

b) Analysis of production and sales

Main products	Production	Sales	Inventory	Production	Sales	Inventory
				increase/ (decrease) over the same period of 2018 (%)	increase/ (decrease) over the same period of 2018 (%)	increase/ (decrease) over the same period of 2018 (%)
Cefixime series (thousand tablets/ thousand packs/thousand grains)	373,555.12	359,421.94	28,340.30	16.71	11.64	15.98
Cephathiamidine for Injection (thousand ampoules)	35,238.65	32,197.25	4,495.42	(1.53)	(4.51)	291.53
Sildenafil Citrate Tablet (thousand tablets)	62,752.85	61,759.35	9,321.96	27.99	29.35	9.28
Xiao Ke Pill (thousand bottles)	28,935.12	34,589.56	3,758.13	(33.86)	(3.04)	(66.78)
Zi Shen Yu Tai Pill (thousand boxes/thousand bottles)	4,699.48	5,216.85	676.35	25.66	63.82	(46.95)
Cephalopropylene series (thousand tablets/thousand packs)	94,799.86	89,596.77	7,642.12	26.31	14.31	40.93
Qing Kai Ling series (thousand packs/thousand bottles/thousand grains)	632,862.50	632,600.56	59,707.08	(4.32)	0.04	25.85
Xiao Chai Hu Granule (thousand packs)	33,960.44	35,607.86	5,130.91	0.26	10.52	(24.72)
Amoxicillin series (thousand grains/thousand packs)	1,213,586.13	1,213,836.11	176,366.10	(0.91)	5.58	(0.94)
Hua Tuo Zai Zao Pill (thousand boxes)	9,188.50	7,495.39	924.94	(5.47)	24.01	(60.59)

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

- ① The inventory of Cephathiamidine for Injection as at the end of the Reporting Period increased year on year, mainly due to: China continued to impose strict limitation on the application of antibiotics. Besides, according to the new adjustment to the National Medical Insurance Catalogue, the application of Cephathiamidine became more strictly controlled, which resulted in the decrease in the sales volume and increase in inventory.

- ② The sales volume of Sildenafil Citrate Tablet increased more significantly year on year, mainly due to the fact that: with the help of well-established channels of distribution, the Company unceasingly developed new customers which drove the growth in sales.
- ③ The production volume and inventory of Xiao Ke Pill decreased by 33.86% and 66.78% year on year, respectively as at the end of Reporting Period mainly due to the fact that: we adopted strategies to control the production volume and digest the inventory in 2019 because of the relatively large inventory at the end of 2018, which resulted in the year-on-year decrease in the production volume and inventory.
- ④ The sales volume of Zi Shen Yu Tai Pill increased by 63.82% and its inventory decreased by 46.95% year on year, respectively as at the end of Reporting Period mainly due to: the larger devotion to the design research and development and marketing of the product by the Company at the early stage, and the application of the national two-children policy, the product entered into the rapid development period, which resulted in the fast growth in sales volume and the decrease in inventory correspondingly.
- ⑤ The inventory of Cephalopropylene series increased by 40.93% year on year as at the end of Reporting Period mainly due to: the expected increase in sales demand of the product in the subsidiaries engaging in drug manufacturing and the stock-up of inventory in advance, which resulted in the increase in inventory.
- ⑥ The inventory of Hua Tuo Zai Zao Pill decreased by 60.59% year on year as at the end of Reporting Period mainly due to: the adjustment to marketing strategy of the product, accelerating transformation and upgrading of the promotion model of the product, which resulted in the increase in sales volume and the decrease in inventory correspondingly.

c) Analysis of cost

Industrial	Components	Results by industry		2018	Increase/ (decrease) over the same period of 2018	
		2019	% of the proportion of operation			% of the proportion of operation
		Amount (RMB'000)	cost (%)	Amount (RMB'000)	cost (%)	
Manufacturing business	Raw material	9,503,081	76.95	8,162,354	75.25	16.43
	Fuel	130,451	1.06	122,022	1.12	6.91
	Labor cost	370,575	3.00	317,398	2.93	16.75
	Other	2,345,405	18.99	2,244,624	20.69	4.49
Pharmaceutical distribution business	The cost of purchase	39,552,069	100.00	21,171,258	100.00	86.82
Others	Other cost	118,890	100.00	88,399	100.00	34.49

d) Major suppliers and sale

During the Year, sales by the Group to the five largest customers amounted to RMB4,724,395,000 (2018: RMB2,578,963,000), representing approximately 7.30% of the total sales (2018: 6.14%) of the Group. The sales to the largest customer amounted to RMB1,475,979,000 (2018: RMB756,278,000), representing 2.28% (2018: 1.80%) of the total sales of the Group. The sales to the 5 largest customers included RMB0 being sales to related parties, representing 0% of the total sales of the Group for the Year.

During the Year, purchases by the Group from the five largest suppliers amounted to RMB5,826,588,000 (2018: RMB3,025,139,000), representing approximately 9.38 % of the total purchases (2018: 7.27%) of the Group for the Year. The purchases from the largest suppliers amounted to RMB2,226,892,000 (2018: RMB898, 962,000), representing 3.58% (2018: 2.16%) of the total purchases of the Group for the Year. The purchases from the 5 largest suppliers included RMB0 being purchases from related parties, representing 0% of the total purchases of the Group for the Year.

For the relationship between the Group and the customers and suppliers, please refer to the 2019 Social Responsibility Report of the Company (the full text of which had been disclosed on the website of the SSE and the HKEx). To the knowledge of the Directors, none of the Directors, their associates or shareholders who held more than 5% of the Company's total issued share capital had any interest in any of the 5 largest customers and suppliers as were mentioned above.

6.2.2. Expenses

During the Reporting Period, the Group's selling and distribution expenses was approximately RMB6,384,900,000 (2018: RMB5,056,821,000), representing an increase of 26.26% as compared with last year.

During the Reporting Period, the Group's general and administrative expenses was approximately RMB1,978,870,000 (2018: RMB1,699,062,000), representing a growth of 16.47% as compared with last year.

During the Reporting Period, the Group's research and development expenses was approximately RMB576,511,000 (2018: RMB585,498,000), representing a decrease of 1.53% as compared with last year.

During the Reporting Period, the Group's financial expenses was approximately RMB117,117,000 (2018: RMB-6,655,000), representing a growth of 1,859.96% as compared with last year, which was mainly due to: as stated in Note 1, GP Corp. and Wang Lao Ji were included in the scope of consolidation for the Company during the Year, and such item for the Year increased by RMB117 million.

During the Reporting Period, the Group's income tax expenses was approximately RMB687,246,000 (2018: RMB485,014,000), representing a growth of 41.70% as compared with last year, which was mainly due to (1) the income generated from the acquisition of equity interest in GP Corp. and Wang Lao Ji by the Company as a result of the inclusion of GP Corp. and Wang Lao Ji in the scope of consolidation for the Company last year, as well as the gain on change in fair value of Yi Xin Tang held by the Company, were both non-taxable items; (2) as stated in Note 1, the amount incurred for such line item increased by RMB72 million for the Year as a result of the inclusion of GP Corp. and Wang Lao Ji in the scope of consolidation for the Company; (3) the amount incurred for such line item increased as a result of the increase in profits of the subsidiaries of the Company for the Year.

