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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 2022 ANNUAL REPORT

1. IMPORTANT NOTICE

- 1.1** This summary is extracted from the full text of the 2022 annual report of the Company for the year ended 31 December 2022. Investors who wish to know more about the results of operations, financial conditions and plans of future development of the Company are advised to read in details of the full text of the 2022 annual report which will be published on the website of SSE (<http://www.sse.com.cn>), and on the website of HKEX (<http://www.hkex.com.hk>).
- 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 27th meeting of the eighth session of the Board, among whom, Mr. Yang Jun, the vice-chairperson, was unable to attend the meeting and authorized Ms. Cheng Ning, the vice-chairperson, to attend and exercise the right to vote.
- 1.4** The financial reports of the Group and the Company for the year ended 31 December 2022 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 RMB3,966,522,218.54 in 2022. Based on the net profit of the Company of RMB1,756,732,233.08 in 2022, a 10% statutory surplus reserve in the amount of RMB175,673,223.31 is provided, with the addition of the undistributed profit carried over from 2022 in the amount of RMB7,599,583,401.27, and after deducting the cash dividends of 2021 in the amount of RMB1,116,918,381.96, the actual distributable profits at the end of 2022 amounted to RMB8,063,724,029.08.

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 2022, a cash dividend of RMB7.32 (inclusive of tax) for every 10 shares, amounting to an aggregate of RMB1,190,078,974.67 be distributed. The undistributed portion shall be carried over to the next distribution. There will not be any capitalization of capital reserve for 2022.

The profit distribution plan will be submitted to the 2022 annual general meeting of shareholders 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 2022 to 31 December 2022
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
CSRC	China Securities Regulatory Commission
SSE	The Shanghai Stock Exchange

HKEX	The Stock Exchange of Hong Kong Limited
Company law	Company law of the People's Republic of China
Articles of Association	the articles of association of the Company
Listing Rules of HKEX	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
GPHL	Guangzhou Pharmaceutical Holdings Limited (廣州醫藥集團有限公司)
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)
Baiyunshan 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 (廣州醫藥股份有限公司)
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)
Baiyunshan General Factory	Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. Baiyunshan Pharmaceutical General Factory (廣州白雲山醫藥集團股份有限公司白雲山製藥總廠)
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)
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)
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 Biological	Guangzhou Baiyunshan Biological Products Co., Ltd. (formerly known as Guangzhou Nuo Cheng Biological Products Co., Ltd.) (廣州白雲山生物製品股份有限公司，原廣州諾誠生物製品股份有限公司)
Baiyunshan Medical and Healthcare Industry Company	Guangzhou Baiyunshan Medical and Healthcare Industry Investment Co., Ltd. (廣州白雲山醫療健康產業投資有限公司)
Medical Instrument Investment Company	Guangzhou Baiyunshan Medical Instrument Investment Company (廣州白雲山醫療器械投資有限公司)
Baiyunshan Hospital	Guangzhou Baiyunshan Hospital Co., Ltd. (廣州白雲山醫院有限公司)

Chemical & Pharmaceutical Zhuhai Company	Guangzhou Baiyunshan Chemical & Pharmaceutical (Zhuhai) Co., Ltd. (廣藥白雲山化學製藥(珠海)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)
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
DTP pharmacy	the English abbreviation of Direct to Patient, and it means pharmacy committed to providing patients with more valuable and professional services directly
OTC	Over the counter
National 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 National 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 2022 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 Chan Tou	Guangzhou Industrial Investment and Capital Operating Holdings Group Ltd (廣州產業投資控股集團有限公司)
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)))
GP Fund	Guangzhou GP Fund Equity Investment Partnership (Limited Partnership) (廣州廣藥基金股權投資合夥企業(有限合夥))

3. COMPANY PROFILE

3.1 Company profile

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

Contact persons and contact details	Secretary to the Board	Representative of securities affairs
Name	Huang Xuezhen	Huang Ruimei
Address	45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC	
Telephone	(8620) 6628 1218	(8620) 6628 1216
Fax	(8620) 6628 1229	
E-mail	huangxz@gybys.com.cn	huangrm@gybys.com.cn

3.2 Introduction of the Company's main business during the Reporting Period

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

3.2.1 Great Southern TCM (Pharmaceutical manufacturing business)

There are 27 pharmaceutical manufacturing companies and institutions under the Company (including 3 branches, 22 subsidiaries and 2 joint ventures). The above enterprises or institutions engage in the R&D, manufacturing and sales of Chinese patent medicine and Western medicine, chemical raw materials, chemical raw materials intermediates, biological medicine and natural medicine, etc..

