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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 2020 ANNUAL REPORT**

### **1. IMPORTANT NOTICE**

- 1.1** This summary is extracted from the full text of the 2020 annual report of the Company for the year ended 31 December 2020. Investors who wish to know more about the result of operations, financial conditions and plans of future development of the Company are advised to refer to the full text of the 2020 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** All the Directors were present at the 10th meeting of the eighth session of the Board. Mr. Li Chuyuan (chairperson of the Board), Ms. Liu Juyan (executive Director), Mr. Li Hong (executive Director and General Manager) and Mr. Wong Hin Wing (independent non-executive Director) attended the meeting by telephone.
- 1.4** 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.

**1.5 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 consolidated net profit of the Group attributable to the shareholders of the Company amounted to RMB2,915,244,576.05 in 2020. Based on the net profit of the Company of RMB1,940,615,878.98 in 2020, a 10% statutory surplus reserve in the amount of RMB194,061,587.90 is provided, with the addition of the undistributed profit carried over from 2019 in the amount of RMB5,989,596,679.50, and after deducting the cash dividends of 2019 in the amount of RMB957,590,868.96, the actual distributable profits at the end of 2020 amounted to RMB6,778,560,101.62.

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 2020, a cash dividend of RMB5.38 (inclusive of tax) for every 10 shares, amounting to an aggregate of RMB874,675,530.56, be distributed. The undistributed portion shall be carried over to the next distribution. There will not be any capitalization of capital reserve for 2020.

The profit distribution plan will be submitted to the 2020 annual general meeting for approval.

**1.6 This summary is prepared in both English and Chinese. In the event of discrepancy in interpretation, the Chinese version shall prevail.**

**1.7 All the information required to be contained in this summary pursuant to paragraph 45 of Appendix 16 to the Listing Rules of HKEX will be published on the website of HKEX in due course.**

**2. DEFINITIONS**

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

Company/The Company/GYBYS	Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (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 2020 to 31 December 2020
Group	the Company and its subsidiaries
Board	the board of Directors of the Company
Director	The director of the Company

Supervisory Committee	the supervisory committee of the Company
Supervisor	The supervisor of the Company
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 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)
WLJ Great Health	Guangzhou WLJ Great Health Industry Co., Ltd. (廣州王老吉大健康產業有限公司)

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)
Guangxi Ying Kang	Guangxi Baiyunshan Yingkang Pharmaceutical Company Limited (廣西白雲山盈康藥業有限公司)
GP Corp.	Guangzhou Pharmaceuticals Company Limited (formerly known as Guangzhou Pharmaceutical Corporation) (廣州醫藥股份有限公司，原廣州醫藥有限公司)
Cai Zhi Lin	Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (廣州采芝林藥業有限公司)
Guangyao Baiyunshan Hong Kong Company	Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited (廣藥白雲山香港有限公司)
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)
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)
Weiling	Baiyunshan Weiling Pharmaceutical Co., Ltd. (白雲山威靈藥業有限公司)
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)
Chemical & Pharmaceutical Zhuhai Company	Guangzhou Baiyunshan Chemical & Pharmaceutical (Zhuhai) Co., Ltd. (廣藥白雲山化學制藥(珠海)有限公司)
Baiyunshan Yihu Company	Guangzhou Baiyunshan Yihu Health and Technology Company Limited (廣州白雲山壹護健康科技有限公司)

Baiyunshan Jianhu Company	Guangzhou Baiyunshan Jianhu Medical Products Company Limited (廣州白雲山健護醫療用品有限公司)
Guangyao General Institute	Guangzhou Pharmaceutical Research General Institute (廣州醫藥研究總院有限公司)
Baiyunshan 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)
Nuo Cheng	Guangzhou Nuo Cheng Biological Products Co., Ltd. (廣州諾誠生物製品股份有限公司)
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)
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
GSP	the English abbreviation of Good Supply Practice, which means the quality control standards for pharmaceutical trade
DTP pharmacy	the English abbreviation of Direct to Patient, and it means pharmacy 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 version), 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 price 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 2020 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))
Three-Medicine Linkage	Linkage among medical insurance system reform, health system reform and pharmaceutical circulation system reform (醫保體制改革、衛生體制改革與藥品流通體制改革聯動)
Drug Administration Law	the People's Republic of China Drug Administration Law (《中華人民共和國藥品管理法》)
Vaccine Administration Law	the People's Republic of China Vaccine Administration Law (《中華人民共和國疫苗管理法》)

### 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

<b>Contact persons and contact details</b>	<b>Secretary to the Board</b>	<b>Representative of securities affairs</b>
Name	Huang Xuezhen	Huang Ruimei
Address	45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC	
Telephone	(8620) 6628 1217	(8620) 6628 1219
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#### 3.2 Profile of the main business and products

Since its establishment, the Company has been committed to the healthcare industry. After years of development, the Company has continuously 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 26 pharmaceutical manufacturing companies and institutions under the Company (including 3 branches, 20 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 325 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, Ban Lan Gen Granule, Zi Shen Yu Tai Pill, Xiao Chai Hu Granule, compound Salvia Milltiorrhiz slice, Qing Kai Ling series, Hua Tuo Zai Zao Pill, Xia Sang Ju Granule, Bao Ji series, Xiao Er Qi Xing Cha Granule, An Gong Niu Huang Pill, Zhuang Yao Jian Shen Pill, Shu Jin Jian Yao Pill, Mi Lian Chuan Bei Pi Pa Gao, 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 Cefixime series, Sildenafil Citrate Tablets (“Jin Ge”), Cefathiamidine, Cefprozil series, Paracetamol Caffeine and Aspirin Powder 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, Ci Ning Ji (刺檸吉) series, 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. As a core enterprise of the Great Commerce segment, GP Corp., a subsidiary of the Company, is responsible for the pharmaceutical distribution business of the Group, including the wholesale and retail. The retail business is carried out principally through Jian Min pharmacy chains, GPC prescription pharmacy chains and Cai Zhi Lin medicine pharmacy chains, etc.. Cai Zhi Lin leverages its advantages in the field of TCM to develop the businesses of production and sale of Chinese herbal medicines and TCM decoction-piece products. GP Corp. is the largest pharmaceutical logistics company in Southern China.

### *3.2.4 Great Medical Care*

The Great Medical Care segment is at the stage of development and investment expansion. The Group leveraged on Baiyunshan Medical and Healthcare Industry Company and Medical Instrument Investment Company as the main investment vehicles and used various means, including new establishment, joint venture and co-operation to focus on the development of three areas, namely medical services, TCM health maintenance and modern elderly care, as well as the medical device industry.

Currently, we have invested/held equity interest in a number of projects including Guangzhou Baiyunshan Hospital, Runkang Confinement Company, Tibetan-style Health Preservation Castle in Nyingchi of Tibet, and Guangzhou Zhongcheng Medical Device Industry Development Co., Ltd. (廣州眾成醫療器械產業發展有限公司), etc. After the outbreak of the COVID-19 coronavirus epidemic (the “epidemic”), Baiyunshan Yihu Company and Baiyunshan Jianhu Company were established to develop protective products such as masks and protective gowns.

### **3.3 Current circumstances of the development of the industry**

In 2020, China constantly deepened its reform of the Three-Medicine Linkage. To facilitate the implementation of the revised Drug Administration Law and the Vaccine Administration Law, the new Administrative Measures on Drug Registration and the new Administrative Measures on Supervision of Drug Production were put into force, further accelerating the transformation of the landscape of the pharmaceutical industry in the PRC. The outbreak of the epidemic slowed down the overall growth rate of the industry, but on the other hand, it became a new driver for certain niche areas of this industry, leading to a remarkable improvement in the profit growth rate of the industry and an increasingly clear trend of high-quality development. According to the data published on the website of the National Bureau of Statistics, the operating revenue of pharmaceutical manufacturing enterprises of above designated size in the PRC reached RMB2.48573 trillion in 2020, representing a year-on-year increase of 4.5%, and the total profit reached RMB350.67 billion, representing a year-on-year increase of 12.8%. The operating revenue of liquor, beverage and refined tea manufacturing enterprises of above designated size reached RMB1.48296 trillion, representing a year-on-year decrease of 2.6%, and the total profit reached RMB241.40 billion, representing a year-on-year increase of 8.9%.

### **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.

## 4 PRINCIPAL FINANCIAL DATA

### 4.1 Principal financial data

Principal financial data	2020	2019	Year on year	2018	2017	2016
			increase/ (decrease) (%)			
Income from operations <i>(RMB'000)</i>	<b>61,673,702</b>	64,951,778	(5.05)	42,233,838	20,954,225	20,035,681
Net profit attributable to the shareholders of the Company <i>(RMB'000)</i>	<b>2,915,245</b>	3,188,885	(8.58)	3,440,980	2,061,652	1,508,033
Net profit attributable to the shareholders of the Company after deducting non-recurring items <i>(RMB'000)</i>	<b>2,627,691</b>	2,746,248	(4.32)	2,131,485	1,935,560	1,071,111
Net cash flow from operating activities <i>(RMB'000)</i>	<b>585,185</b>	5,022,367	(88.35)	5,216,888	1,833,691	2,544,672
Total profit <i>(RMB'000)</i>	<b>3,739,082</b>	4,128,533	(9.43)	4,018,730	2,492,976	1,945,053

Principal financial data	As at 31	As at 31	Year on year	As at 31	As at 31	As at 31
	December	December	increase/ (decrease) (%)	December	December	December
	2020	2019		2018	2017	2016
Net assets attributable to the shareholders of the Company <i>(RMB'000)</i>	<b>26,144,843</b>	24,184,797	8.10	21,684,909	18,871,521	17,345,080
Total assets <i>(RMB'000)</i>	<b>59,760,063</b>	56,893,659	5.04	51,482,184	28,314,713	25,897,170
Total liabilities <i>(RMB'000)</i>	<b>31,554,796</b>	30,904,172	2.11	28,338,451	9,051,560	8,243,380
Equity attributable to the shareholders of the Company per share <i>(RMB)</i>	<b>16.08</b>	14.88	8.10	13.34	11.61	10.67
Total equity <i>(RMB'000)</i>	<b>1,625,791</b>	1,625,791	—	1,625,791	1,625,791	1,625,791