6.2.3. Research and development expenses

Cost of research and development expenses in the current year (RMB'000)	576,511
Capitalization of research and development expenses in the current year (RMB'000)	15,275
Total research and development expenses (RMB'000)	591,786
Ratio of research and development expenses to income from operations (%)	0.91
Ratio of research and development expenses to income from principal operations of the Great Southern TCM (%)	5.08
Total research and development expenses accounted for the proportion of net assets (%)	2.28
Number of the research and development personnel of the Company	586
Percentage of total number of the research and development personnel in the total number of personnel of the Company (%)	2.27
Percentage of the research and development of capitalization (%)	2.58

Detailed description

Applicable Not Applicable

6.2.4. Cash flow

Items	The Reporting Period <i>(RMB'000)</i>	The corresponding period of 2018 <i>(RMB'000)</i>	Increase/ (decrease) as compared with the same period of 2018 <i>(%)</i>	Reasons
Net cash flow from operating activities	5,022,367	5,216,888	(3.73)	/
Net cash flow from investing activities	(1,028,395)	1,109,718	(192.67)	(1) the Company paid the consideration for the acquisition of the “Wang Lao Ji” series trademarks, being RMB1,472 million (inclusive of value-added tax), during the Year; (2) the Company and its subsidiaries increased expenses for construction projects.
Net cash flow from financing activities	(2,231,813)	(2,751,337)	18.88	/

6.3 Analysis of financial conditions

6.3.1 Liquidity

As at 31 December 2019, the current ratio of the Group was 1.57 (31 December 2018: 1.60), and its quick ratio was 1.24 (31 December 2018: 1.25). Accounts receivable turnover rate was 6.24 times (31 December 2018: 7.95 times), representing a decrease of 21.52% as compared with the corresponding period of 2018. Inventory turnover rate was 5.50 times (31 December 2018: 4.91 times), representing an increase of 12.00% as compared with the corresponding period of 2018.

6.3.2 Financial resources

As at 31 December 2019, cash and cash equivalents of the Group amounted to RMB16,833,623,000 (31 December 2018: RMB15,071,612,000), of which approximately 99.55% and 0.45% were denominated in Renminbi and foreign currencies, such as Hong Kong dollar, respectively.

As at 31 December 2019, the Group had bank borrowings of RMB5,889,009,000 (31 December 2018: RMB6,523,281,000), including short-term borrowings of RMB5,869,009,000 (31 December 2018: RMB5,905,703,000), current portion of non-current liabilities of RMB15,500,000 (31 December 2018: RMB204,024,000) and long-term borrowings of RMB4,500,000 (31 December 2018: RMB413,554,000).

6.3.3. Capital structure

As at 31 December 2019, the Group's current liabilities amounted to RMB29,376,966,000 (31 December 2018: RMB26,948,764,000), representing an increase of 9.01% as compared with the corresponding period of 2018, and its long-term liabilities was RMB1,527,206,000 (31 December 2018: RMB1,389,687,000), with an increase of 9.90% as compared with the corresponding period of 2018. The shareholders' equity attributable to the shareholders of the Company amounted to RMB24,184,797,000 (31 December 2018: RMB21,684,909,000), with an increase of 11.53% as compared with the corresponding period of 2018.

6.3.4 Capital expenditure

The Group expects that the capital expenditure for 2020 to be approximately RMB2.476 billion (2019: RMB2.226 billion), which would be mainly applied in the construction of production bases, upgrade of equipment and set-up of information system, etc. The Group will raise funds to meet the capital requirements of capital expenditure by resorting to its internal funds, bank loans, etc.

6.3.5 Assets and liabilities

Items	As at 31 December 2019 (RMB'000)	% of the total assets (%)	As at 31 December 2018 (RMB'000) (Restated)	% of the total assets (%)	Increase/ (decrease) over the corresponding period of 2018 (%)	Reasons for changes
Other current assets	578,842	1.02	2,137,248	4.10	(72.92)	Structural deposits of the Company decreased by RMB1.5 billion year on year.
Construction in progress	667,402	1.17	480,306	0.92	38.95	Investment in projects under construction by the Company and its subsidiaries increased.
Bearer biological assets	3,503	0.01	0	0.00	/	The subsidiaries of the Company newly purchased bearer biological assets.
Intangible assets	2,485,289	4.37	1,013,353	1.94	145.25	The Company acquired "Wang Lao Ji" series trademarks at the consideration of RMB1.389 billion.
Development expenditure	2,011	0.00	0	0.00	/	The subsidiaries of the Company incurred expenditure attributable to the intangible asset during its development phase.

Items	As at 31 December 2019 (RMB'000)	% of the total assets (%)	As at 31 December 2018 (RMB'000) (Restated)	% of the total assets (%)	Increase/ (decrease) over the corresponding period of 2018 (%)	Reasons for changes
Other non-current assets	289,536	0.51	2,580	0.00	11,122.32	The subsidiaries of the Company increased the prepayment of projects under the contracts.
Notes payables	3,982,426	7.00	2,656,177	5.10	49.93	The notes issued by the subsidiaries of the Company increased.
Taxes payable	248,015	0.44	963,543	1.85	(74.26)	(1) With the implementation of the new revenue standard of the Company, the taxes to be written off in the advances from customers of the subsidiaries of the Company were reclassified to other current liabilities and other non-current liabilities; (2) the tax payable by the Company and its subsidiaries decreased.
Current portion of non-current liabilities	229,361	0.40	343,316	0.66	(33.19)	The subsidiaries of the Company returned part of their long-term loans due within one year.
Other current liabilities	606,815	1.07	0	0.00	/	With the implementation of new revenue standards of the Company, the taxes to be written off in the advances from customers within one year of the subsidiaries of the Company were reclassified to such item.
Long-term borrowings	4,500	0.01	413,554	0.79	(98.91)	The subsidiaries of the Company reclassified long-term loans due within one year to non-current liabilities items due within one year.
Other comprehensive income	(139)	(0.00)	(477)	(0.00)	70.88	(1) Difference of conversion on currency exchange by the subsidiaries of the Company increased; (2) fair value of the financial assets of the Company decreased as at the end of the Reporting Period.

6.3.6 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.

6.3.7 Main cash resources and applications

As at 31 December 2019, cash and cash equivalents of the Group amounted to RMB16,833,623,000 with an increase of RMB1,762,011,000 as compared with the beginning of 2019. The net cash inflow derived from operating activities amounted to RMB5,022,367,000 with a decrease of RMB194,521,000 as compared with 2018.

6.3.8 Contingent liabilities

As at 31 December 2019, the Group had no material contingent liabilities.

6.3.9 Charge on the Group's assets

As at 31 December 2019, Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, has obtained the overdraft amounted to HKD300,000, letter of credit and 90-day credit in the total amount of HKD100,000,000 from Bank of China (Hong Kong) Co., Ltd., secured by buildings of fixed assets with the original value amounted to HKD8,893,000, and net value of HKD6,231,000 and investment properties with the original value amounted to HKD6,843,000 and net value of HKD3,532,000 of investment properties. Unexpired letter of credit of EUR447,000, USD196,000, CNY305,000 and JPY5,530,000 in value has also been obtained.

6.3.10 Bank loans, overdraft and other borrowings

As at 31 December 2019, the bank loans of the Group amounted to RMB5,889,009,000 (31 December 2018: RMB6,523,281,000), with a decrease of RMB634,272,000 as compared with the beginning of 2019. The above bank loans included short-term loans of RMB5,869,009,000, current portion of non-current liabilities of RMB15,500,000 and long-term loans of RMB4,500,000.

6.3.11 Gearing ratio

As at 31 December 2019, the Group's gearing ratio (total liabilities/total assets × 100%) was 54.32% (31 December 2018: 55.05%).

6.3.12 Material investment

As at 31 December 2019, except for those disclosed in (2) in the section headed “III Company’s Business Profile” of the 2019 annual report, the Group did not have any other material additional investment.

6.3.13 Major assets subject to restrictions at the end of the Reporting Period

Applicable Not applicable

6.4 Discussion and analysis on future development

6.4.1 Competition within and the development trend of the industry

2019 is the first year after the completion of the reform of the national medical and health system. With the active cooperation of the National Healthcare Security Administration, National Health Commission of the PRC, and National Medical Products Administration, the three-medicine (medical treatment, medical insurance and medicine) linkage was smoother and the medical reform was accelerating. Driven by policies, the pharmaceutical industry also underwent profound changes. On one hand, the pressure on operations from policies such as fee control by medical insurance, price reduction in tender bidding, price negotiation by second bargaining, volume-based purchase, key drug monitoring, the promulgation of the new Drug Administration Law and the Vaccine Administration Law, and the improved comprehensiveness of the drug regulatory system still existed, growth of the industry slowed down and it was mainly driven by innovative products and upgrading in consumption. On the other hand, the benefits of important reform policies, such as a new edition of the National Medical Insurance Catalogue, quality consistency evaluation, acceleration in assessment and approval of innovative new drugs and the state’s encouragement of the inheritance and innovative development of TCM, provided new room for the growth of the pharmaceutical market. At the same time, the acceleration of the aging of China’s population, the improvement of the level of urbanization, and the improvement of the medical insurance system are generally conducive to the development of China’s pharmaceutical industry.