- 1) The Group is an epitome of the southern TCM. The Company has 12 time-honored brand enterprises in China 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 323 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 National Essential Drug List. The Group's Chinese medicine products mainly include Zi Shen Yu Tai Pill, Xiao Ke Pill, Xiao Chai Hu Granule, Nao Xin Qing Tablet series, Compound Danshen Tablet series, Ban Lan Gen Granule series, Hua Tuo Zai Zao Pill, Bao Ji series, Xia Sang Ju Granule, Shu Jin Jian Yao Pill, Xiao Er Qi Xing Cha Granule, An Gong Niu Huang Pill, Zhuang Yao Jian Shen Pill, Qing Kai Ling series, Mi Lian Chuan Bei Pi Pa Gao, etc.. The Group boasts clear brand and variety in propriety Chinese medicine in southern China and throughout the country.

- 2) The Group has a complete antibiotic production chain ranging from the production of raw material medicine to that of preparations, with products covering commonly used anti-bacterial and anti-inflammatory varieties, drugs for men and products for relieving pain and heat. The Group integrated the antibiotic brands with the famous trademark “Kang Zhi Ba (抗之霸)”, striving to create a market image as the number one brand of oral anti-bacterial and anti-inflammatory drugs in China. The Group’s chemical medicine preparations include Sildenafil Citrate Tablets (Trade name “Jin Ge (金戈)”), Cefixime series, Cefuroxime Sodium for injection, Amoxicillin, Paracetamol Caffeine and Aspirin Powder, Amoxicillin and Clavulanate Potassium, Cefathiamidine, Paracetamol, Clindamycin Phosphate Injection, Cefpiramide and Cefprozil series etc..

3.2.2 Great Health Industry

The Great Health Industry of the Group mainly engaged in the production, R&D and sales of beverages, food and healthcare products 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, Li Xiao Ji series, lozenges and tortoise herb jelly, etc.. Wang Lao Ji Herbal Tea has a relatively strong advantage in terms of brand value and product competitiveness, and accounts for a comparatively large market share of the herbal tea industry in China.

3.2.3 Great Commerce (Pharmaceutical distribution business)

The Great Commerce of the Group mainly engaged in the business of wholesale, retail, and import and export of pharmaceutical products, medical equipment and healthcare products, etc.. Its main enterprises include the subsidiaries of the Company namely GP Corp. and Cai Zhi Lin, etc.. As a leading pharmaceutical logistics Company in southern China and a core enterprise of the Great Commerce, GP Corp. mainly engages in the wholesale and retail of pharmaceutical distribution business. Cai Zhi Lin leveraged its advantages in the field of TCM to develop the businesses of production and sales of Chinese herbal medicine and TCM decoction-piece products.

3.2.4 Great Medical Care

The Great Medical Care of the Group 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 business. Currently, we have invested/held equity interest in a number of projects including Baiyunshan Hospital, Runkang Confinement Company, Baiyunshan Yihu Company and Baiyunshan Jianhu Company etc..

3.3 Current circumstances of the development of the industry

The pharmaceutical industry constitutes an important part of the national economy of China. Following the improvement of people's living standards and the accelerated aging of the population, the demand for healthcare is constantly growing, and the pharmaceutical industry is receiving increasing attention and occupies an important position in the national economy.