## 4.2 Principal financial indicators

Principal accounting data	2020	2019	Year on year	2018	2017	2016
			increase/ (decrease) (%)			
Basic earnings per share ( <i>RMB/share</i> )	<b>1.793</b>	1.961	(8.58)	2.116	1.268	1.075
Diluted earnings per share ( <i>RMB/share</i> )	<b>1.793</b>	1.961	(8.58)	2.116	1.268	1.075
Basic earnings per share after deducting non-recurring items ( <i>RMB/share</i> )	<b>1.616</b>	1.689	(4.32)	1.311	1.191	0.764
Weighted average return on net assets ratio (%)	<b>11.55</b>	13.87	A decrease of 2.32 points	16.93	11.34	12.75
Ratio of weighted average return on net assets after deducting non-recurring items (%)	<b>10.41</b>	11.94	A decrease of 1.53 points	10.48	10.64	9.06
Ratio of return on total equity attributable to shareholders of the Company (%)	<b>11.15</b>	13.19	A decrease of 2.04 points	15.87	10.92	8.69
Ratio on total equity attributable to shareholders of the Company to total assets (%)	<b>43.75</b>	42.51	An increase of 1.24 points	42.12	66.65	66.98
Gearing ratio (%)	<b>52.80</b>	54.32	A decrease of 1.52 points	55.05	31.97	31.83

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

## 4.3 Principal financial data of 2020 on quarterly basis

	The fourth quarter			
	The first quarter	The second quarter	The third quarter	(October –
	(January – March)	(April – June)	(July – September)	December)
	( <i>RMB'000</i> )	( <i>RMB'000</i> )	( <i>RMB'000</i> )	( <i>RMB'000</i> )
Income from operations	16,984,606	13,485,044	16,414,961	14,789,091
Net profit attributable to the shareholders of the Company	1,183,863	580,406	894,798	256,177
Net profit attributable to the shareholders of the Company after deducting non-recurring items	1,195,415	431,967	844,317	155,992
Net cash flow from operating activities	(3,407,041)	1,002,290	2,793,334	196,602

The explanation for the difference between the quarterly data and the disclosed regularly reported data

Applicable     Not Applicable

## 5. SHAREHOLDERS

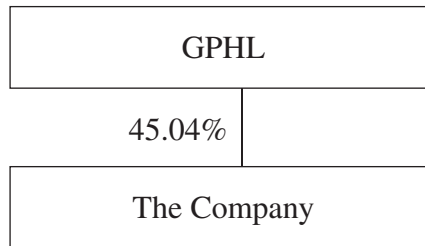
### 5.1 Total number of shareholders and the top ten shareholders as at the end of the Reporting Period

<b>Total number of shareholders as at the end of the Reporting Period</b>	123,654
<b>Total number of shareholders as at 28 February 2021</b>	116,616

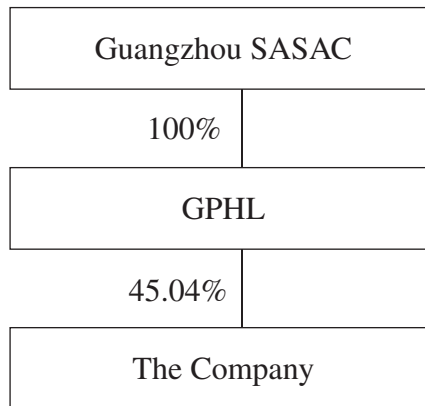
Shareholders	The top ten shareholders of the Company						Nature of Shareholders
	Increase/ (Decrease) during the Reporting Period ( <i>share</i> )	Number of shares held as at the end of the Reporting Period ( <i>share</i> )	Approximate percentage of the total issued share capital (%)	Number of shares subject to selling restrictions held ( <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	51,990	219,759,379	13.52	0	0	Others	
GZ Chengfa	0	73,313,783	4.51	0	0	Others	
GZ SOA Development	(19,724,200)	61,565,300	3.79	0	0	State-owned legal person	
China Securities Finance Corporation Limited	0	47,278,008	2.91	0	0	Others	
Hong Kong Securities Clearing Company Limited	(2,862,957)	17,489,786	1.08	0	0	Others	
Central Huijin Asset Management Co., Ltd.	0	15,260,700	0.94	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	
Boshi AMC-Agricultural Bank-Boshi China Securities Financial Asset Management Plan	0	8,662,836	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”.

**5.2 Relationship between the Company and its controlling shareholder as at the end of the Reporting Period**



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



**5.4 Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the Reporting Period.**

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

**5.6 The Company did not have any preferred shares during the Reporting Period.**

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

**5.8 Public float**

Based on the publicly available information and to the best knowledge of the Directors, the Company has maintained sufficient public float as at the latest practicable date prior to the publication of this summary.

**5.9 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

In 2020, the Group proactively adopted the development theme of “Year of Leapfrogging Reform” and promoted each of its operating activities by seeking progress while maintaining stability, rising to the challenges and strictly controlling risks.

During the Reporting Period, as the epidemic broke out, the raw materials and transportation were affected to some extent, the number of outpatient visits in medical institutions nationwide and the end-user demand for pharmaceutical products declined dramatically, and the market of fast-moving consumer goods was hard hit. As a result, the relevant business segments of the Group were affected to varying degrees, thereby leading to a year-on-year decrease in the Group’s operating results. In 2020, the Group’s revenue amounted to RMB61,673,702,000, representing a year-on-year decrease of 5.05%; the total profit was RMB3,739,082,000, representing a year-on-year decrease of 9.43%; the net profit attributable to shareholders of the Company was RMB2,915,245,000, representing a decrease of 8.58% as compared with the corresponding period of 2019.

Facing the unexpected outbreak of the epidemic in 2020, on the one hand, the Group actively deployed various epidemic prevention and control measures, implemented tasks for ensuring provision of anti-epidemic and epidemic prevention materials, and strove for supporting the epidemic prevention at the frontline. On the other hand, the Group solidly promoted safe production and construction for epidemic prevention and control, organized resumption of work and production in an orderly manner, and at the same time took effective measures to strengthen market expansion and sales of the products, thereby alleviating the impact of the epidemic on the Group’s production and operations. During the Reporting Period, the Group proactively worked on the following:

Firstly, during the outbreak of the epidemic, the Group initiated the emergency response mechanism and swiftly carried out production and storage of epidemic prevention and anti-epidemic materials to implement effectively the tasks assigned by the governments at provincial and municipal levels for reserving drugs, medical and sanitary equipment, and epidemic prevention and anti-epidemic materials. Efforts were made to ensure the anti-epidemic supplies for supporting the frontline of the fight against the epidemic.

Secondly, during the stage of normalized epidemic prevention and control, we organized resumption of work and production in an orderly manner and strengthened efforts in market expansion, in an effort to minimize the impact of the epidemic. At the same time, with focus on the Group’s principal businesses, we actively explored new opportunities and new models to promote the development of the Group’s principal businesses.

- 1) Further speeding up the creation of Diva brands and epidemic prevention related products for the Great Southern TCM segment, and constantly strengthening the market expansion efforts.
  1. Significant focus was directed to the promising products by deploying resources to create Diva brands and enhance the momentum to drive the development of business segments. During the Year, we selected a series of promising products to be included in the project of nurturing Diva brands, such as Xia Sang Ju Granule. As at the end of the Reporting Period, more than 10 products were selected for the project of Diva brands, and in the future we will speed up the market expansion and strengthen the efforts for the development of the promising products.
  2. Active efforts were made to develop and strengthen the market expansion of anti-epidemic and epidemic prevention related products, and to constantly strengthen cooperations with top 100 domestic drugstore chains to increase product sales at the terminals.
- 2) Strengthening the efforts to explore an innovation-based development mode for the Great Health segment, with focus on core channels, and attempting to seek opportunities amid adversities.
  1. Facing the challenges brought by the epidemic, in terms of the Great Health segment, we enhanced the exploration of new sales models and new development paths, further strengthened the development of e-commerce channels and cooperations with e-commerce platforms, actively engaged in community e-commerce and takeaway platforms, and vigorously expanded the live streaming marketing model to promote product sales.
  2. During the normalized epidemic prevention and control stage, WLJ Great Health quickly focused on the core channels of catering and ready-to-drink, seizing the sales opportunities in the summer, Mid-Autumn Festival and National Day peak seasons to increase the market share in the catering industry and to vigorously promote product sales.
  3. With the help of Wang Lao Ji's brand advantages, we focused on creating the new beverage brand of Ci Ning Ji series by increasing investment in advertising and distribution in all pipelines, and giving out consumption coupons of Ci Ning Ji for poverty alleviation purpose to increase product sales volume.
  4. We launched public welfare activities, such as "Healthy China Care Action", "Auspicious China" and "Be with You in the Fight Against the Epidemic", and deepened the connections between our brand and certain consumption scenes, such as wedding banquet, beginning of a school semester, commencement of business operations, and start of market trading and driving. We explored the connotation of "Ji Culture", extended the core connotation of the brand and enhanced the brand influence.



- 3) Optimizing the allocation of resources in the Great Commerce segment and accelerating the transformation and development.
  1. GP Corp. seized the market opportunities to increase retail outlets and regional coverage and accelerate its deployment of retail outlets actively with 12 new retail outlets opened; the integration of retail resources was completed. Guangzhou Cai Zhi Lin medicine pharmacy chains of Cai Zhi Lin completed the transfer of its 100% shareholding to GP Corp. As at the end of the Reporting Period, the number of the retail outlets of GP Corp. had increased to 137.
  2. We broadened financing channels and optimized capital structure. During this Year, GP Corp. solidly pushed the spin-off and overseas listing exercise by completing resources integration, ownership reform and share enlargement through capital increase. Additionally, we constantly carried out the asset-backed securitization of accounts receivables. As at the end of the Reporting Period, the accumulated sum of assets sold under the asset-backed securitization of accounts receivable amounted to RMB4.280 billion.
  3. Cai Zhi Lin deepened cooperations with various major hospitals to increase the sales of TCM decoction-pieces and continuously develop the TCM industry further; completed the construction related work of the characteristic “TCM Medical Center” to create a pivot for the inheritance of TCM culture and “fashionable Chinese medicine”.
- 4) Accelerating the development of the Great Medical Care segment and new models of business. During the Reporting Period, Guangzhou Baiyunshan Hospital further improved the building of medical disciplines with set-up of the TCM Department of Oncology to improve the market competitiveness of medical services; Baiyunshan Yihu Company and Biyunshan Jianhu Company were established to engage in the businesses of research and development and production of masks, protective gowns and other protective products, and to constantly explore new business models.