6.4.2 Development strategy and annual work plan for year 2020

The year 2020 is a transitional year from the “13th Five-Year Plan” to the “14th Five-Year Plan” and is also a year for the “leapfrog reform” of the Group. In 2020, based on its own actual conditions, the Group will carry out the following works:

1. We will continue to focus on “Big Products” to promote the robust development of the Great Southern TCM segment in an all-round way. We will focus on strengthening the brand promotion and channel construction of the “Diva brands” to enhance the sales of products; we will vigorously promote the inclusion of the Group’s products into the National Medical Insurance Catalogue and Essential Drug List, promote resource integration, and increase market share in hospitals; we will strengthen cooperation with the top 100 chain stores and regional chain stores, strengthen the linkage between the Great Southern TCM segment and the Great Commerce segment, make use of the advantages of distribution resources and network, and promote the sales of drugs.
2. We will adhere to the development strategy of “one core with multi-elements”, increase efforts to develop series of products, and promote the breakthrough development of the Great Health segment: we will focus on strengthening the development of channels for Wang Lao Ji Herbal Tea, explore the Wang Lao Ji Herbal Tea gift market, vigorously expand the market share of bottled products, and consolidate the market position of knock-out products; we will, based on our corporate culture, consolidate the market position of core products; we will leverage the brand advantage of Wang Lao Ji to create new products, and increase market share of potential products from various aspects such as market operation, channel promotion, and quality control.
3. We will take “characterization” as the guide to optimize the allocation of resources in the segments and accelerate the transformation and development of the Great Commerce segment. We will take the opportunity of the overseas spin-off listing of GP Corp. to promote the optimized allocation of resources and characteristic development of the Great Commerce segment; we will continue to leverage the advantages of terminal network, and accelerate business expansion while consolidating the regional advantages in Guangdong and Hainan provinces; we will, relying on the characteristic advantages of the TCM products, expand the standardized planting base of TCM materials, and steadily promote the distribution of the “medicine + doctors” chains of Cai Zhi Lin.
4. Taking “differentiation” as the main goal, we will seek new momentum for the development of the Great Health segment including specialties, postpartum services and elderly care services to build a differentiated medical service industry and actively explore new cooperation models for medical device business.
5. We will further increase investment into scientific research and build a high-level scientific research and innovation system. We will continue to increase research and development investment, and accelerate the research and development in innovative drugs, biopharmaceuticals, high-end generic drugs, etc. We will recruit more leading talents and innovation teams, and improve the system for talent cultivation, evaluation

and incentive. We will deepen the integration of science and research and the integration of scientific research resources, and optimize the construction of scientific and technological innovation platforms.

6. We will continue to promote the integration of production resources, accelerate the construction of industrial bases, and build a modern and intelligent production system; we will further improve the Group's quality control system, strengthen the dual assessment of persons in charge of quality and quality authorized persons, and further enhance efforts in safety production and quality control.
7. We will continue to promote capital operations and investment mergers and acquisitions to promote extensional development. We will push forward the overseas spin-off listing of GP Corp, optimize the capital structure, and broaden financing channels; we will actively promote investment and mergers and acquisitions in various segments to effectively leverage social capital to achieve the Group's extensional development.
8. We will continue to strengthen basic management and risk control, and build an efficient risk management system. We will further improve the internal control system, carry out a special inspection on risk management, and strengthen the normalized management of internal risk control.

6.4.3 Potential challenges and risks

In 2020, the three-medicine (medical treatment, medical insurance and medicine) linkage will be smoother and the medical reform will be accelerated. The state's centralized drug procurement program will be promoted nationwide, and the price of drugs will drop significantly. The monitoring system for rational drug use will be improved, and the inspection of drugs will be intensified. The implementation and promotion of a series of new policies such as the tightening of fee control by medical insurance, the National Medical Insurance Catalogue, the tilting of DRGs Payment model to cost-effective innovative drugs have brought challenges to the development of the Group's traditional business.

The Group will pay close attention to the implementation and promotion of new policies and make strategic deployments in advance. For the corresponding measures, please refer to the information regarding the changes in industry policies and impact in "(4) Analysis on the pharmaceutical manufacturing industry operation information" under "2. Circumstances of the Operation during the Reporting Period" in the section headed "IV Discussion and Analysis of Operation" of the 2019 annual report.

At the beginning of 2020, the outbreak of COVID-19 coronavirus epidemic ("the epidemic") brought more uncertainties about the production and operation of the Group, and the extent of the impact depends on the progress, duration and implementation of policies of control and prevention in different places towards the epidemic. The Company will be continuously focus on the development of the epidemic, evaluate and actively respond to the influence in the financial statements and operation results of the Group.

7. THE GROUP'S PURCHASE AND DISPOSAL OF ASSETS OR ENTERPRISE MERGER AND OTHER TRANSACTIONS DURING THE REPORTING PERIOD

No.	Approval body	Subject matter	Status
1	8th meeting of the sixth session of the Board, 7th meeting of the Strategic Development and Investment Committee in 2016	According to the arrangements of the "Retreat into Three", 11 enterprises under the Company planned to relocate to the Baiyun base in the Biological Medicine Town of GPLL. Four enterprises under the Company, namely Ming Xing, He Ji Gong, HWBYS and GP Corp., have in aggregate acquired the land use rights of 303 mu of land available for construction in the first phase.	In progress
2	11th meeting of the Strategic Development and Investment Committee in 2015	The capital of HK\$177,500,000 or the equivalent amount of RMB will be injected to Guangyao Baiyunshan Hong Kong Company by the Company.	The first and the second phases of capital increases, in a total amount of RMB105,090,750, have been completed.
3	5th meeting of the Strategic Development and Investment Committee in 2016	The Company's subsidiary Chemical & Pharmaceutical Technology Company and Zhuhai Fushan Industrial Park Management Committee entered into the "Investment Agreement between Zhuhai Fushan Industrial Park Management Committee and Guangzhou Baiyunshan Chemical & Pharmaceutical Technology Co., Ltd." ("Zhuhai Project"), with an initial investment amount of RMB55 million.	The Company has contributed additional capital of RMB12.47 million to Chemical & Pharmaceutical Technology Company and completed the environment assessment, planning design and infrastructure design of the Zhuhai Project; in addition, the Company has completed the first phase capital contribution of RMB42 million to Chemical & Pharmaceutical Technology Company and established Chemical & Pharmaceutical (Zhuhai) Company. Currently, the design of the Zhuhai Project has basically completed and the Zhuhai Project has entered into the construction stage.
	1st meeting of the Strategic Development and Investment Committee in 2017	The Company contributed additional capital in cash of RMB12.47 million to Chemical & Pharmaceutical Technology Company for the use of project design and environmental assessment of the Zhuhai Project.	
	1st meeting of the Strategic Development and Investment Committee in 2018	The capital of RMB100 million will be injected to Chemical & Pharmaceutical Technology Company to establish GYBYS Chemical & Pharmaceutical (Zhuhai) Co., Ltd ("Chemical & Pharmaceutical (Zhuhai) Company").	
	11th meeting of the seventh session of the Board	The total amount of the investment to the Zhuhai project is RMB731,879,100.	
	5th meeting of the Strategic Development and Investment Committee in 2019	The capital of RMB100 million will be injected to Chemical & Pharmaceutical Technology Company, a wholly-owned subsidiary of the Company.	