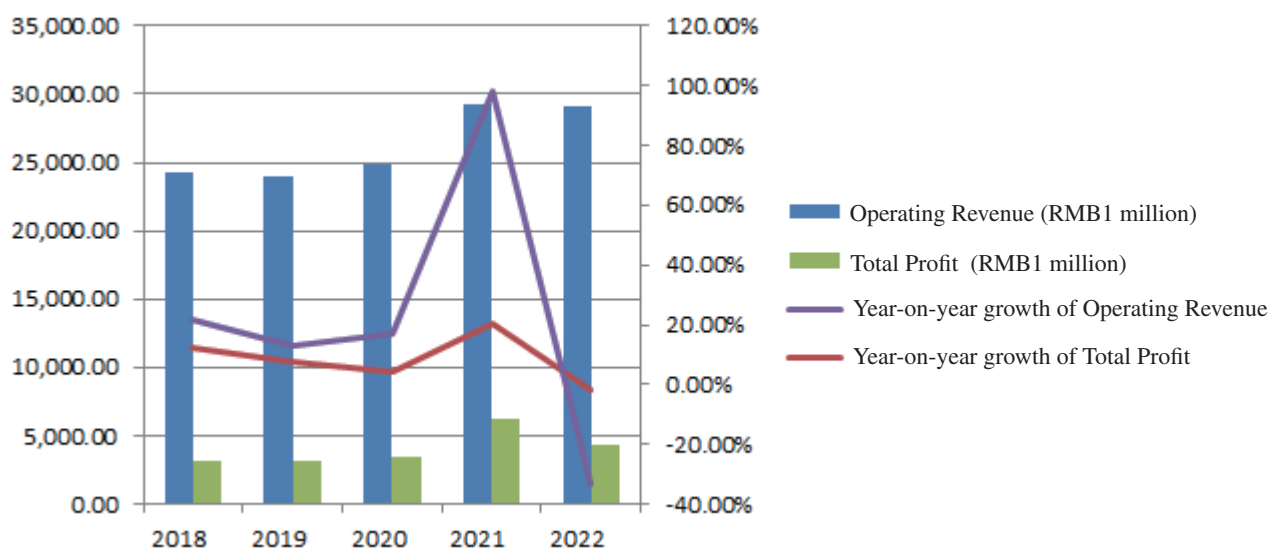
The general trend for the future development of the pharmaceutical industry is clear. The aging of the population, urbanization, increasing health awareness and the growing prevalence of chronic diseases have contributed to the continued growth in the demand for pharmaceuticals, the increase of healthcare expenditure and leading to a continuous expansion of the pharmaceutical and health industry. Benefiting from the successive implementation of the policies relating to the pharmaceutical industry, the superposition effect of such policies, and the emergence of the pharmaceutical industry has rebounded, demonstrating an obvious momentum of high-quality development and positive prospects. The 14th Five-year Plan has further encouraged innovation and research and development of pharmaceutical industry, and put forward to develop production technology of high-quality preparation, improve industrialized technology and promote healthy development of innovative medicine and traditional Chinese medicine industry.

In 2022, the pharmaceutical industry faced a more complex external environment. The revenue and profit of pharmaceutical manufacturers decreased year-on-year. Pharmaceutical industry highly relies on policies. Reform measures such as the adjustment of medical insurance catalogue, the cost control of medicine insurance and centralized volume-based procurement have entered the stage of normalization and institutionalization, which leads to continuous and profound changes of pharmaceutical industry. The pressure on the growth of the domestic market mainly comes from increasing medical insurance expenses, greater efforts on cost control, and price adjustments of generic drugs and high-value consumables. Moreover, the rising costs of raw materials, energy and labor, and the changes in the financing environment of the capital market for innovative medicine, will also bring challenges to the development of enterprises.

The development of the pharmaceutical industry has both challenges and opportunities. In general, China's pharmaceutical industry will still be in a period of important strategic opportunities in the coming future. The building of a healthy China, a strong manufacturing nation and the national support for the development of the biopharmaceutical industry will help to gain the support of more policy resources for developing the pharmaceutical industry, while innovation, transformation and improvement of manufacturing level are still the directions for pharmaceutical enterprises to work on.

From January to December 2022, the operating revenue of pharmaceutical manufacturing enterprises above designated size in the PRC reached RMB2,911.14 billion, representing a year-on-year decrease of 1.6%, and the total profit reached RMB428.87 billion, representing a year-on-year decrease of 31.8%. The operating revenue of liquor, beverage and refined tea manufacturing enterprises above designated size reached RMB1,694.7 billion, representing a year-on-year increase of 4.9%, and the total profit reached RMB311.63 billion, representing a year-on-year increase of 17.6%.

The operating revenue, year-on-year growth of operating revenue, the total profit and year-on-year growth of total profit of pharmaceutical manufacturing enterprises from 2018 to 2022 are set out as follows:



Note: Data is from the website of the National Bureau of Statistics

4 PRINCIPAL ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE GROUP

4.1 Principal accounting data

Principal accounting data	2022	2021	Year-on-year	2020	2019	2018
			increase/ (decrease) (%)			
Income from operations <i>(RMB'000)</i>	70,788,155	69,014,052	2.57	61,673,702	64,951,778	42,233,838
Net profit attributable to the shareholders of the Company <i>(RMB'000)</i>	3,966,522	3,719,878	6.63	2,915,245	3,188,885	3,440,980
Net profit attributable to the shareholders of the Company after deducting non-recurring items <i>(RMB'000)</i>	3,319,308	3,306,416	0.39	2,627,691	2,746,248	2,131,485
Net cash flow from operating activities <i>(RMB'000)</i>	6,999,076	5,673,497	23.36	585,185	5,022,367	5,216,888
Total profit <i>(RMB'000)</i>	5,043,244	4,723,071	6.78	3,739,082	4,128,533	4,018,730