Thirdly, we continued to promote and increase investment in scientific research and innovation together with investment in product research and development, and strengthened construction of scientific research platforms. During this Year, the Group and its joint ventures added two provincial-level engineering technology centers, namely Guangdong Male Medicine Engineering Technology Research Center (廣東省男科用藥工程技術研究中心) and the Guangdong Plant Beverage Engineering Technology Research Center (廣東省植物飲料工程技術研究中心), and completed the construction of the Guangdong Academician Workstation (廣東省院士工作站) and Guangdong Provincial Industrialization Base for Breeding of Seed and Seedling of Characteristic Chinese Herbal Medicines (廣東省特色中藥材種子種苗繁育產業化基地). The National Canine Experimental Animal Resource Database (國家犬類實驗動物資源庫) under Guangyao General Institute successfully genetically engineered a canine model of human haemophilia A; the joint venture HWBYS was recognized as a “National Technological Innovation Demonstration Enterprise”; the Company’s wholly-owned subsidiary, namely Zhongyi, was recognized by the China Industry-University-Research Collaboration Association as “2020 Demonstration Enterprise for Innovation in China Industry-University-Research Collaboration”. As at the end of the Reporting Period, the Group and its joint ventures had accumulatively 8 state-level scientific research platforms and 39 provincial-level scientific research platforms.

During the Reporting Period, the Group and its joint ventures received 11 production approval documents and had 6 kinds of products passing the consistency evaluation in total. The Group submitted 85 patent applications, including 71 applications for invention patent and 14 applications for utility model patent; the Group received 60 licensed patents, 40 licensed invention patents and 20 licensed utility model patents.

Fourthly, we strengthened the formation of quality system and comprehensively implemented quality control. During the Reporting Period, the Group further strengthened product quality management and organized implementation of more than 20 standardized technical transformation projects to improve the quality level; conducted GMP and GSP quality diagnosis for more than 10 subordinate enterprises to effectively identify hidden quality problems; gradually established a “big data of production safety” intelligent system, a grid management system, a risk control system and a safe production information platform, and carried out preliminary tests in 6 pilot enterprises to guarantee the safe production through scientific and technological innovation.

Fifthly, we accelerated the construction of industrial bases. During the Year, the construction of WLJ Great Health’s raw liquid extraction base in Meizhou (王老吉大健康公司梅州原液提取基地) and Cai Zhi Lin’s traditional Chinese medicine industrialized production and service base in Meizhou (采芝林藥業梅州中藥產業化生產服務基地) were completed and they were put into operation in the second half of the Year.

Sixthly, we continued to strengthen the implementation of work related to party building, strategy, appraisal, regulation, cost, risk, safety and environmental protection, etc., established and improved the risk monitoring mechanism, and strengthened the internal audit mechanism to further enhance the management efficiency.

## 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 2019 (RMB'000)	Increase/ (Decrease) over the corresponding period of 2019 (%)
Revenue	61,673,702	64,951,778	(5.05)
Include: income from principal operations	61,450,355	64,682,984	(5.00)
Cost of sales	51,233,326	52,729,242	(2.84)
Include: cost from principal operations	51,176,776	52,668,577	(2.83)
Selling and distribution expenses	4,575,996	5,736,794	(20.23)
General and administrative expenses	1,844,424	1,978,870	(6.79)
Research and development expenses	611,935	576,511	6.14
Financial expenses	5,152	117,117	(95.60)
Profit before tax	3,739,082	4,128,533	(9.43)
Net profit attributable to shareholders of the Company	2,915,245	3,188,885	(8.58)
Net cash flow from operating activities	585,185	5,022,367	(88.35)
Net cash flow from investing activities	(1,088,056)	(1,028,395)	(5.80)
Net cash flow from financing activities	1,439,376	(2,231,813)	164.49
Investment income	344,171	198,459	73.42
Gains from changes in fair value	(8,469)	31,623	(126.78)
Impairment losses in respect of assets	(23,950)	(11,485)	(108.53)
Gains on disposal of assets	2,954	1,274	131.87
Non-operating income	157,616	109,180	44.36
Non-operating expenses	90,950	35,659	155.06
Minority interest	176,383	252,403	(30.12)

*Notes:*

1. The year-on-year decrease in financial expenses was attributable to: (i) a year-on-year increase in interest income of subsidiaries of the Company; and (ii) a decrease in average bank loan interest rate of GP Corp., a holding subsidiary of the Company.
2. The year-on-year decrease in net cash flow from operating activities was attributable to: (i) a year-on-year decrease in net cash flow from operating activities of WLJ Great Health, a wholly-owned subsidiary of the Company, as affected by the epidemic and the delay in receipt of payments for the sale of goods during the 2021 Spring Festival; and (ii) a year-on-year decrease in net cash flow from operating activities resulting from the year-on-year decrease in the sales proceeds received by subsidiaries of the Company due to the impact of the epidemic.
3. The year-on-year increase in cash flow from financing activities was attributable to an increase in bank borrowings of the Company and its subsidiaries.
4. The year-on-year increase in investment income was attributable to: (i) a year-on-year increase in investment income from long-term equity investments of the Company and its subsidiaries under the equity method of RMB209 million; (ii) a year-on-year decrease in investment income of RMB37 million arising from investment losses recognized for the difference between the carrying amount and selling price of trade receivables sold during the Report Period due to the issuance of asset-backed securities (ABS) on trade receivables by GP Corp., a subsidiary of the Company in December 2019; and (iii) no income from wealth management was generated during the Reporting Period while income from wealth management of RMB28 million was recognized in the corresponding period of last year.
5. The year-on-year decrease in gains from changes in fair value was attributable to the fluctuations in market prices of shares of Chongqing Pharmaceutical Holding Co., Ltd. (重藥控股股份有限公司), China Everbright Bank Company Limited (中國光大銀行股份有限公司) and other companies held by the Company.
6. The year-on-year decrease in impairment losses in respect of assets was attributable to a year-on-year increase in the provision for the price decline of inventory made by subsidiaries of the Company.
7. The year-on-year increase in gains from disposal of assets was attributable to a year-on-year increase in gains from disposal of assets of the subsidiaries of the Company.
8. The year-on-year increase in non-operating income was attributable to a year-on-year increase in income from government compensations for land requisition and resettlement recognized by subsidiaries of the Company.
9. The year-on-year increase in non-operating expenses was attributable to: (i) the provision for taxes to be refunded and litigation losses made by the subsidiaries of the Company; and (ii) a year-on-year increase in expenditures on charitable donation and losses from suspension of work due to the impact of the epidemic on the subsidiaries of the Company.
10. The year-on-year decrease in minority interest was attributable to a corresponding decrease in equity of minority shareholders as a result of the decrease in profit of the subsidiaries of the Company.

## 6.2.1 Analysis of revenue and cost

### a) Industry, product and regional analysis of the operation results

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 2019
	Income from principal operations	over the same period of 2019	Cost of principal operations	over the same period of 2019		
(RMB'000)	(%)	(RMB'000)	(%)	(%)	(percentage point)	
Great Southern TCM	10,199,689	(12.45)	6,510,322	(10.74)	36.17	A decrease of 1.22 percentage points
Great Health	7,858,917	(25.00)	4,096,517	(26.11)	47.87	An increase of 0.78 percentage point
Great Commerce	43,177,117	1.86	40,407,599	1.75	6.41	An increase of 0.10 percentage point
Other	214,632	29.77	162,338	36.54	24.36	A decrease of 3.76 percentage points
Total	61,450,355	(5.00)	51,176,776	(2.83)	16.72	A decrease of 1.85 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 2019
	Income from principal operations	over the same period of 2019	Cost of principal operations	over the same period of 2019		
(RMB'000)	(%)	(RMB'000)	(%)	(%)	(percentage point)	
Chinese patent medicine	4,392,132	(5.89)	2,649,635	(9.31)	39.67	An increase of 2.28 percentage points
Chemical medicine	5,807,557	(16.83)	3,860,687	(11.69)	33.52	A decrease of 3.87 percentage points
Total of Great Southern TCM	10,199,689	(12.45)	6,510,322	(10.74)	36.17	A decrease of 1.22 percentage points

Regions	Results of principal operations by region					
	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 2019 (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2019 (%)	Profit margin of principal operations (%)	Increase/ (Decrease) over the same period of 2019 (percentage point)
Southern China	47,863,676	(2.73)	41,445,632	(2.20)	13.41	A decrease of 0.46 percentage point
Eastern China	4,762,569	(19.98)	3,131,893	(13.64)	34.24	A decrease of 4.82 percentage points
Northern China	2,385,185	(8.12)	1,617,774	(1.57)	32.17	A decrease of 4.52 percentage points
North-Eastern China	534,273	(4.71)	426,995	4.86	20.08	A decrease of 7.29 percentage points
South-Western China	3,937,559	(8.47)	2,922,092	(2.73)	25.79	A decrease of 4.38 percentage points
North-Western China	1,927,070	(5.28)	1,595,183	1.28	17.22	A decrease of 5.36 percentage points
Exports	40,023	18.55	37,207	14.35	7.03	An increase of 3.41 percentage points

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

*Notes:*

- ① The higher increase in cost of principal operations of the other business segments was mainly attributable to the expansion of operational scale of Guangzhou Baiyunshan Hospital, a subsidiary of the Company, during the Year, and the establishment of Baiyunshan Yihu Company and Biyunshan Jianhu Company to expand the business of face masks, protective gowns and other protective articles.
- ② In 2020, affected by the decrease in the number of patients attending hospitals, the restriction on logistics and delivery and the decline of end demand for drugs during the epidemic, the types of products and the sales volume of the products sold in hospitals in the Great Southern TCM segment declined to varying degrees, resulting in the year-on-year decrease in the annual revenue from the principal operations of the Great Southern TCM segment.
- ③ Since various epidemic prevention and control measures have been taken across the country since the outbreak of the epidemic in early 2020, the market demand for Wang Lao Ji herbal tea and related products was under pressure and its sales during the 2020 Spring Festival holiday were significantly affected, resulting in the year-on-year decrease in the annual revenue from the principal operations of the Great Health segment.