No.	Approval body	Subject matter	Status
4	5th meeting of the Strategic Development and Investment Committee in 2017	Medical Instrument Investment Company, a subsidiary of the Company, would set up a joint venture jointly with Shanghai Xiecheng Investment Management Co., Ltd. (上海協成投資管理有限公司) and Guangzhou OSMUNDA Medical Device Technology Inc., Ltd. (廣州奧諾達醫療器械技術股份有限公司) to build an operating platform for the medical equipment innovation incubator park, and Medical Instrument Investment Company intends to contribute capital in cash of RMB17 million, accounting for 34% of the equity interest.	Initial capital contribution of RMB3.4 million has been completed.
5	1st meeting of the Strategic Development and Investment Committee in 2018	GP Corp., a subsidiary of the Company, acquired Zhuhai A&Z Pharmaceutical Co., Ltd. (珠海安士藥業有限公司) for RMB2.5 million to establish a subsidiary in Zhongshan region.	Completed
6	2nd meeting of the Strategic Development and Investment Committee in 2018	Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, will accept transfer of 33,785 shares in PT Sano Gratia Farma for RMB20.496 million (or equivalent in Indonesian Rupiah) and subscribe for new shares issued by PT Sano Gratia Farma for RMB15 million (or equivalent in Indonesian Rupiah). Upon completion of the transactions, Guangyao Baiyunshan Hong Kong Company will hold 58,510 shares in PT Sano Gratia Farma, accounting for 51% of the paid-up capital.	In progress
7	3rd meeting of the Strategic Development and Investment Committee in 2018	Cai Zhi Lin, a subsidiary of the Company, and Guangzhou Hendon Medical Technology Co., Ltd. (廣州亨頓醫藥科技有限公司) will establish a joint venture Guangzhou Cai Zhi Lin Traditional Chinese Medical Center Co., Ltd. (廣州采芝林國醫館有限公司) with a registered capital of RMB10 million, and Cai Zhi Lin will hold 51% of the equity interest (with an investment of RMB5.1 million).	Completed
8	18th meeting of the seventh session of the Board	The Company's subsidiary WLJ Great Health invested in and commenced the construction of Nansha Base (Phase I) project with a total investment of RMB750 million.	Relevant works such as the review of the design, the procurement of sewage treatment equipment, and the preparation of environmental assessment report have been carried out.

No.	Approval body	Subject matter	Status
9	5th meeting of the Strategic Development and Investment Committee in 2018	The Company's subsidiary Cai Zhi Lin established Longxi Guangyao Cai Zhi Lin Pharmaceutical Co., Ltd. with 100% equity, which has a registered capital of RMB50.00 million, with initial contribution of RMB28.38 million completed through the additional contribution made by the Company to Cai Zhi Lin.	Completed
10	6th meeting of the Strategic Development and Investment Committee in 2018	WLJ Ya'an Company, a wholly-owned subsidiary of the Company's subsidiary WLJ Great Health, commenced the second phase construction with a total investment of approximately RMB47.00 million.	Completed the filing of the investment projects
11	6th meeting of the Strategic Development and Investment Committee in 2018	The Company made an additional contribution of RMB30.00 million to its wholly-owned subsidiary Guangyao General Institute, with the first phase of RMB18.00 million and the second phase of RMB12.00 million.	First phase of capital increase completed.
12	7th meeting of the Strategic Development and Investment Committee in 2018	The Company's subsidiary WLJ Great Health intended to build a production base in Lanzhou, Gansu province, with a total investment of RMB350.00 million.	In progress
		The Company's subsidiary WLJ Great Health established Wang Lao Ji Great Health Industry (Lanzhou) Co., Ltd., with a registered capital of RMB50.00 million.	Completed
13	The 8th meeting of the seventh session of the Board	The Company established Baiyunshan Yi Xin Tang, with a registered capital of RMB300 million which shall be paid in installments, of which, the Company contributed RMB90 million, accounting for 30% of its registered capital.	The second phase of capital contribution completed which amounts to RMB72 million
14	The 11th meeting of the seventh session of the Board	The Company invested in the establishment of GYBYS Biological Medicine and Health R&D Sales Headquarters project.	Under construction.
	6th meeting of the Strategic Development and Investment Committee in 2019	The capital of RMB40.41 million was injected to GYBYS Biological Medicine and Health R&D Sales Headquarters project.	

No.	Approval body	Subject matter	Status
15	1st meeting of the Strategic Development and Investment Committee in 2019	The Company made an additional contribution of RMB61.65 million to Guangzhou Bai Di.	Completed
		GP Corp.'s subsidiary Hainan Guangyao Chenfei Pharmaceutical Co., Ltd. (海南廣藥晨菲醫藥有限公司) established a wholly-own subsidiary, Hainan Guangyao Chenfei Pharmaceutical Chain Co., Ltd. (海南廣藥晨菲醫藥連鎖有限公司)	Completed
16	1st meeting of the Strategic Development and Investment Committee in 2019	GP Corp., a holding subsidiary of the Company, acquired Qingyuan Zhiling Medical Technology Co., Ltd. (清遠市智領醫療科技有限公司)	Completed
		The acquisition project of Qingyuan Zhiling Medical Technology Co., Ltd. (清遠市智領醫療科技有限公司) by GP Corp., a holding subsidiary of the Company has changed.	Completed
17	2nd meeting of the Strategic Development and Investment Committee in 2019	The Company participated in the subscription of convertible bonds of Yi Xin Tang based on the proportion of its shareholding, and the subscription amount did not exceed RMB44.4748 million.	Completed

No.	Approval body	Subject matter	Status
18	3rd meeting of the Strategic Development and Investment Committee in 2019	The Company established a wholly-owned subsidiary, Guangzhou Chuangying GYBYS Intellectual Property Co., Ltd., (廣州創贏廣藥白雲山知識產權有限公司) with a registered capital of RMB10 million.	Completed
		Jingyu Guangyao Dong'e Chinese Medicine Development Co., Ltd. was dissolved.	Completed
		GP Corp., a holding subsidiary of the Company, established a wholly-owned subsidiary, Guangzhou Pharmaceutical Information Technology Co., Ltd., (廣州醫藥信息科技有限公司) with a registered capital of RMB60 million.	Completed
		HWBYS, a joint venture of the Company, established a wholly-owned subsidiary, Guangzhou Wulu Cultural Communication Co., Ltd., (廣州葫蘆文化傳播有限公司) with a registered capital of RMB1 million.	Completed
19	4th meeting of the Strategic Development and Investment Committee in 2019	Ying Bang pharmacy was closed.	Completed
		Guangyao Baiyunshan Macau Co., Ltd., a subsidiary of the Company, established a wholly-owned subsidiary, Guangyao International (Zhuhai Hengqin) Traditional Chinese Medicine Industry Co., Ltd., (廣藥國際(珠海橫琴)中醫藥產業有限公司) with a registered capital of RMB100 million.	Completed
		The Company made an additional contribution of RMB19.50 million to a wholly-owned subsidiary, Guangzhou Haima Pharmaceutical Advertising Co., Ltd. (廣州醫藥海馬品牌整合傳播有限公司).	Completed
20	6th meeting of the Strategic Development and Investment Committee in 2019	The Company's wholly-owned subsidiary Zhong Yi carried out the 3rd GMP construction improvement project of modernization of TCM production.	Construction drawing design is in progress.
		The Company's wholly-owned subsidiary Cai Zhi Lin implemented the first phase of the project of Gansu Guangyao Baiyunshan Traditional Chinese Medicine Technology Industrial Park.	The project feasibility study has been completed and the formalities are being carried out.

8 EMPLOYEES OF THE GROUP

8.1 Situation of the employees

Numbers of the employees of the parent Company	2,459
Numbers of the employees of the major subsidiaries	23,394
Total	25,853
Retired employees of the Company and major subsidiaries whose expenses were assumed by the Company and major subsidiaries	14,817
Gross payroll of the Group	RMB3.336 billion

Composition

Category constitution	a number of constitute staff
Production staff	4,511
Sales personnel	14,568
Technical staff	3,200
Finance staff	790
Administrative staff	2,784
Total	25,853

Educational Level

	Number
Post Graduate	646
Undergraduate	7,698
University college	7,889
Secondary and below	9,620
Total	25,853

8.2 Remuneration policy

The remuneration of the employees of the Group includes salaries, subsidies, bonuses and other fringe benefits such as five social insurances and one housing fund, and supplementary medical insurance. The Group, in compliance with the relevant laws and regulations, paid different rates of remuneration to different employees, based on the employees' performance, qualifications, position and other factors. At the same time, the Group provides two channels (including professional and management channels) for the professional development of employees, as a breakthrough to the predicament in the development of talents due to limited management positions, so that outstanding professionals can receive sufficient recognition and incentives in the professional channel. In addition, the Group also provides employees with care such as staff shuttles, apartments for talents, and various interest groups.