Principal accounting data	As at	As at	Year-on-year	As at	As at	As at
	31 December 2022	31 December 2021	increase/ (decrease) (%)	31 December 2020	31 December 2019	31 December 2018
Net assets attributable to the shareholders of the Company <i>(RMB'000)</i>	32,065,125	29,062,184	10.33	26,144,843	24,184,797	21,684,909
Total assets <i>(RMB'000)</i>	74,665,299	66,117,790	12.93	59,760,063	56,893,659	51,482,184
Total liabilities <i>(RMB'000)</i>	41,077,441	34,791,121	17.93	31,554,796	30,904,172	28,338,451
Equity attributable to the shareholders of the Company per share <i>(RMB)</i>	19.72	17.88	10.33	16.08	14.88	13.34
Total equity as at the end of the Reporting Period <i>(RMB'000)</i>	1,625,791	1,625,791	–	1,625,791	1,625,791	1,625,791

4.2 Principal financial indicators

Principal accounting data	2022	2021	Year-on-year increase/ (decrease) (%)	2020	2019	2018
Basic earnings per share (<i>RMB/share</i>)	2.440	2.288	6.63	1.793	1.961	2.116
Diluted earnings per share (<i>RMB/share</i>)	2.440	2.288	6.63	1.793	1.961	2.116
Basic earnings per share after deducting non-recurring items (<i>RMB/share</i>)	2.042	2.034	0.39	1.616	1.689	1.311
Weighted average return on net assets ratio (%)	12.97	13.46	A decrease of 0.49 percentage point	11.55	13.87	16.93
Ratio of weighted average return on net assets after deducting non-recurring items (%)	10.85	11.96	A decrease of 1.11 percentage points	10.41	11.94	10.48
Ratio of return on total equity attributable to shareholders of the Company (%)	12.37	12.80	A decrease of 0.43 percentage point	11.15	13.19	15.87
Ratio to total equity attributable to shareholders of the Company to total assets (%)	42.95	43.96	A decrease of 1.01 percentage points	43.75	42.51	42.12
Gearing ratio (%)	54.95	52.62	An increase of 2.33 percentage points	52.80	54.32	55.05

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

4.3 Principal accounting data of 2022 on quarterly basis

	The first quarter (January – March) <i>(RMB'000)</i>	The second quarter (April – June) <i>(RMB'000)</i>	The third quarter (July – September) <i>(RMB'000)</i>	The fourth quarter (October – December) <i>(RMB'000)</i>
Income from operations	20,538,509	16,681,942	17,585,465	15,982,240
Net profit attributable to the shareholders of the Company	1,805,641	784,355	884,371	492,155
Net profit attributable to the shareholders of the Company after deducting non-recurring items	1,764,377	535,998	833,660	185,274
Net cash flow from operating activities	918,064	794,151	1,587,256	3,699,606

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

Applicable Not Applicable

5. SHAREHOLDERS

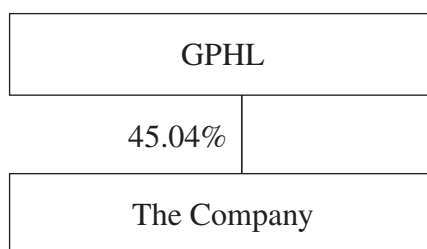
5.1 Total number of ordinary shareholders, preferred shareholders whose voting rights were restored and shareholders with special voting rights, and the conditions of the top ten shareholders as at the end of Reporting Period and at the end of last month before the discourse of the annual report

Total number of ordinary shareholders as at the end of the Reporting Period	97,343
Total number of ordinary shareholders as at the end of last month before the discourse date of the annual report	99,332
Total number of preferred shareholders whose voting rights were restored as at the end of the Reporting Period	0
Total number of preferred shareholders whose voting rights were restored as at the end of last month before the discourse date of the annual report	0