b) Analysis of production and sales

Main products	Production	Sales	Inventory	Production	Sales	Inventory
				increase/ (decrease) over the same period of 2019 (%)	increase/ (decrease) over the same period of 2019 (%)	increase/ (decrease) over the same period of 2019 (%)
Cefixime series (thousand tablets/thousand packs/ thousand grains)	271,075.40	280,396.46	28,567.69	(27.43)	(21.99)	0.80
Sildenafil Citrate Tablet (thousand tablets)	81,125.36	78,345.18	12,007.45	29.28	26.86	28.81
Xiao Ke Pill (thousand bottles)	42,768.16	42,408.54	3,466.23	47.81	22.61	(7.77)
Cephathiamidine for Injection (thousand ampoules)	11,167.68	15,221.63	1,511.72	(68.31)	(52.72)	(66.37)
Zi Shen Yu Tai Pill (thousand boxes/thousand bottles)	5,879.72	5,670.82	917.89	25.11	8.70	35.71
Xiao Chai Hu Granule (thousand packs)	34,471.10	34,186.16	5,130.91	1.50	(3.99)	3.59
Qing Kai Ling series (thousand packs/thousand bottles/thousand grains)	564,409.60	461,485.46	80,776.49	(10.92)	(27.05)	35.29
Cephalopropylene series (thousand tablets/ thousand packs)	67,363.02	68,235.99	7,225.77	(28.94)	(23.84)	(5.45)
Paracetamol Caffeine and Aspirin Powder series (thousand boxes)	20,909.67	23,659.89	1,242.31	(2.97)	12.61	(69.64)
Amoxicillin series (thousand packs/thousand grains)	835,791.97	991,434.31	18,332.10	(31.13)	(18.32)	(89.61)

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

- ① The production volume of Sildenafil Citrate Tablet increased significantly year on year, mainly due to the fact that the Company vigorously developed the terminal market, and took effective promotion measures and increased production volume to meet market demands.
- ② The production volume of Xiao Ke Pill increased significantly year on year, mainly due to the fact that we adopted strategies to control the production volume in 2019 to digest the relatively large inventory at the end of 2018, and we resumed the normal production volume in 2020, which resulted in the year-on-year growth in the production volume.
- ③ The production volume, sales volume and inventory of Cephathiamidine for Injection as at the end of the Reporting Period decreased significantly year on year, mainly due to the facts that China continued to impose strict limitation on the application of antibiotics, the National Medical Insurance Catalogue continued to apply stricter conditions for the use of Cephathiamidine, the market demands and sales volume decreased as fewer patients attended hospitals amid the epidemic, and the Company controlled the production volume, leading to the decrease in production volume and inventory.
- ④ The inventory of Zi Shen Yu Tai Pill as at the end of the Reporting Period increased significantly year on year, mainly due to ensuring adequate supplies in view of the increase in market demands as expected by the Company's subordinate production enterprises, and therefore the products were stocked up in advance, leading to the increase in the inventory.
- ⑤ The inventory of Qing Kai Ling series as at the end of the Reporting Period increased more significantly year on year, mainly due to the fact that an increase in market demand was expected in view of the influenza peak season and the products of the Company's subordinate production enterprises were stocked up in advance, resulting in the increase in the inventory.
- ⑥ The inventory of Paracetamol Caffeine and Aspirin Powder series at the end of the Reporting Period decreased more significantly year on year, mainly due to the increase in the inventory at the end of 2019 for coping with the sales demand for the first quarter of 2020. The inventory at the end of 2020 was close to the normal inventory level, but the sales volume increased in 2020, eventually leading to the decrease in inventory year on year.



- ⑦ The production volume and inventory of Amoxicillin series decreased significantly year on year, mainly due to the decrease in market demands in 2020 and the large inventory at the end of 2019, which caused the adoption of the operation strategies of controlling the production volume and digesting the inventory in 2020, and led to the decrease in the production volume and inventory year on year.

c) Analysis of cost

Industrial	Components	Results by industry		2019		Increase/ (decrease) over the same period of 2019 (%)
		2020		2019		
		Amount (RMB'000)	% of the proportion of operation cost (%)	Amount (RMB'000)	% of the propotion of operation cost (%)	
Manufacturing business	Raw material	8,326,095	78.39	9,881,184	76.98	(15.74)
	Fuel	116,484	1.10	132,655	1.03	(12.19)
	Labor cost	320,179	3.01	378,685	2.95	(15.45)
	Others	1,859,243	17.50	2,444,872	19.04	(23.95)
Pharmaceutical distribution business	Cost of purchase	40,407,599	100.00	39,712,291	100.00	1.75
Others	Other cost	147,176	100.00	118,890	100.00	23.79

d) Major suppliers and sale

During the Year, sales by the Group to the five largest customers amounted to RMB4,829,147,000 (2019: RMB4,724,395,000), representing approximately 7.86% of the total sales (2019: 7.30%) of the Group. The sales to the largest customer amounted to RMB1,460,316,000 (2019: RMB1,475,979,000), representing 2.38% (2019: 2.28%) 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 RMB4,509,662,000 (2019: RMB5,826,588,000), representing approximately 8.79% of the total purchases (2019: 9.38%) of the Group for the Year. The purchases from the largest suppliers amounted to RMB1,109,956,000 (2019: RMB2,226,892,000), representing 2.16% (2019: 3.58%) 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 2020 Social Responsibility Report of the Company (the full text of which had been disclosed on the website of SSE and 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 RMB4,575,996,000 (2019: RMB5,736,794,000), representing a decrease of approximately 20.23% as compared with last year.

During the Reporting Period, the Group's general and administrative expenses was approximately RMB1,844,424,000 (2019: RMB1,978,870,000), representing a decrease of approximately 6.79% as compared with last year.

During the Reporting Period, the Group's research and development expenses was approximately RMB611,935,000 (2019: RMB576,511,000), representing an increase of approximately 6.14% as compared with last year.

During the Reporting Period, the Group's financial expenses was approximately RMB5,152,000 (2019: RMB117,117,000), representing a decrease of approximately 95.60% as compared with last year, which was mainly due to (i) a year-on-year increase in interest income of the subsidiaries of the Company; and (ii) a decrease in average bank loan interest rate of GP Corp., a holding subsidiary of the Company.

During the Reporting Period, the Group's income tax expenses was approximately RMB647,454,000 (2019: RMB687,246,000), representing a decrease of approximately 5.79% as compared with last year.

### 6.2.3. Research and development expenses

Cost of research and development expenses in the current year ( <i>RMB'000</i> )	611,935
Capitalization of research and development expenses in the current year ( <i>RMB'000</i> )	6,924
Total research and development expenses ( <i>RMB'000</i> )	618,859
Ratio of research and development expenses to income from operations (%)	1.00
Ratio of research and development expenses to income from principal operations of the Great Southern TCM (%)	6.07
Ratio of total research and development expenses to net assets (%)	2.19
Number of the research and development personnel of the Group	556
Percentage of the total number of the research and development personnel in the total number of personnel of the Group (%)	2.21
Percentage of the capitalization of research and development expenses (%)	1.12

Detailed description

Applicable     Not Applicable

#### 6.2.4. Cash flow

Items	The Reporting Period (RMB'000)	The corresponding period of 2019 (RMB'000)	Increase/ (Decrease) as compared with the same period of 2019 (%)	Reasons
Net cash flow from operating activities	585,185	5,022,367	(88.35)	(1) the year-on-year decrease in net cash flow from operating activities of WLJ Great Health, a wholly-owned subsidiary of the Company, as affected by the epidemic and the delay in receipt of payments for the sale of goods during the 2021 Spring Festival; and (2) a year-on-year decrease in net cash flow from operating activities resulting from the year-on-year decrease in the sales proceeds received by the subsidiaries of the Company due to the impact of the epidemic.
Net cash flow from investing activities	(1,088,056)	(1,028,395)	(5.80)	/
Net cash flow from financing activities	1,439,376	(2,231,813)	164.49	The increase in bank borrowings of the Company and its subsidiaries.

### 6.3 Analysis of financial conditions

#### 6.3.1 Liquidity

As at 31 December 2020, the current ratio of the Group was 1.62 (31 December 2019: 1.57), and its quick ratio was 1.29 (31 December 2019: 1.24). Accounts receivable turnover rate was 5.57 times (31 December 2019: 6.24 times), representing a decrease of 10.78% as compared with the corresponding period of 2019. Inventory turnover rate was 5.28 times (31 December 2019: 5.57 times), representing a decrease of 5.27% as compared with the corresponding period of 2019.

#### 6.3.2 Financial resources

As at 31 December 2020, cash and cash equivalents of the Group amounted to RMB17,765,133,000 (31 December 2019: RMB16,833,623,000), of which approximately 99.50% and 0.50% were denominated in Renminbi and foreign currencies, such as Hong Kong dollar, respectively.

As at 31 December 2020, the Group had bank borrowings of RMB8,763,280,000 (31 December 2019: RMB5,889,009,000), including short-term borrowings of RMB8,265,730,000 (31 December 2019: RMB5,869,009,000), current portion of non-current liabilities of RMB0 (31 December 2019: RMB15,500,000) and long-term borrowings of RMB497,550,000 (31 December 2019: RMB4,500,000).

### 6.3.3. Capital structure

As at 31 December 2020, the Group's current liabilities amounted to RMB29,243,232,000 (31 December 2019: RMB29,376,966,000), representing a decrease of 0.46% as compared with the corresponding period of 2019, and its long-term liabilities was RMB2,311,564,000 (31 December 2019: RMB1,527,206,000), with an increase of 51.36% as compared with the corresponding period of 2019. The shareholders' equity attributable to the shareholders of the Company amounted to RMB26,144,843,000 (31 December 2019: RMB24,184,797,000), with an increase of 8.10% as compared with the corresponding period of 2019.

### 6.3.4 Capital expenditure

The Group expects that the capital expenditure for 2021 to be approximately RMB2.115 billion (2020: RMB1.098 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	% of	As at	% of	Increase/ (decrease) over the	Reasons for changes
	December	the total	31 December	the total	corresponding	
	2020	assets	2019	assets	period of	
	(RMB'000)	(%)	(RMB'000)	(%)	2019	
					(%)	
Financial assets held for trading	4,000	0.01	0	0.00	/	The reclassification of asset-backed securities (ABS) on account receivables issued by GP Corp., a subsidiary of the Company, which will fall due within one year, from "other non-current financial assets" to this item.