8.3 Training plan

In view of staffs' career development needs, the Group established corporate university and enterprise Communist Party school, prepared Staff Training Management System and built teams with more than 100 internal lecturers. Depending on the characteristics of each type of talents, the Group combined the internal and external trainings to build a comprehensive training system, with personnel covering staff at all levels from frontline production to senior management of the Company, so as to promote the growth of staff at all levels together with corporate growth.

9. OTHER MATTERS

9.1 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") of HKEx and the code provisions of the CG Code except that (i) Mr. Li Chuyuan, Mr. Chen Mao, Mr. Ni Yidong, Mr. Wu Changhai, executive Directors of the Company, and Ms. Wang Weihong, independent non-executive Director of the Company, were unable to attend the first extraordinary general meeting in 2019 due to business reasons which constituted deviation from code provision A.6.7; (ii) Ms. Liu Juyan, executive Director of the Company, and Ms. Wang Weihong, independent non-executive Director of the Company, were unable to attend the annual general meeting in 2018 due to business reasons which constituted a deviation from code provision A.6.7; and (iii) Ms. Liu Juyan, Mr. Zhang Chunbo, executive Directors of the Company, Mr. Chu Xiaoping, Mr. Jiang Wenqi, and Ms. Wang Weihong, independent non-executive Directors of the Company, were unable to attend the second extraordinary general meeting in 2019 due to business reasons which constituted 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 CG code.

9.2 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 financial monitoring, internal control, internal audit and risk management system and their implementation; the soundness and effectiveness of internal control; to consider the appointment of independent auditors and to coordinate and to review the efficiency and quality of their work.

The Audit Committee of the seventh session of the Board comprises Mr. Wong Hin Wing (chairman of the Audit Committee), Mr. Chu Xiaoping, Mr. Jiang Wenqi and Ms. Wang Weihong. All four of them are independent non-executive Directors and are qualified under the relevant requirements, whose term of office commenced from 23 June 2017 up to the date on which members of the new session of the Board are elected.

Major tasks accomplished by the Audit Committee in year 2019 including:

- (A) held nine meetings in 2019 and each of the members of the committee attended all the meetings, in which the members reviewed the 2018 Annual Report, 2019 Interim Report and financial reports of the Group as well as the recommendations on management issued by external auditors and the respective response by the Company's management.
- (B) reviewed the accounting policies adopted by the Group and the relevant issues regarding accounting practice;
- (C) reviewed the Company's internal control evaluation report for 2018 and audit risk control work plan for 2019;
- (D) advised the Board regarding the change of auditing firm for the Reporting Period;
- (E) advised the Company on major events of the Company or reminding the management of relevant risks and reviewed the effectiveness of risk management and internal monitoring system.

The work on the annual audit for 2019 and relevant jobs regarding the preparation of the annual report are as follows:

In accordance with "the Notice on preparation of the 2019 Annual Report in an orderly manner by Listed Companies" issued by the SSE on 31 December 2019, 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 2019 and the preparation of the annual report for 2019 in accordance with the Rules on the Annual Report of the Audit Committee, including:

- 1) The Committee discussed 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 2019 Annual Report" and reviewed the audit plan submitted by the auditors.
- 2) On 23 March 2020, the Audit Committee reviewed the draft of the financial reports prepared by the Company and issued written recommendations thereon.
- 3) 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 2019 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.
- 4) On 31 March 2020, the Audit Committee convened the second meeting in 2020 and considered and passed the 2019 Annual Report and its summary and the Company's 2019 Financial Report. At the same time, the Audit Committee finalized its evaluation of 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, adhering to 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.

10. FINANCIAL REPORTS

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

(All amounts in Renminbi yuan unless otherwise stated)

Consolidated Balance Sheet

Item	Note	31 December 2019 (Audited)	31 December 2018 (Audited)
Current assets:			
Cash at bank and on hand		18,469,618,237.41	16,114,883,673.51
Financial assets held for trading		–	–
Financial assets measured at fair value through profit or loss for the current period		–	–
Notes receivable		1,526,081,541.94	2,780,597,684.01
Accounts receivable	10.1.3	12,555,024,519.58	10,872,458,472.34
Accounts receivable financing		1,515,914,114.01	–
Advances to suppliers		673,352,793.02	837,808,116.68
Other receivables		1,173,360,042.04	1,056,551,186.68
Including: Interest receivable		1,666,666.70	1,367,876.63
Dividends receivable		316,706,053.45	40,036,044.47
Inventories		9,490,040,264.05	9,231,739,097.84
Contract assets		–	–
Assets held for sales		–	–
Current portion of non-current assets		–	–
Other current assets		578,841,623.65	2,137,248,054.33
Total current assets		45,982,233,135.70	43,031,286,285.39

Item	<i>Note</i>	31 December 2019 <i>(Audited)</i>	31 December 2018 <i>(Audited)</i>
Non-current assets:			
Debt investment		–	–
Available-for-sale financial assets		–	–
Other debt investment		–	–
Hold-to-maturity investment		–	–
Long-term receivables		–	–
Long-term equity investment		1,599,025,192.41	1,759,958,035.39
Other equity instrument investment		81,977,960.04	84,897,870.89
Other non-current financial assets		262,469,919.10	226,938,456.16
Investment properties		218,199,149.16	228,084,499.83
Fixed assets		2,923,584,939.66	3,165,746,536.73
Construction in progress		667,402,454.68	480,305,723.50
Bearer biological assets		3,503,295.00	–
Oil and gas assets		–	–
Right-of-use assets		842,077,052.31	–
Intangible assets		2,485,288,578.20	1,013,353,424.62
Development expenditure		2,011,139.26	–
Goodwill		825,573,066.90	825,573,066.90
Long-term prepaid expenses		115,785,234.75	94,315,140.82
Deferred tax assets		594,992,161.76	569,144,829.25
Other non-current assets		289,535,847.27	2,580,000.00
		<hr/>	<hr/>
Total non-current assets		10,911,425,990.50	8,450,897,584.09
		<hr/>	<hr/>
TOTAL ASSETS		56,893,659,126.20	51,482,183,869.48
		<hr/> <hr/>	<hr/> <hr/>

Item	<i>Note</i>	31 December 2019 <i>(Audited)</i>	31 December 2018 <i>(Audited)</i>
Current liabilities:			
Short-term borrowings		5,869,008,916.96	5,905,703,286.10
Financial liabilities held for trading		–	–
Financial liabilities measured at fair value through profit or loss for the current period		–	–
Notes payable		3,982,425,654.37	2,656,176,505.09
Accounts payable	<i>10.1.4</i>	9,698,952,240.46	9,313,277,657.72
Advances from customers		–	–
Employee benefits payable		839,640,308.29	753,034,630.86
Taxes payable		248,014,970.03	963,543,253.64
Other payables		3,227,385,632.70	3,466,357,353.39
Including: Interest payable		34,840,834.22	41,637,538.72
Dividends payable		47,933,025.07	65,917,238.98
Contract liabilities		4,675,361,799.46	3,686,647,223.24
Liabilities held for sales		–	–
Current portion of non-current liabilities		229,361,467.97	204,024,196.93
Other current liabilities		606,814,819.73	–
Total current liabilities		<u>29,376,965,809.97</u>	<u>26,948,764,106.97</u>
Non-current liabilities:			
Long-term borrowings		4,500,000.00	413,553,706.06
Bonds payable		–	–
Lease liabilities		546,994,554.21	–
Long-term payables		25,229,042.00	135,795,848.74
Long-term employee benefits payable		329,428.98	325,325.54
Provisions		53,205,872.32	49,601,312.48
Deferred income		575,837,179.25	490,423,604.73
Deferred tax liabilities		266,908,733.88	249,762,210.96
Other non-current liabilities		54,201,557.40	50,225,000.00
Total non-current liabilities		<u>1,527,206,368.04</u>	<u>1,389,687,008.51</u>
Total liabilities		<u>30,904,172,178.01</u>	<u>28,338,451,115.48</u>