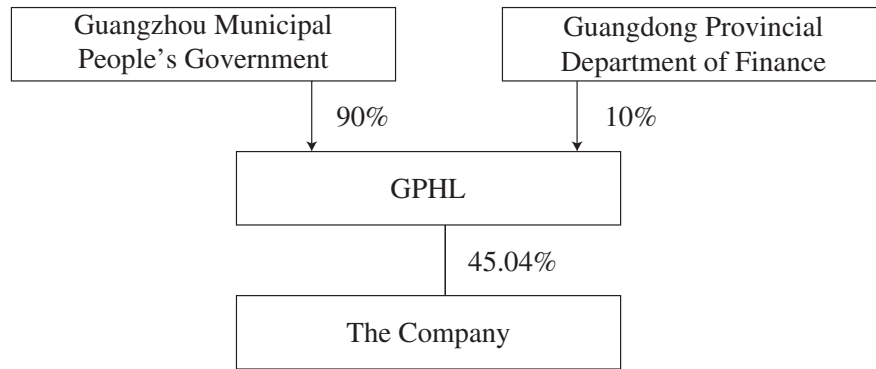
Shareholders	The top ten shareholders of the Company						
	Increase/ (Decrease) during the Reporting Period	Number of shares held as at the end of the Reporting Period	Approximate percentage of the total issued share capital	Number of shares subject to selling restrictions held	Pledge, mark or lock-up of shares Status	Nature of Shareholders	
	(share)	(share)	(%)	(share)	Number of shares		
GPHL	0	732,305,103	45.04	0	–	0	State-owned legal person
HKSCC Nominees Limited	68,000	219,769,290	13.52	0	–	0	Others
GZ Chengfa	0	73,313,783	4.51	0	–	0	Others
China Securities Finance Corporation Limited	0	47,277,962	2.91	0	–	0	Others
GZ Chan Tou	(12,826,238)	42,722,562	2.63	0	–	0	State-owned legal person
Hong Kong Securities Clearing Company Limited	(3,100,179)	32,082,342	1.97	0	–	0	Others
Huaxia 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

Shareholders	The top ten shareholders of the Company						
	Increase/ (Decrease) during the Reporting Period	Number of shares held as at the end of the Reporting Period	Approximate percentage of the total issued share capital	Number of shares subject to selling restrictions held	Pledge, mark or lock-up of shares Status	Number of shares	Nature of Shareholders
	(share)	(share)	(%)	(share)			
Dacheng AMC- Agricultural Bank- Dacheng China Securities Financial Asset Management Plan	0	8,657,836	0.53	0	-	0	Others
Explanation on the connection or person acting in concert among the above shareholders	<p>(1) According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients;</p> <p>(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”</p>						
Explanation on Preferred shareholders with their voting rights restored and the number of shares they hold	Not applicable						

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 Total number of preferred shareholders and the conditions of the top ten shareholders as at the end of the Reporting Period.

Applicable Not Applicable

5.7 Conditions of the Company's bonds

Applicable Not Applicable

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. MAJOR EVENTS

6.1 The Company should disclose major changes in the Company's business in accordance with the principle of materiality during the Reporting Period, as well as events happening during the Reporting Period that have a major impact on the Company's operations or that are expected to have a major impact on the Company in the future.

Applicable Not Applicable

6.2 Where there is a delisting risk warning or suspension of listing after the disclosure of the Company's annual report, the reasons leading to such delisting risk warning or suspension of listing should be disclosed.

Applicable Not Applicable

7. DISCUSSION AND ANALYSIS OF THE OPERATING ENVIRONMENT

7.1 Management discussion and analysis

During the Reporting Period, the Group adhered to the general principle of “seeking progress while maintaining stability”, continued to strengthen the marketing innovation and marketing efforts of each business segment and firmly carried out coordination corporate development, thus achieving a continuous and stable growth in the Group's operating results during the Reporting Period.

In 2022, the Group recorded an income from operations of RMB70,788,155,000, representing an increase of 2.57% year-on-year; total profit of RMB5,043,244,000, representing an increase of 6.78% year-on-year; and net profit attributable to shareholders of the Company of approximately RMB3,966,522,000, representing an increase of 6.63% year on year.

During the Reporting Period, the Group proactively worked on the following:

(I) Further cultivating the business, building Diva brands, continuously enhancing brand awareness and recognition, and solidifying the foundation of the development of Great Southern TCM

Firstly, around the core varieties, we promoted the continuous growth of large varieties by proactively participating in national and provincial centralized procurement, further cultivating the OTC market and the third terminal, and tapping the potential of the second-tier echelon products, and actively promoted the innovation of the marketing model. Secondly, we seized market opportunities, strengthened product promotion, increased investment, and continued to promote the construction of the Group's time-honored brand revitalization project and further its development potential, and continuously enhanced the visibility and recognition of the brand and products. During the Reporting Period, the sales revenue of Zi Shen Yu Tai Pill, Cefuroxime Sodium, Xiao Chai Hu Granules, Huo Tuo Zai Zao Pill, Paracetamol Caffeine and Aspirin Powder, Shu Jin Jian Yao Pills, An Gong Niu Huang Pill, Mi Lian Chuan Bei Pi Pa Goo, Ke Te Ling and other products achieved a relatively rapid year-on-year increase.