Items	As at 31	% of	As at	% of	Increase/ (decrease) over the	Reasons for changes
	December 2020 (RMB'000)	the total assets (%)	31 December 2019 (RMB'000)	the total assets (%)	corresponding period of 2019 (%)	
Accounts receivable financing	2,164,979	3.62	1,515,914	2.66	42.82	(1) The reclassification of accounts receivable of asset-backed securities (ABS), which the management of GP Corp., a holding subsidiary of the Company, intends to participate in, of RMB750 million to this item; (2) the decrease in the balance of notes receivable of subsidiaries of the Company.
Advances to suppliers	1,032,533	1.73	673,353	1.18	53.34	The increase in advances to suppliers for the procurement of drugs and other materials by the subsidiaries of the Company.
Other receivables	765,711	1.28	1,173,360	2.06	(34.74)	(1) Dividends for 2019 received by the Company; (2) the year-on-year decrease in the amount of business transactions of GP Corp., a holding subsidiary of the Company.
Debt investment	505,069	0.85	0	0.00	/	Additional held-to-maturity time deposits of the Company.
Other equity instrument investment	116,367	0.19	81,978	0.14	41.95	The increase in capital contributions made by the Company to investees.
Construction in progress	1,276,251	2.14	667,402	1.17	91.23	The increase in investment in construction in progress of the Company and its subsidiaries.
Development expenditure	6,736	0.01	2,011	0.00	234.91	The increase in expenditures incurred by the subsidiaries of the Company at the development stage of intangible assets.
Other non-current assets	159,429	0.27	289,536	0.51	(44.94)	The decrease in advance payments for construction projects according to the contracts by the subsidiaries of the Company.

Items	As at 31	% of	As at	% of	Increase/ (decrease) over the	Reasons for changes
	December 2020 (RMB'000)	the total assets (%)	31 December 2019 (RMB'000)	the total assets (%)	corresponding period of 2019 (%)	
Short-term borrowings	8,265,730	13.83	5,869,009	10.32	40.84	(1) The replacement of internally entrusted borrowings of RMB1.250 billion originally offset at the consolidated statements with bank borrowings by the subsidiaries of the Company; (2) the increase in bank borrowings of the Company and its subsidiaries for the storage of the epidemic prevention and control supplies and the payment for the procurement from suppliers; (3) the policy-based preferential loans borrowed by the Company from banks during the Reporting Period.
Contract liabilities	1,249,256	2.09	4,675,362	8.22	(73.28)	(1) The year-on-year decrease in balances of advance payments on sales during the Reporting Period since the peak sales period of WLJ Great Health, a wholly-owned subsidiary of the Company, falls on the Spring Festival holiday, and the 2021 Spring Festival was later than that of last year, the collection of sales proceeds for the Spring Festival holiday mainly occurred in January 2021 while the collection of sales proceeds for the 2020 Spring Festival holiday mainly occurred in December 2019; (2) the decrease in advance payments on sales of other subsidiaries of the Company during the Reporting Period as affected by the epidemic.

Items	As at 31	% of	As at	% of	Increase/ (decrease) over the	Reasons for changes
	December 2020 (RMB'000)	the total assets (%)	31 December 2019 (RMB'000)	the total assets (%)	corresponding period of 2019 (%)	
Other current liabilities	155,980	0.26	606,815	1.07	(74.30)	The decrease in the taxes to be witten off in the advance payments from customers within one year of the subsidiaries of the Company.
Long-term borrowings	497,550	0.83	4,500	0.01	10,956.67	The policy-based preferential loans borrowed by the Company and its subsidiaries from banks.
Provisions	104,528	0.17	53,206	0.09	96.46	Provision made by the subsidiaries of the Company for taxes to be refunded and losses relating to litigations during the Reporting Period.
Deferred income	784,075	1.31	575,837	1.01	36.16	The increase in government compensations for land requisition and resettlement received by the subsidiaries of the Company.
Other comprehensive income	(17,674)	(0.03)	(139)	0.00	(12,618.36)	The decrease in fair value of the financial assets and difference in the exchange rate conversion of foreign currency of the subsidiaries of the Company.

### 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 2020, cash and cash equivalents of the Group amounted to RMB17,765,133,000 with an increase of RMB931,510,000 as compared with the beginning of 2020. Net cash flow from operating activities amounted to RMB585,185,000 with a decrease of RMB4,437,182,000 as compared with 2019.



### *6.3.8 Contingent liabilities*

As at 31 December 2020, the Group had no material contingent liabilities.

### *6.3.9 Charge on the Group's assets*

As at 31 December 2020, Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, as secured by buildings of fixed assets with the original value amounting to HKD8,893,000 and net value of HKD 6,116,000, and by investment properties with the original value amounting to HKD 6,843,000 and net value of HKD 4,622,000, had obtained the overdraft amounting to HKD 300,000, and letter of credit and 90-day credit in the total amount of HKD 100,000,000 from Bank of China (Hong Kong) Co., Ltd.. Unexpired letter of credit of EUR 259,000 and USD 371,000 in value had also be obtained.

### *6.3.10 Bank loans, overdraft and other borrowings*

As at 31 December 2020, the bank loans of the Group amounted to RMB8,763,280,000 (31 December 2019: RMB5,889,009,000), with an increase of RMB2,874,271,000 as compared with the beginning of 2020. The above bank loans included short-term borrowings of RMB8,265,730,000 and long-term borrowings of RMB497,550,000.

### *6.3.11 Gearing ratio*

As at 31 December 2020, the Group's gearing ratio (total liabilities/total assets × 100%) was 52.80% (31 December 2019: 54.32%).

### *6.3.12 Material investment*

As at 31 December 2020, except for those disclosed in “2. Significant Changes in the Material Assets of the Group During the Reporting Period” in the section headed “ III Company's Business Profile” of the 2020 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

In 2020, under the influence of the epidemic, the Three-Medicine Linkage reform advanced steadily and the medical reform was accelerated. Driven by policies, the pharmaceutical industry was also in the process of undergoing profound changes. On the one hand, policies such as medical insurance fee control, volume-based procurement of medicines and medical apparatus, rational drug use, the promulgation of the new Administrative Measures on Drug Registration and the new Administrative Measures on Supervision of Drug Production and an improved regulatory system for drugs still imposed pressure on operations, and also slowed down the growth of the entire pharmaceutical industry, with such growth mainly coming from the promotion of innovative products and consumption upgrading; on the other hand, the benefits from the significant policy reforms, such as the new version of the National Medical Insurance Catalogue, accelerated assessment and approval of innovative drugs, the state's encouragement of inheritance and innovative development of TCM and graded diagnosis and treatment, provided new room for the growth of the pharmaceutical market. Meanwhile, the accelerated 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 2021

2021 is the first year of the "14th Five-year Plan". In 2021, the Group will carry out the following works by firmly grasping the general tone of seeking progress while maintaining stability and following the core ideas of transformation and furtherance, scientific management, risk control and innovative development, in consideration of its actual situation:

1. We will continue to focus on the "Diva brands" to promote the solid and all-rounded development of the Great Southern TCM segment and lay a solid foundation. (1) Upgrading the "Diva brands" plan to create more Diva brands in different areas with pointed strategies and levels to provide new drivers for the development of the Great Southern TCM segment. (2) Accelerating the revitalization project of the Group's time-honored brands, promoting the development of such time-honored brands by category, intensifying the marketing of such brands and products, and constantly improving the visibility of such brands and products; (3) Intensifying the development of raw material pharmaceuticals, tapping promising products and enhancing the competitiveness of the business of raw material pharmaceuticals; meanwhile, strengthening the regulated and standardized construction of the state-level Chinese herbal medicine planting bases, carrying out the building of an Internet of things platform and a traceability system for core Chinese herbal medicine planting bases, and enhancing the supply level of Chinese herbal medicine; (4) Further strengthening the cooperations among the industrial, commercial and medical segments of the Group, vigorously promoting marketing innovation, constantly exploring new marketing and sales modes and increasing product sales volume.

2. We will expand and deepen the business of the Great Health segment and adhere to the development strategy of “one core with multi-elements” to realize the innovative development of the Great Health segment. (1) Continuing to further develop the Wang Lao Ji Herbal Tea gift market, catering market and ready-to-drink market, strengthening the expansion of the bottled Wang Lao Ji Herbal Tea market and the synergy between red can and green can of Wang Lao Ji Herbal Tea, increasing the channel distribution rate of Wang Lao Ji Herbal Tea to drive the growth of the terminal sales volume; (2) focusing on the new products of the Ci Ning Ji series by strengthening the brand promotion and accelerating and expanding the channel distribution coverage; (3) strengthening the market expansion of lozenges, tortoise herb jelly, coconut juice and other promising products to develop the Great Health business with distinctive characteristics.
3. We will deepen and enliven the Great Commerce segment and push forward the service transformation of the Great Commerce segment. (1) Accelerating the overseas spin-off listing of GP Corp. to enhance the Group’s financing capability and optimize its capital structure; (2) continuing to leverage the advantages of the terminal network of GP Corp. to accelerate business expansion and further enhance the market share; (3) accelerating the strategic deployment of the retail business; strengthening the construction of self-owned retail pharmacies and in the meantime the distribution of retail flagship pharmacies in core urban business districts, expanding pharmacies proximate to hospitals and DTP pharmacies. Meanwhile, we will improve the service provision ability of pharmacies and enhance the ability of pharmacies to provide innovative value-added services; (4) we will strengthen the building of a e-commerce system, build an intelligent service platform covering the whole medical supply chain, and commit to the new business of health care e-commerce.
4. We will develop the business of the Great Medical Care segment in both size and professionalism to build its brand influence. Focusing on specialties, strengthening the discipline building in Guangzhou Baiyunshan Hospital, further improving the medical standard of such specialties; promoting the opening of Baiyunshan Runkang Confinement Service Center to the public and creating the confinement club brand of “Baiyunshan Runkang”; expanding the product lines in the field of medical devices, focusing on the distribution of characteristic products, and creating a brand enterprise of health products.
5. We will continue to optimize the scientific and technological innovation platforms, increase investment into scientific research and build a high-level scientific research platform and system to enhance the ability of scientific research and innovation and the integrated capability of the scientific research system; to further strengthen the management of production safety and product quality, and to strictly observe the “safety line” of production management.

6. We will accelerate the construction of various production bases, continue to promote the integration of production resources, explore the intelligent manufacturing solutions for drug production, and improve production efficiency.
7. We will enhance the capability of capital operations, actively promote the external investment and mergers and acquisitions in various segments to drive the Group's extensional development.
8. We will continue to strengthen the fundamental management and risk control, and build a highly efficient risk management system; and to strengthen the normalized management of internal risk control. We will also strengthen the Group's integrated capability in early warning, monitoring and prevention and control of risks.

#### *6.4.3 Potential challenges and risks*

In 2021, with the Three-Medicine Linkage reform further accelerated and the continued global epidemic, there are still many uncertainties in the pharmaceutical industry. As the state's centralized drug procurement program has become normalized, more generic drugs were covered by the program, leading to an obvious decrease in drug prices, which imposed further pressure on generic drugs. As the DRGs Payment model kept expanding, and in conjunction with the improvement in the monitoring and examination systems for rational drug use, the drug consumption of medical institutions will continue to decrease. At the same time, the implementation and promotion of a series of new policies, such as the tightening of medical insurance fee control and the tilting of the National Medical Insurance Catalogue and the DRGs Payment model in favor of cost-effective generic drugs, have brought challenges to the development of the Group's traditional businesses.