Item	<i>Note</i>	31 December 2019 <i>(Audited)</i>	31 December 2018 <i>(Audited)</i>
Shareholders' equity:			
Share capital		1,625,790,949.00	1,625,790,949.00
Capital surplus		9,865,084,049.39	9,865,084,049.39
Less: Treasury shares		-	-
Other comprehensive income		(138,960.56)	(477,139.10)
Surplus reserve		1,526,241,180.49	1,368,735,157.63
Undistributed profits		11,167,819,445.53	8,825,776,191.86
		<hr/>	<hr/>
Total equity attributable to shareholders of the parent company		24,184,796,663.85	21,684,909,208.78
Minority interest		1,804,690,284.34	1,458,823,545.22
		<hr/>	<hr/>
Total shareholders' equity		25,989,486,948.19	23,143,732,754.00
		<hr/>	<hr/>
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		56,893,659,126.20	51,482,183,869.48
		<hr/> <hr/>	<hr/> <hr/>

Consolidated Income Statement

Item	Notes	For the twelve months ended 31 December 2019 <i>(Audited)</i>	For the twelve months ended 31 December 2018 <i>(Audited)</i>
1. Operating income	<i>10.1.5</i>	64,951,777,641.83	42,233,838,051.12
Less: Operating costs	<i>10.1.5</i>	52,081,135,595.27	32,164,391,714.16
Taxes and surcharges		298,087,171.25	262,959,874.17
Selling and distribution expenses		6,384,900,451.60	5,056,820,914.13
General and administrative expenses		1,978,870,482.38	1,699,062,484.22
R&D expenses		576,511,023.23	585,497,705.00
Financial expenses		117,117,328.52	(6,654,528.43)
Including: Interest expenses		374,224,115.91	222,800,930.26
Interest income		303,216,899.66	262,003,043.18
Add: Other income		430,019,889.08	196,111,096.12
Investment income		198,458,982.24	1,271,314,318.61
Including: Income from investments in associates and joint ventures		144,486,150.48	317,196,606.84
Gains from changes in fair value		31,623,136.01	115,575,352.23
Impairment losses in respect of credit		(110,033,777.85)	(39,326,839.23)
Impairment losses in respect of assets		(11,485,403.86)	(180,187,389.00)
Gains on disposal of assets		1,274,043.27	707,312.22
2. Operating profit		4,055,012,458.47	3,835,953,738.82
Add: Non-operating income		109,179,829.49	197,572,883.49
Less: Non-operating expenses		35,658,815.35	14,796,366.69
3. Total profit		4,128,533,472.61	4,018,730,255.62
Less: Income tax expenses	<i>10.1.6</i>	687,246,274.38	485,014,019.72
4. Net profit		3,441,287,198.23	3,533,716,235.90

Item	<i>Notes</i>	For the twelve months ended 31 December 2019 (Audited)	For the twelve months ended 31 December 2018 (Audited)
(1) Classified by the continuity of operations			
A. Net profit from continuing operations		3,441,287,198.23	3,533,716,235.90
B. Net profit from discontinued operations		–	–
(2) Classified by ownership of the equity			
A. Minority interest		252,402,559.32	92,736,132.82
B. Net profit attributable to the parent company's shareholders		3,188,884,638.91	3,440,980,103.08
5. Other comprehensive income, net of tax		338,178.54	6,341,692.68
Other comprehensive income, net of tax attributable to the parent company's shareholders		338,178.54	6,341,692.68
(1) Other comprehensive income that will not be reclassified to profit or loss		(2,481,924.23)	(2,452,981.75)
A. Changes arising from the remeasurement of defined benefit obligation		–	–
B. Other comprehensive income that will not be reclassified to profit or loss under equity method		–	–
C. Change in fair value of other equity instrument investment		(2,481,924.23)	(2,452,981.75)
D. Change in fair value of the company's own credit risk		–	–
E. Others		–	–

Item	<i>Notes</i>	For the twelve months ended 31 December 2019 (Audited)	For the twelve months ended 31 December 2018 (Audited)
(2) Other comprehensive income that may be reclassified into profit or loss		2,820,102.77	8,794,674.43
A. Other comprehensive income that may be reclassified to profit or loss under equity method		–	(187,789.97)
B. Change in fair value of other debt investment		–	–
C. Gains and losses arising from changes in fair value of available-for-sale financial assets			
D. The amount of financial assets reclassified into other comprehensive income		–	–
E. Gains and losses arising from reclassification of held-to-maturity investment to available-for-sale financial assets		–	–
F. Provision for credit loss of other debt investment		–	–
G. Cash flow hedge reserve		–	–
H. Difference arising from the translation of foreign currency financial statements		2,820,102.77	8,982,464.40
I. Others		–	–
Other comprehensive income, net of tax attributable to minority shareholders		–	–
6. Total comprehensive income		3,441,625,376.77	3,540,057,928.58
(1) Total comprehensive income attributable to shareholders of the parent company		3,189,222,817.45	3,447,321,795.76
(2) Total comprehensive income attributable to minority shareholders		252,402,559.32	92,736,132.82
7. Earnings per share (EPS) :			
(1) Basic earnings per share	<i>10.1.7</i>	1.961	2.116
(2) Diluted earnings per share	<i>10.1.7</i>	1.961	2.116

10.1.1 Basis of preparation of financial statements

(1) Basis of preparation

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

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

(2) Going concern

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

10.1.2 Information of Segments

With the strategic management and business development, the Group basically completed the industrial chain layout and internal structure of 4 sectors in 2015, including “Great Southern TCM”, “Great Commerce”, “Great Health”, “Great Medical Care”. According to the requirements of regulatory laws, regulations and company management, four major sectors are identified as operating segments. As the business scale of “Great Medical Care” is lower than 10%, this segment is temporarily listed in “Others” column. Segment information is as follows:

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

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

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

(1) The segment information for the twelve months ended 31 December 2019 and as of 31 December 2019 is as follows:

	Great Southern TCM	Great Health	Great Commerce	Other	Offset between segments	Total
External revenue	11,788,694,609.13	10,488,887,951.58	42,503,885,023.52	170,310,057.60	-	64,951,777,641.83
Inter-segment revenue	293,521,980.08	74,311,673.93	7,916,739,714.81	367,150,887.49	(8,651,724,256.31)	-
Interest income	(89,480,004.08)	(113,187,581.37)	(26,078,489.89)	(75,250,541.30)	779,716.98	(303,216,899.66)
Interest expenses	24,874,956.90	2,254,461.93	453,983,134.78	32,783,381.65	(120,012,660.57)	393,883,274.69
Income from investments in associates and joint ventures	24,807,697.71	2,550.77	2,260,246.44	117,645,446.69	(229,791.13)	144,486,150.48
Impairment losses in respect of credit	1,637,288.43	1,239.82	(108,769,262.92)	(3,269,260.57)	366,217.39	(110,033,777.85)
Impairment losses in respect of assets	1,374,644.02	-	(10,322,709.47)	(500,000.00)	(2,037,338.41)	(11,485,403.86)
Depreciation and amortization expenses	276,648,040.66	42,128,443.56	333,027,739.02	33,422,733.18	(59,618,593.03)	625,608,363.39
Total profit	1,476,440,835.43	1,652,377,164.10	507,820,823.35	1,091,716,838.73	(599,822,189.00)	4,128,533,472.61
Total assets	13,617,263,984.14	11,559,245,317.93	27,909,137,809.70	20,859,483,056.03	(17,051,471,041.60)	56,893,659,126.20
Total liabilities	7,357,860,154.04	6,434,061,417.99	22,593,101,212.71	2,796,378,305.26	(8,277,228,911.99)	30,904,172,178.01
Long-term equity investment in associates and joint ventures	301,068,028.49	-	65,423,790.37	1,232,533,373.55	-	1,599,025,192.41
Increase in other non-current assets excluding long-term equity investment	355,011,321.12	128,949,114.99	503,350,933.97	1,592,142,742.37	-	2,579,454,112.45

(2) The segment information for the twelve months ended 31 December 2018 and as of 31 December 2018 is as follows:

	Great Southern TCM	Great Health	Great Commerce	Other	Offset between segments	Total
External revenue	9,796,024,948.68	9,492,904,408.94	22,811,449,928.90	133,458,764.60	-	42,233,838,051.12
Inter-segment revenue	144,351,843.81	33,647,788.65	7,310,785,592.07	242,413,790.42	(7,731,199,014.95)	-
Interest income	(54,532,656.59)	(96,941,364.91)	(18,459,600.71)	(94,846,307.77)	2,776,886.80	(262,003,043.18)
Interest expenses	17,455,028.42	-	264,232,320.54	24,294,787.91	(83,181,206.61)	222,800,930.26
Income from investments in associates and joint ventures	85,838,488.29	755,108.60	2,166,026.75	240,749,192.94	(12,312,209.74)	317,196,606.84
Impairment losses in respect of credit	(2,958,625.66)	292,637.27	(31,274,555.15)	(8,423,529.03)	3,037,233.34	(39,326,839.23)
Impairment losses in respect of assets	(35,358,983.53)	-	(26,552,905.79)	-	(118,275,499.68)	(180,187,389.00)
Depreciation and amortization expenses	222,464,191.81	42,282,814.77	147,687,704.53	27,985,379.02	(144,105.00)	440,275,985.13
Total profit	1,384,538,275.78	852,020,464.44	254,159,649.94	1,398,199,922.59	129,811,942.87	4,018,730,255.62
Total assets	11,583,817,470.30	9,419,956,280.11	24,868,693,118.24	20,624,199,398.47	(15,014,482,397.64)	51,482,183,869.48
Total liabilities	6,887,053,492.19	5,896,869,489.81	20,476,717,007.50	2,871,177,504.92	(7,793,366,378.94)	28,338,451,115.48
Long-term equity investment in associates and joint ventures	276,421,358.40	-	62,991,964.68	1,420,544,712.31	-	1,759,958,035.39
Increase in other non-current assets excluding long-term equity investment	413,426,962.68	488,603,396.02	1,852,610,818.57	78,551,367.54	-	2,833,192,544.81

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

External revenue	January to December, 2019	January to December, 2018
PRC	64,918,017,689.88	42,189,829,224.25
Other countries/regions	33,759,951.95	44,008,826.87
	<u>64,951,777,641.83</u>	<u>42,233,838,051.12</u>
 Total non-current assets	 31 December 2019	 31 December 2018
PRC	10,135,780,517.31	8,120,762,664.12
Other countries/regions	16,697,391.35	18,298,592.95
	<u>10,152,477,908.66</u>	<u>8,139,061,257.07</u>

10.1.3 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 in cash, advance from customers, bank notes, etc.

(a) The aging analysis of accounts receivable based on booking date is as follows:

	31 December 2019	31 December 2018
Within 1 year	12,279,203,329.97	10,608,071,266.73
1 to 2 years	281,873,461.22	296,900,276.44
2 to 3 years	165,330,048.12	21,494,905.55
3 to 4 years	12,655,288.53	24,379,618.72
4 to 5 years	15,509,462.78	149,135,708.99
Over 5 years	181,864,903.62	60,509,283.89
	<u>12,936,436,494.24</u>	<u>11,160,491,060.32</u>
Less: Provision for bad debts	<u>381,411,974.66</u>	<u>288,032,587.98</u>
	<u><u>12,555,024,519.58</u></u>	<u><u>10,872,458,472.34</u></u>

10.1.4 Accounts payable

(a) The aging analysis of accounts payable based on booking date is as follows:

	31 December 2019	31 December 2018
Within 1 year	9,293,107,363.52	8,973,120,088.71
Over 1 year	405,844,876.94	340,157,569.01
	<u>9,698,952,240.46</u>	<u>9,313,277,657.72</u>

10.1.5 Operating income and Operating costs

	For the twelve months ended 31 December 2019		
	Main businesses	Other businesses	Subtotal
Operating income	64,682,984,312.29	268,793,329.54	64,951,777,641.83
Operating costs	<u>52,020,470,819.57</u>	<u>60,664,775.70</u>	<u>52,081,135,595.27</u>
Gross profit	<u><u>12,662,513,492.72</u></u>	<u><u>208,128,553.84</u></u>	<u><u>12,870,642,046.56</u></u>

	For the twelve months ended 31 December 2018		
	Main businesses	Other businesses	Subtotal
Operating income	41,980,377,512.59	253,460,538.53	42,233,838,051.12
Operating costs	<u>32,106,055,149.15</u>	<u>58,336,565.01</u>	<u>32,164,391,714.16</u>
Gross profit	<u><u>9,874,322,363.44</u></u>	<u><u>195,123,973.52</u></u>	<u><u>10,069,446,336.96</u></u>

10.1.6 Income tax expenses

	For the twelve months ended 31 December 2019	For the twelve months ended 31 December 2018
Current income tax expenses	695,509,097.36	699,010,875.25
Deferred income tax expenses	<u>(8,262,822.98)</u>	<u>(213,996,855.53)</u>
	<u><u>687,246,274.38</u></u>	<u><u>485,014,019.72</u></u>

Income tax expenses derived from reconciliation of income tax calculated by applicable tax rate based on total profit in the consolidated income statement:

	For the twelve months ended 31 December 2019
Total profit	<u>4,128,533,472.61</u>
Income tax calculated at statutory rate of 15%	<u>619,280,020.89</u>
Tax effect of different rates applicable to subsidiaries in the scope of consolidation	7,371,859.63
Effect of income tax adjustment for prior period	(25,172,431.65)
Non-taxable and tax relief income	(42,567,448.48)
Non-deductible costs, expenses and losses	27,851,636.25
Effect on opening balance of deferred income tax arising from changes in tax rate	27,187,826.96
Effect of using deductible losses of deferred tax assets unrecognized in prior period	124,604,748.23
Tax effect of R&D expenditure deduction	(51,566,636.66)
Effect of deductible temporary differences and deductible losses which are not recognized in current period	<u>256,699.21</u>
Income tax expenses	<u><u>687,246,274.38</u></u>

According to the state's relevant tax preferential policies for High/New enterprises, qualified High/New enterprises can enjoy preferential corporate income tax policies and pay corporate income tax at a reduced rate of 15%.

The subsidiaries of the Group, which have obtained the Certificates of High/New Technology Enterprises, can enjoy preferential tax rate of 15% for current period, which including: the Company (No. GR201744003162), Xing Qun (No. GR201744011135), Zhong Yi (No. GR201744005343), Chen Li Ji (No. GR201744001501), Guangzhou Han Fang (No. GR201744008646), Jing Xiu Tang (No. GR201744000331), Pan Gao Shou (No. GR201744002878), Wang Lao Ji (No. GR201744001303), Tian Xin (No. GR201744009163), Guang Hua (No. GR201544000485), Ming Xing (No. GR201744002496), Guangxi Ying Kang (No. GR201545000083), Weiling (No. GR201844007959), WLJ Great Health (No. GR201644006480), Guangyao General Institute (No. GR201844005664).

According to “Hong Kong Inland Revenue Ordinance”, Guangyao Baiyunshan (Hong Kong) Co., Ltd., a subsidiary of the Group registered in Hong Kong, is subject to corporate profits tax at a rate of 16.5%.

In accordance with “PRC Enterprise Income Tax Law” and “Implementation Rules of PRC Enterprise Income Tax Law”, domestic enterprises of the Group, except for the companies listed above, are subject to enterprise income tax at a rate of 25%.

10.1.7 Earnings per share (EPS)

(a) Basic EPS

(i) Weighted average basic EPS

Weighted average basic EPS is calculated by dividing the portion of net consolidated profit, which is attributable to the ordinary shareholders of the parent company, by the number of weighted average outstanding ordinary shares at the year end:

	For the twelve months ended 31 December 2019	For the twelve months ended 31 December 2018
Net consolidated profit attributable to ordinary shareholders of the parent company	3,188,884,638.91	3,440,980,103.08
The number of weighted average outstanding ordinary shares at the year end	1,625,790,949	1,625,790,949
Weighted average basic EPS	<u>1.961</u>	<u>2.116</u>

(ii) EPS based on the number of shares as at the year end

EPS based on the number of shares as at the period end is calculated by dividing the portion of net consolidated profit, which is attributable to the ordinary shareholders of the parent company, by the number of outstanding ordinary shares as at the year end:

	For the twelve months ended 31 December 2019	For the twelve months ended 31 December 2018
Net consolidated profit attributable to ordinary shareholders of the parent company	3,188,884,638.91	3,440,980,103.08
The number of outstanding ordinary shares as at the year end	<u>1,625,790,949</u>	<u>1,625,790,949</u>
EPS based on the number of shares as at the year end	<u>1.961</u>	<u>2.116</u>

(b) Diluted EPS

Diluted EPS is calculated by dividing the portion of net consolidated profit of dilutive potential ordinary shares, which are attributable to the ordinary shareholders of the parent company after adjustment to ordinary shares, by the number of weighted average outstanding ordinary shares at the year end. For the period from January to December of year 2019, the Company had no dilutive potential ordinary share (for January to December of year 2018: nil). The diluted EPS is equal to basic EPS.