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 disclosure regarding the changes in industry policies and the corresponding impacts 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" in the 2020 annual report.

2021 is the first year of the "14th Five-year Plan", and is the second year stricken by the epidemic. As the global epidemic continues, it may still seriously challenge the social and economic development of the world and bring uncertainties to the production and operation of the Group before vaccines are put into use on a large scale basis. And the extent of the impact brought by the epidemic depends on the progress, and duration of the control and prevention of the epidemic, and the implementation of policies of control and prevention in different places towards the epidemic. The Group will pay attention to the development of the epidemic continuously, evaluate and actively respond to its influence on the financial conditions 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	11th meeting of the Strategic Development and Investment Committee in 2015	The capital of HKD177,500,00 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.
2	5th meeting of the Strategic Development and Investment Committee in 2016	The Company's wholly-owned subsidiary, namely 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 been 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 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.	
	3rd meeting of the Strategic Development and Investment Committee in 2020	Chemical & Pharmaceutical Technology Company, a wholly-owned subsidiary of the Company, applied for a capital injection of RMB300.00 million from the Company for the use of the construction of the Zhuhai Project.	In progress

No.	Approval body	Subject matter	Status
3	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. (廣州奧譜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.
4	18th meeting of the seventh session of the Board	The Company's subsidiary WLJ Great Health invested and commenced the construction of Nansha Base (Phase I) project with a total investment of RMB750 million.	Under construction.
5	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.	In progress
6	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.
7	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 with a total investment of RMB350.00 million.	The pre-construction preparatory work is in progress.
8	8th meeting of the seventh session of the Board	The Company participated in the establishment of 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 has completed which amounted to RMB72 million.

No.	Approval body	Subject matter	Status
9	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.	
10	6th meeting of the Strategic Development and Investment Committee in 2019	The Company's wholly-owned subsidiary, namely Zhong Yi, carried out the 3rd GMP construction improvement project of modernization of TCM production.	The construction has been officially started and is in progress
		The first phase of the project of Gansu Guangyao Baiyunshan Traditional Chinese Medicine Technology Industrial Park was carried out by Cai Zhi Lin, a wholly-owned subsidiary of the Company.	The pre-construction preparatory work is in progress.
11	1st meeting of the Strategic Development and Investment Committee in 2020	GP Corp., a subsidiary of the Company, is currently proposing to transfer its 70% equity interest in Hubei Guangyao Ji Da Pharmaceutical Co., Ltd. (湖北廣藥吉達醫藥有限公司) by way of public listing.	Completed
		Nuo Cheng, the Company's joint venture, increased its capital contribution by RMB289,455,900 for the construction of a new plant.	Completed
12	2nd meeting of the Strategic Development and Investment Committee in 2020	HWBYS, a joint venture of the Company, acquired the entire equity interest in Baiyunshan Hutchison Whamoa Leida Pharmaceutical (Shantou) Co., Ltd. (白雲山和記黃埔萊達製藥(汕頭)有限公司) held by Guangdong Leida Pharmaceutical Co., Ltd. (廣東萊達製藥有限公司).	Completed
13	4th meeting of the Strategic Development and Investment Committee in 2020	A joint venture was established jointly by Chemical & Pharmaceutical Zhuhai Company and Guangdong Fudan Innovation Investment Co., Ltd. (廣東復創投資有限公司), a wholly-owned subsidiary of Zhuhai Fudan Innovation Institute (珠海復旦創新研究院).	In progress
		The Company made a capital injection of RMB10 million to Chemical & Pharmaceutical Technology Company as equity investment in the joint venture.	In progress

No.	Approval body	Subject matter	Status
14	5th meeting of the Strategic Development and Investment Committee in 2020	The Company established a wholly-owned subsidiary, namely Guangzhou Baiyunshan Hua Cheng Technology Co., Ltd. (廣州白雲山花城科技有限公司).	Completed
		The Company established a wholly-owned subsidiary, namely Guangzhou Baiyunshan International Pharmaceutical and Healthcare Industry Co., Ltd. (廣州白雲山國際醫藥健康產業有限公司).	Completed
15	6th meeting of the Strategic Development and Investment Committee in 2020	The plan of Ming Xing's, a subsidiary of the Company, relocation improvement project (Phase I) was adjusted and supporting works were added with an additional investment of RMB210.78 million.	In progress



## 8 EMPLOYEES OF THE GROUP

### 8.1 Situation of the employees

Numbers of the employees of the parent Company	2,236
Numbers of the employees of the major subsidiaries	22,932
Total	25,168
Retired employees of the Company and major subsidiaries whose expenses were assumed by the Company and major subsidiaries	13,800
Gross payroll of the Group	RMB3.337billion

#### Composition

<b>Category constitution</b>	<b>a number of constitute staff</b>
Production staff	4,358
Sales personnel	13,919
Technical staff	3,177
Finance staff	753
Administrative staff	2,961
Total	25,168

#### Educational Level

	<b>Number</b>
Post Graduate	591
Undergraduate	7,806
University college	7,633
Secondary and below	9,138
Total	25,168

## **8.2 Remuneration policy**

The remuneration of the employees of the Group includes salaries, bonuses, subsidies, enterprise annuities 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, abilities, position and other factors. At the same time, the Group provides two channels (including management and professional channels) for the career 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 employee with care such as staff shuttles, apartments for talents, and various interest groups.

## **8.3 Training plan**

In view of staff's career development needs, the Group established corporate university and enterprise Communist Party School, developed a sound 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 training to build a comprehensive talent training system, covering staff at all levels from frontline production workers to senior management of the Company, so as to promote the growth of staff at all levels and of the company together.

# **9 OTHER MATTERS**

## **9.1 Corporate governance**

During the Reporting Period, the Company complied with the code provisions under the Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 to the Listing Rules of HKEX, except that (i) Mr. Li Chuyuan, Mr. Li Hong, executive Directors of the Company, and Mr. Chu Xiaoping, Mr. Jiang Wenqi and Mr. Wong Hin Wing, independent non-executive Directors of the Company, were unable to attend the first extraordinary general meeting in 2020 due to business reasons; (ii) Ms. Liu Juyan, an executive Director of the Company, was unable to attend the annual general meeting for year 2019, the first class meeting of the holders of A shares in 2020 and the first class meeting of the holders of H shares in 2020 due to business reasons; (iii) Mr. Li Chuyuan, Mr. Li Hong and Mr. Wu Changhai, executive Directors of the Company, and Mr. Chen Yajin and Mr. Huang Min, independent non-executive Directors of the Company, were unable to attend the second extraordinary general meeting in 2020 due to business reasons; and (iv) Ms. Liu Juyan, Mr. Wu Changhai and Mr. Zhang Chunbo, executive Directors of the Company, and Mr. Huang Min, an independent non-executive Director of the Company, were unable to attend the third extraordinary general meeting in 2020, the second class meeting of the holders of A shares in 2020 and the second class meeting of the holders of H shares in 2020 due to business reasons which constituted deviation from code provision A.6.7 of the CG Code.

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 comprised Mr. Chu Xiaoping, Mr. Jiang Wenqi, Mr. Wong Hin Wing (chairperson of the Audit Committee) 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 and expired on 29 June 2020.

The Audit Committee of the eighth session of the Board was established on 29 June 2020, and its members comprise Mr. Wong Hin Wing (chairperson of the Audit Committee), Ms. Wang Weihong, Mr. Chen Yajin and Mr. Huang Min. All four of them are independent non-executive Directors and are qualified under the relevant requirements, whose term of office commenced from 29 June 2020 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 2020 included:

- (A) Held four meetings in 2020 and each of the members of the committee attended all the meetings, in which the members reviewed the 2019 Annual Report, 2020 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 and connected transactions.
- (C) Reviewed the Company's internal control evaluation report for 2019 and audit risk control work plan for 2020.
- (D) Advised the Board regarding the renewal of auditing firm for the Reporting Period.
- (E) Advised the Company on major events of the Company or reminded the management of relevant risks and reviewed the effectiveness of risk management and internal monitoring system.

The work on the annual audit for 2020 and relevant jobs regarding the preparation of the annual report are as follows:

In accordance with “the Notice on Preparation of Disclosures in the 2020 Annual Report in an Orderly Manner by Main Board Listed Companies” issued by SSE on 14 January 2021, all members of the Audit Committee reviewed the relevant requirements seriously. The Audit Committee actively coordinated with the Company in respect of the audit for 2020 and the preparation of the annual report for 2020 in accordance with the Rules on the Annual Report of the Audit Committee, including:

- 1) The Audit Committee discussed with the auditors of the Company and the Company’s Finance Department regarding the time line for audit and the relevant arrangements for year 2020 and set out the “Action Plan for the Preparation of 2020 Annual Report” and reviewed the audit plan submitted by the auditors.
- 2) On 9 March 2021, 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 2020 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 18 March 2021, the Audit Committee convened the 1st meeting in 2021 and considered and passed the 2020 Annual Report and its summary and the Company’s 2020 Financial Report. At the same time, the Audit Committee finalized its evaluation of the audit work of the auditor and believed that the auditor had carried out the audit work for the Company with cautious, independent and objective standards, and managed to abide by their professional work ethics, adhere to the auditing regulations, fulfill their auditing responsibilities and submit the auditors’ report in time, as well as issue fair and unbiased management recommendations to the management of the Company, and complete 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 2020 (Audited)	31 December 2019 (Audited)
<b>Current assets:</b>			
Cash at bank and on hand		19,470,276,224.53	18,469,618,237.41
Financial assets held for trading		4,000,000.00	–
Derivative financial assets		–	–
Notes receivable		1,134,815,993.39	1,526,081,541.94
Accounts receivable	5.1.3	12,389,655,576.61	12,555,024,519.58
Accounts receivable financing		2,164,978,925.29	1,515,914,114.01
Advances to suppliers		1,032,533,165.54	673,352,793.02
Other receivables		765,711,481.37	1,173,360,042.04
Including: Interest receivable		4,477,916.67	1,666,666.70
Dividends receivable		37,938,523.45	316,706,053.45
Inventories		9,764,531,363.80	9,490,040,264.05
Contract assets		–	–
Assets held for sales		–	–
Current portion of non-current assets		–	–
Other current assets		670,115,291.06	578,841,623.65
<b>Total current assets</b>		<b>47,396,618,021.59</b>	<b>45,982,233,135.70</b>

<b>Item</b>	<i>Note</i>	<b>31 December 2020</b> <i>(Audited)</i>	31 December 2019 <i>(Audited)</i>
<b>Non-current assets:</b>			
Debt investment		<b>505,069,444.73</b>	–
Other debt investment		–	–
Long-term receivables		–	–
Long-term equity investment		<b>1,865,866,171.60</b>	1,599,025,192.41
Other equity instrument investment		<b>116,367,414.84</b>	81,977,960.04
Other non-current financial assets		<b>263,528,067.86</b>	262,469,919.10
Investment properties		<b>213,001,989.80</b>	218,199,149.16
Fixed assets		<b>2,912,513,169.84</b>	2,923,584,939.66
Construction in progress		<b>1,276,251,488.95</b>	667,402,454.68
Bearer biological assets		<b>3,153,885.00</b>	3,503,295.00
Oil and gas assets		–	–
Right-of-use assets		<b>909,338,251.24</b>	842,077,052.31
Intangible assets		<b>2,443,588,248.17</b>	2,485,288,578.20
Development expenditure		<b>6,735,587.41</b>	2,011,139.26
Goodwill		<b>825,573,066.90</b>	825,573,066.90
Long-term prepaid expenses		<b>111,306,370.33</b>	115,785,234.75
Deferred tax assets		<b>751,722,372.84</b>	594,992,161.76
Other non-current assets		<b>159,429,328.02</b>	289,535,847.27
		<hr/>	<hr/>
<b>Total non-current assets</b>		<b>12,363,444,857.53</b>	10,911,425,990.50
		<hr/>	<hr/>
<b>TOTAL ASSETS</b>		<b>59,760,062,879.12</b>	56,893,659,126.20
		<hr/> <hr/>	<hr/> <hr/>

<b>Item</b>	<i>Note</i>	<b>31 December 2020</b> <i>(Audited)</i>	31 December 2019 <i>(Audited)</i>
<b>Current liabilities:</b>			
Short-term borrowings		<b>8,265,729,653.03</b>	5,869,008,916.96
Financial liabilities held for trading		–	–
Derivative financial liabilities		–	–
Notes payable		<b>3,284,549,237.79</b>	3,982,425,654.37
Accounts payable	<i>10.1.4</i>	<b>10,874,808,379.60</b>	9,698,952,240.46
Advances from customers		–	–
Contract liabilities		<b>1,249,255,585.45</b>	4,675,361,799.46
Employee benefits payable		<b>846,778,208.52</b>	839,640,308.29
Taxes payable		<b>316,109,068.00</b>	248,014,970.03
Other payables		<b>4,013,915,065.13</b>	3,227,385,632.70
Including: Interest payable		<b>17,844,845.53</b>	34,840,834.22
Dividends payable		<b>57,512,041.85</b>	47,933,025.07
Liabilities held for sales		–	–
Current portion of non-current liabilities		<b>236,106,690.45</b>	229,361,467.97
Other current liabilities		<b>155,979,889.85</b>	606,814,819.73
		<hr/>	<hr/>
<b>Total current liabilities</b>		<b>29,243,231,777.82</b>	29,376,965,809.97
		<hr/>	<hr/>

Item	Note	31 December 2020 (Audited)	31 December 2019 (Audited)
<b>Non-current liabilities :</b>			
Long-term borrowings		497,550,000.00	4,500,000.00
Bonds payable		–	–
Lease liabilities		561,824,454.28	546,994,554.21
Long-term payables		22,846,772.00	25,229,042.00
Long-term employee benefits payable		302,723.26	329,428.98
Provisions		104,528,196.76	53,205,872.32
Deferred income		784,074,821.24	575,837,179.25
Deferred tax liabilities		286,359,056.86	266,908,733.88
Other non-current liabilities		54,078,462.71	54,201,557.40
<b>Total non-current liabilities</b>		<b>2,311,564,487.11</b>	<b>1,527,206,368.04</b>
<b>Total liabilities</b>		<b>31,554,796,264.93</b>	<b>30,904,172,178.01</b>
<b>Shareholders' equity:</b>			
Share capital		1,625,790,949.00	1,625,790,949.00
Capital surplus		9,885,011,185.13	9,865,084,049.39
Less: Treasury shares		–	–
Other comprehensive income		(17,673,498.70)	(138,960.56)
Surplus reserve		1,720,302,768.39	1,526,241,180.49
Undistributed profits		12,931,411,564.72	11,167,819,445.53
<b>Total equity attributable to shareholders of the parent company</b>		<b>26,144,842,968.54</b>	<b>24,184,796,663.85</b>
Minority interest		2,060,423,645.65	1,804,690,284.34
<b>Total shareholders' equity</b>		<b>28,205,266,614.19</b>	<b>25,989,486,948.19</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		<b>59,760,062,879.12</b>	<b>56,893,659,126.20</b>



## Consolidated Income Statement

Item	Notes	For the twelve months ended 31 December 2020 (Audited)	For the twelve months ended 31 December 2019 (Audited)
<b>1. Operating income</b>	10.1.5	<b>61,673,702,450.01</b>	64,951,777,641.83
Less: Operating costs	10.1.5	<b>51,233,326,115.24</b>	52,729,242,257.44
Taxes and surcharges		<b>257,593,330.50</b>	298,087,171.25
Selling and distribution expenses		<b>4,575,995,568.24</b>	5,736,793,789.43
General and administrative expenses		<b>1,844,423,667.84</b>	1,978,870,482.38
R&D expenses		<b>611,934,929.42</b>	576,511,023.23
Financial expenses		<b>5,151,929.67</b>	117,117,328.52
Including: Interest expenses		<b>336,411,783.76</b>	374,224,115.91
Interest income		<b>373,868,381.65</b>	303,216,899.66
Add: Other income		<b>327,985,438.11</b>	430,019,889.08
Investment income		<b>344,170,979.46</b>	198,458,982.24
Including: Income from investments in associates and joint ventures		<b>355,657,716.27</b>	144,486,150.48
Gains from changes in fair value		<b>(8,469,244.97)</b>	31,623,136.01
Impairment losses in respect of credit		<b>(115,551,971.54)</b>	(110,033,777.85)
Impairment losses in respect of assets		<b>(23,949,972.06)</b>	(11,485,403.86)
Gains on disposal of assets		<b>2,954,109.08</b>	1,274,043.27
<b>2. Operating profit</b>		<b>3,672,416,247.18</b>	4,055,012,458.47
Add: Non-operating income		<b>157,615,896.44</b>	109,179,829.49
Less: Non-operating expenses		<b>90,950,431.33</b>	35,658,815.35
<b>3. Total profit</b>		<b>3,739,081,712.29</b>	4,128,533,472.61
Less: Income tax expenses	10.1.6	<b>647,453,872.83</b>	687,246,274.38
<b>4. Net profit</b>		<b>3,091,627,839.46</b>	3,441,287,198.23
(1) Classified by the continuity of operations			
A. Net profit from continuing operations		<b>3,091,627,839.46</b>	3,441,287,198.23
B. Net profit from discontinued operations		—	—
(2) Classified by ownership of the equity			
A. Net profit attributable to the parent company's shareholders		<b>2,915,244,576.05</b>	3,188,884,638.91
B. Minority interest		<b>176,383,263.41</b>	252,402,559.32

Item	<i>Notes</i>	For the twelve months ended 31 December 2020 <i>(Audited)</i>	For the twelve months ended 31 December 2019 <i>(Audited)</i>
<b>5. Other comprehensive income, net of tax</b>		<b>(18,800,542.58)</b>	338,178.54
Other comprehensive income, net of tax attributable to the parent company's shareholders		<b>(17,534,538.14)</b>	338,178.54
(1) Other comprehensive income that will not be reclassified to profit or loss		<b>(2,453,740.55)</b>	(2,481,924.23)
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		<b>(2,453,740.55)</b>	(2,481,924.23)
D. Change in fair value of the company's own credit risk		-	-
(2) Other comprehensive income that may be reclassified into profit or loss		<b>(15,080,797.59)</b>	2,820,102.77
A. Other comprehensive income that may be reclassified to profit or loss under equity method		-	-
B. Change in fair value of other debt investment		<b>(5,064,017.77)</b>	-
C. The amount of financial assets reclassified into other comprehensive income		-	-
D. Provision for credit loss of other debt investment		-	-
E. Cash flow hedge reserve		-	-
F. Difference arising from the translation of foreign currency financial statements		<b>(10,016,779.82)</b>	2,820,102.77
G. Others		-	-
Other comprehensive income, net of tax attributable to minority shareholders		<b>(1,266,004.44)</b>	-

<b>Item</b>	<i>Notes</i>	<b>For the twelve months ended 31 December 2020 (Audited)</b>	For the twelve months ended 31 December 2019 (Audited)
<b>6. Total comprehensive income</b>		<b><u>3,072,827,296.88</u></b>	<u>3,441,625,376.77</u>
(1) Total comprehensive income attributable to shareholders of the parent company		<b>2,897,710,037.91</b>	3,189,222,817.45
(2) Total comprehensive income attributable to minority shareholders		<b>175,117,258.97</b>	252,402,559.32
<b>7. Earnings per share (EPS):</b>			
(1) Basic earnings per share	<i>10.1.7</i>	<b>1.793</b>	1.961
(2) Diluted earnings per share	<i>10.1.7</i>	<b>1.793</b>	1.961

### *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 12 months ended 31 December 2020 and as of 31 December 2020 is as follows:

	Great Southern TCM	Great Health	Great Commerce	Other	Offset between segments	Total
External revenue	10,289,678,725.73	7,894,336,646.72	43,274,548,762.80	215,138,314.76	-	61,673,702,450.01
Inter-segment revenue	3,232,719,472.39	65,829,757.65	6,268,150,964.62	283,356,864.04	(9,850,057,058.70)	-
Interest income	(119,249,231.36)	(151,376,786.92)	(36,260,204.25)	(66,993,094.22)	10,935.10	(373,868,381.65)
Interest expenses	24,557,968.01	2,590,903.79	379,405,018.99	16,732,070.65	(61,447,765.62)	361,838,195.82
Income from investments in associates and joint ventures	(17,509,181.09)	-	3,485,484.58	369,886,615.80	(205,203.02)	355,657,716.27
Impairment losses in respect of credit	(2,213,655.28)	(70,178.99)	(105,962,387.83)	(7,698,429.54)	392,680.10	(115,551,971.54)
Impairment losses in respect of assets	(4,514,878.50)	-	(14,912,936.17)	(112,748.24)	(4,409,409.15)	(23,949,972.06)
Depreciation and amortization expenses	270,361,913.46	46,226,299.62	349,192,966.05	35,846,672.97	(22,362,513.84)	679,265,338.26
Total profit	1,219,157,068.25	1,518,897,087.61	542,492,124.83	1,427,320,712.38	(968,785,280.78)	3,739,081,712.29
Total assets	14,366,105,641.13	8,957,141,300.07	30,134,283,009.16	21,919,985,866.90	(15,617,452,938.14)	59,760,062,879.12
Total liabilities	7,689,574,328.70	3,032,263,839.23	24,283,858,483.50	3,012,743,433.40	(6,463,643,819.90)	31,554,796,264.93
Long-term equity investment in associates and joint ventures	283,486,206.15	-	63,131,675.84	1,519,248,289.61	-	1,865,866,171.60
Increase in other non-current assets excluding long-term equity investment	380,753,483.92	192,715,700.46	739,563,590.80	144,840,082.19	-	1,457,872,857.37