10.1.8 Dividends

According to the resolution of the 2018 annual general meeting held on 28 June 2019, the Company shall pay cash dividends to all shareholders at RMB0.424 per share (tax included), which is RMB689,335,000 in total, based on the outstanding shares of 1,625,790,949 shares at the year end of 2018.

10.2 Explanation on changes in accounting policies compared to the previous annual report.

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

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

As approved by the resolution of the 21st meeting of the 7th Board of Directors of the Company on April 26, 2019, the Group began implementing the aforementioned New Lease Standards on January 1, 2019 (hereinafter referred to as the “First Implementation Date”) complied with the requirements of the Ministry of Finance and making changes to the relevant accounting policies in accordance with the New Lease Standards.

According to the New Lease Standards, for the existed contracts before First Implementation Day, the Group chooses not to re-evaluate whether it is a lease or including lease on the First Implementation Day. For the lease contracts of the Group as a lessee, the Group chooses to adjust only the cumulative impact of the lease contract that was not completed on January 1, 2019.

The cumulative impact amount adjusted the opening balance of retained earnings and other related items in the financial statements of the current period (January 1, 2019). It won't adjust the information for the comparable period.

Details as follows:

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

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

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

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

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

Consolidated balance sheet

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

On January 1, 2019, when measuring lease liabilities, the Group used the same discount rate for lease contracts with similar characteristics, and the weighted average of the incremental borrowing rates used was 4.35%.

Balance sheet of the Company

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

On January 1, 2019, when measuring lease liabilities, the Company used the same discount rate for lease contracts with similar characteristics, and the weighted average of the incremental borrowing rates used was 4.35%.

10.2.2 Financial statement presentation adjustment

The Group prepared the financial statements for the year ended December 31, 2019 in accordance with the financial statement format specified in Accounting [2019] No. 6, and changed the presentation of relevant financial statements using the retrospective adjustment method.

The related presentation adjustments are as follows:

Consolidated balance sheet

Items	Before Adjustment <i>(RMB)</i>	Amount adjusted <i>(RMB)</i>	After Adjustment <i>(RMB)</i>
ASSETS:			
Notes receivable	2,780,597,684.01	(1,452,402,183.47)	1,328,195,500.54
Accounts receivable financing	–	1,452,402,183.47	1,452,402,183.47

Balance sheet of the Company

Items	Before Adjustment <i>(RMB)</i>	Amount adjusted <i>(RMB)</i>	After Adjustment <i>(RMB)</i>
ASSETS:			
Notes receivable	615,391,740.80	(167,667,277.86)	447,724,462.94
Accounts receivable financing	–	167,667,277.86	167,667,277.86

10.3 No change in accounting policies or accounting methods compared to the previous annual report.

10.4 No correction for significant accounting errors in the Reporting period.

10.5 Explanation on change in consolidation scope compared to the previous annual report.

10.5.1 Changes in consolidation scope due to other reasons.

The reasons for the addition of 12 companies and decrease by 1 company in scope of consolidation comparing to the prior year are as follows:

- (1) In January of the Year, WLJ Great Health, a wholly-owned subsidiary of the Company, invested in the establishment of Wang Lao Ji Great Health Industry (Lanzhou) Co., Ltd. with a registered capital of RMB50,000,000, and the proportion of capital contribution subscribed by WLJ Great Health to registered capital is 100.00%.
- (2) In January of the Year, Hainan Guangyao Chenfei Pharmaceutical Co., Ltd., an indirect holding subsidiary of the Company, invested to establish Hainan Guangyao Chenfei Pharmaceutical Chain Co., Ltd. with a registered capital of RMB20,000,000. The contribution of Hainan Guangyao Chenfei Pharmaceutical Co., Ltd. to the registered capital is 100.00%.
- (3) In March of the Year, Qingyuan Guangyao Zhengkang Pharmaceutical Co., Ltd., an indirect holding subsidiary of the Company, invested to establish Guangyao (Qingyuan) Pharmaceutical Co., Ltd. with a registered capital of RMB7,000,000. The proportion of registered capital is 100.00% by Qingyuan Guangyao Zhengkang Pharmaceutical Co., Ltd.
- (4) In April of the Year, Cai Zhi Lin, a wholly-owned subsidiary of the Company, invested in the establishment of Gansu Guangyao Baiyunshan Traditional Chinese Medicine Technology Co., Ltd., with a registered capital of RMB50,000,000, and the proportion of capital contribution subscribed by Cai Zhi Lin to registered capital is 100.00%.
- (5) In July of the Year, Guangyao Baiyunshan Macau Co., Ltd., an indirect holding subsidiary of the Company, invested to establish Guangyao International (Zhuhai Hengqin) Traditional Chinese Medicine Industry Co., Ltd. with a registered capital of RMB100,000,000. The proportion of the capital contribution paid up to the registered capital is 100.00%.

- (6) In August of the Year, the Company invested to set up Guangzhou Chuangying GYBYS Intellectual Property Co., Ltd. with a registered capital of RMB10,000,000, and the Company's subscribed capital contributed 100.00% of the registered capital thereof.
- (7) In September of the Year, the Company invested in the establishment of Guangzhou Pharmaceutical (Zhuhai Hengqin) Pharmaceutical Industrial Park Co., Ltd. with a registered capital of RMB9,000,000, and the Company's subscribed capital accounted for 100.00% of the registered capital thereof.
- (8) In September of the Year, Cai Zhi Lin, a wholly-owned subsidiary of the Company, invested to set up Guangzhou Cai Zhi Lin Traditional Chinese Medicine Center Co., Ltd. with a registered capital of RMB10,000,000. Cai Zhi Lin subscribed capital accounted for 51.00% of the registered capital thereof.
- (9) The acquisition of 100% equity of Qingyuan Guangyao Zhengkang Pharmaceutical Co., Ltd. by GP Corp., a holding subsidiary of the Company, completed asset delivery and registration of industrial and commercial changes in September 2019. Since then, the company has become a wholly-owned subsidiary of GP Corp. and has been included in the scope of consolidation of GP Corp.
- (10) In November of the Year, Wang Lao Ji, a holding subsidiary of the Company, invested to establish Guangyao Wanglaoji (Bijie) Industry Co., Ltd. with a registered capital of RMB1,000,000. The proportion of the capital contributed by Wang Lao Ji to the registered capital is 100.00%.
- (11) In November of the Year, Zhejiang Baiyunshan Anglicang Pharmaceutical Co., Ltd., a holding company established by Chemical & Pharmaceutical Technology Company a wholly-owned subsidiary of the Company, merged Zhejiang Guangkang Pharmaceutical Co., Ltd. and Zhejiang Guangkang Pharmaceutical Co., Ltd. was cancelled.
- (12) In December of the Year, GP Corp., a holding subsidiary of the Company, invested to establish Guangyao (Zhuhai Hengqin) Pharmaceutical Import and Export Co., Ltd. with a registered capital of RMB8,000,000. The proportion of the capital contributed by GP Corp. as a proportion of the registered capital is 100.00%.

10.6 There is no explanation from the Board or the Supervisory Committee on audit reports with modified opinion issued by the auditors for the current reporting period.

The Board of
Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd

Guangzhou, the PRC, 31 March 2020

As at the date of this summary, the Board comprises Mr. Li Chuyuan, Ms. Cheng Ning, Mr. Yang Jun, Ms. Liu Juyan, Mr. Li Hong, Mr. Wu Changhai and Mr. Zhang Chunbo as executive Directors, and Mr. Chu Xiaoping, Mr. Jiang Wenqi, Mr. Wong Hin Wing and Ms. Wang Weihong as independent non-executive Directors.