(2) The segment information for the 12 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

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:

	<b>January to December of 2020</b>	January to December of 2019
<b>External revenue</b>		
PRC	<b>61,633,679,922.50</b>	64,918,017,689.88
Other countries/regions	<b>40,022,527.51</b>	33,759,951.95
	<b><u>61,673,702,450.01</u></b>	<b><u>64,951,777,641.83</u></b>
 <b>Total non-current assets</b>	 <b>31 December 2020</b>	 31 December 2019
PRC	<b>11,217,481,695.33</b>	10,135,780,517.31
Other countries/regions	<b>14,345,306.66</b>	16,697,391.35
	<b><u>11,231,827,001.99</u></b>	<b><u>10,152,477,908.66</u></b>



### 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.

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

	<b>31 December 2020</b>	31 December 2019
Within 1 year	<b>12,061,337,011.07</b>	12,279,203,329.97
1 to 2 years	<b>393,436,764.62</b>	281,873,461.22
2 to 3 years	<b>60,706,620.53</b>	165,330,048.12
3 to 4 years	<b>148,699,324.24</b>	12,655,288.53
4 to 5 years	<b>7,790,540.34</b>	15,509,462.78
Over 5 years	<b>184,115,980.53</b>	181,864,903.62
	<hr/>	<hr/>
Less: Provision for bad debts	<b>466,430,664.72</b>	381,411,974.66
	<hr/>	<hr/>
	<b>12,389,655,576.61</b>	<b>12,555,024,519.58</b>
	<hr/> <hr/>	<hr/> <hr/>

### 10.1.4 Accounts payable

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

	<b>31 December 2020</b>	31 December 2019
Within 1 year	<b>10,483,901,955.40</b>	9,293,107,363.52
Over 1 year	<b>390,906,424.20</b>	405,844,876.94
	<hr/>	<hr/>
	<b>10,874,808,379.60</b>	<b>9,698,952,240.46</b>
	<hr/> <hr/>	<hr/> <hr/>

10.1.5 Operating income and Operating costs

	<b>For the twelve months ended 31 December 2020</b>		
	<b>Main businesses</b>	<b>Other businesses</b>	<b>Subtotal</b>
Operating income	<b>61,450,355,469.37</b>	<b>223,346,980.64</b>	<b>61,673,702,450.01</b>
Operating costs	<b>51,176,775,675.08</b>	<b>56,550,440.16</b>	<b>51,233,326,115.24</b>
Gross profit	<b><u>10,273,579,794.29</u></b>	<b><u>166,796,540.48</u></b>	<b><u>10,440,376,334.77</u></b>

	<b>For the twelve months ended 31 December 2019</b>		
	<b>Main businesses</b>	<b>Other businesses</b>	<b>Subtotal</b>
Operating income	64,682,984,312.29	268,793,329.54	64,951,777,641.83
Operating costs	<u>52,668,577,481.74</u>	<u>60,664,775.70</u>	<u>52,729,242,257.44</u>
Gross profit	<b><u>12,014,406,830.55</u></b>	<b><u>208,128,553.84</u></b>	<b><u>12,222,535,384.39</u></b>

10.1.6 Income tax expenses

	<b>For the twelve months ended 31 December 2020</b>	For the twelve months ended 31 December 2019
Current income tax expenses	<b>784,384,090.73</b>	695,509,097.36
Deferred income tax expenses	<b><u>(136,930,217.90)</u></b>	<u>(8,262,822.98)</u>
	<b><u>647,453,872.83</u></b>	<b><u>687,246,274.38</u></b>

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

	<b>For the twelve months ended 31 December 2020</b>
Total profit	<u>3,739,081,712.29</u>
Income tax calculated at statutory rate	<u>560,862,256.83</u>
Tax effect of different rates applicable to subsidiaries in the scope of consolidation	91,602,092.57
Effect of income tax adjustment for prior period	10,321,389.84
Non-taxable and tax relief income	(54,235,710.72)
Non-deductible costs, expenses and losses	43,257,953.22
Effect of using deductible losses of deferred tax assets unrecognized in prior period	(2,553,838.25)
Effect of deductible temporary differences and deductible losses which are not recognized in current period	54,833,600.99
Tax effect of R&D expenditure deduction	<u>(56,633,871.65)</u>
Income tax expenses	<u><u>647,453,872.83</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. GR202044005583), Xing Qun (No. GR202044001705), Zhong Yi (No. GR202044006988), Chen Li Ji (No. GR202044002810), Guangzhou Han Fang (No. GR202044003115), Jing Xiu Tang (No. GR202044006124), Pan Gao Shou (No. GR202044002092), Wang Lao Ji (No. GR202044006736), Tian Xin (No. GR202044001663), Guang Hua (No. GR201844003890), Ming Xing (No. GR202044000339), Guangxi Ying Kang (No. GR201845000342), Weiling (No. GR201844007959), WLJ Great Health (No. GR201944000953), 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 the “Notice of the Ministry of Finance and the General Administration of Customs and the State Administration of Taxation on Benefits and Policies Concerning the Deep Implementation of the Western Development Strategy”, WLJ (Ya’an) Great Health Industry Co., Ltd., a subsidiary of the Group, enjoys a preferential tax rate of 15% this year.

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:

	<b>For the twelve months ended 31 December 2020</b>	For the twelve months ended 31 December 2019
Net consolidated profit attributable to ordinary shareholders of the parent company	<b>2,915,244,576.05</b>	3,188,884,638.91
The number of weighted average outstanding ordinary shares at the year end	<b>1,625,790,949</b>	1,625,790,949
Weighted average basic EPS	<b>1.793</b>	1.961

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

	<b>For the twelve months ended 31 December 2020</b>	For the twelve ended 31 December 2019
Net consolidated profit attributable to ordinary shareholders of the parent company	<b>2,915,244,576.05</b>	3,188,884,638.91
The number of outstanding ordinary shares as at the year end	<b>1,625,790,949</b>	1,625,790,949
EPS based on the number of shares as at the year end	<b><u>1.793</u></b>	<b><u>1.961</u></b>

(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. For the period from January to December of year 2020, the Company had no dilutive potential ordinary share (for January to December of year 2019: nil). The diluted EPS is equal to basic EPS.

*10.1.8 Dividends*

According to the resolution of the 2019 annual general meeting held on 29 June 2020, the Company shall pay cash dividends to all shareholders at RMB0.589 per share (tax included), which is RMB957,591 thousand in total, based on the outstanding shares of 1,625,790,949 shares at the year end of 2019.

**10.2 No change in accounting policies compared to the previous annual report.**

**10.3 No change in accounting estimates and accounting methods compared to the previous annual report.**

**10.4 No correction for significant accounting errors in the current reporting period.**

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

*The reasons for the addition of 6 companies and decrease of 5 companies in scope of consolidation comparing to the prior year are as follows:*

- (1) In January 2020, Guangyao Qi Hua Medical Instruments Co., Ltd., an indirect holding company of the Company, cancelled its holding subsidiary Guangzhou Wan Kang Orthopedics Medical Instruments Co., Ltd.
- (2) In February 2020, Medical Instrument Investment Company, a wholly-owned subsidiary of the Company, established Baiyunshan Yihu Company with a registered capital of RMB5,000,000, of which the capital contribution actually paid by Medical Equipment Investment Company accounts for 60% of the registered capital.
- (3) In March 2020, Guangzhou Hanfang, a wholly-owned subsidiary of the Company, established Guangyao Hanfang (Zhuhai Hengqin) Pharmaceutical Co., Ltd., and injected capital to the company in July with a registered capital of RMB2,000,000, of which Guangzhou Hanfang's actual capital contribution accounts for 100% of the registered capital.
- (4) In April 2020, WLJ Great Health, a wholly-owned subsidiary of the Company, established Guizhou Wanglaoji Ci Ningji Industry Development Co., Ltd. with a registered capital of RMB1,000,000, of which the capital contribution actually paid 100% by WLJ Great Health.
- (5) In June 2020, Guangzhou Pharmaceutical Pharmacy Co., Ltd., an indirect holding company of the Company, cancelled its holding subsidiary Guangzhou Pharmaceutical Nanpi Pharmacy Co., Ltd.
- (6) In August 2020, Baiyunshan Yihu Company, an indirect holding company of the company, established Baiyunshan Jianhu Company, with a registered capital of RMB2,000,000, of which Baiyunshan Yihu Company's paid-in capital contribution accounts for 51% of the registered capital.

- (7) In August 2020, GP Corp., a holding subsidiary of the Company, disposed of its equity interest in the holding subsidiary Hubei Guangyao Jida Pharmaceutical Co., Ltd.
- (8) In September 2020, the Company established Guangzhou Baiyunshan International Pharmaceutical and Health Industry Co., Ltd. With a registered capital RMB500,000,000, and the Company's subscribed capital accounts for 100% of the registered capital.
- (9) In October 2020, the Company established Guangzhou Baiyunshan Huacheng Technology Co., Ltd. The registered capital of this company is RMB70,000,000, and the capital contribution subscribed by the Company accounts for 100% of the registered capital.
- (10) In October 2020, Caizhilin, a wholly-owned subsidiary of the Company, cancelled its holding subsidiary Jingyu Guangyao Dong'e Chinese Medicinal Materials Development Co., Ltd.
- (11) In December of this year, the Company's wholly-owned subsidiary WLJ Great Health cancelled its holding subsidiary Guangzhou Wanglaoji Industry Co., Ltd.

**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 Baiyuanshan Pharmaceutical Holdings Company Limited**

Guangzhou, the PRC, 18 March 2021

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