(II) Adhering to “one core with multi-elements” and improving the comprehensive strength of the Great Health

For the core product of the Great Health, Wang Lao Ji herbal tea, we took the “Ji” culture as its entry point and continued to promote the construction of the brand's youthfulness by developing various customized cans, carrying out public welfare activities such as “Great Workers in the Hot Sun” (烈日英雄) and “Go Home on Ji Time” (讓愛吉時回家), and carrying out multi-scenario and diversified marketing activities. We continuously expanded the catering terminal, ready-to-drink terminal and e-commerce channels to effectively enhance the market coverage and market share. We launched the new “Li Xiao Ji” series, which together with “Ci Ning Ji” series joined hands with “Wang Lao Ji” to form a lucky combination of “Ji Xiang San Bao” (吉祥三寶) to focus on building a sample market and gaining market recognition rapidly. At the same time, the Company seized the mainstream trend of online consumption, increased the promotion efforts on major e-commerce platforms and vigorously expanded its business through e-commerce channels. During the Reporting Period, Guangyao Wanglaoji Guangdong Lychee (Maoming) Industrial Park, the largest lychee beverage production base in China has been completed and put into production, filling the void in domestic lychee processing technology while bringing down the regional and seasonal consumption restrictions for Guangdong lychees.

(III) Accelerating network expansion, deepening and enlivening the business of the Great Commerce

During the Reporting Period, the Group seized the opportunity to further promote the linkage between wholesale and retail, to expand the innovative drug distribution business to drive the development of medical institution business and to expand the terminal coverage network. We also vigorously developed the Internet hospital + electronic prescription flow business and continuously explored new customers. At the same time, we vigorously developed e-commerce services and promoted the growth of new businesses such as e-commerce sales, live streaming with goods, B2B and B2C. As at the end of the Reporting Period, the Group had a total of 155 pharmaceutical retail outlets, including 58 “Jian Min” pharmacy chain stores specializing in Chinese and Western medicines and medical devices, 58 GPC Prescription Pharmacy specializing in the retail of prescription drugs, 22 Hainan Guangyao Chenfei Pharmacy chain stores and 17 retail stores of various branches/subsidiaries of pharmaceutical companies. A total of 22 retail pharmacy stores have obtained the qualifications of “dual channel” designated retail pharmacy and have become “dual channel demonstration pharmacies” in many places. The Baiyun Logistics Park project (Phase I) of the GP Corp., the Company’s controlling subsidiary, significantly increased its storage capacity, and the preparatory work for the Phase II project was progressing steadily. GP Corp. successfully won the bid for the procurement qualification of pandemic prevention materials for the International Health Post (Phase I) in 2022, and was awarded as one of the key affiliated enterprises in commerce and logistics in China in 2022.

(IV) Expanding business increment and enhancing the business of the Great Medical Care

During the Reporting Period, Baiyunshan Hospital actively strengthened the introduction and cultivation of medical talents, improved infrastructure construction and investment in hardware equipment, optimized the construction of departments and disciplines, added a number of secondary medical specialties such as Chinese medicine, orthopedics, cardiovascular medicine and a children’s health department to enhance the comprehensive strength of the hospital, and was successfully promoted to a Grade III general hospital. With the brands and talents of Baiyunshan Hospital and Southern Medical University Nan Fang Hospital, Runkang Confinement Company quickly established its brand name through the linkage with gynaecology and obstetrics of Baiyunshan Hospital. In terms of medical devices, the Company obtained two Class II medical device registration certificates and eight Class I medical device certificates, and also undertook the supply of pandemic prevention materials for Guangzhou International Health Post and national, provincial and municipal stockpile, which has continuously enhanced the influence of the Company’s medical device brand.

(V) Constantly driving improvements in scientific research development and scientific research platform construction, resulting in new breakthroughs and achievements in scientific research works

In 2022, the innovative Traditional Chinese Medicine (TCM) project for Lingzhi of Baiyunshan Han Fang, a subsidiary of the Company, was awarded the gold medal at Geneva International Exhibition of Inventions; Baiyunshan General Factory, a branch of the Company, obtained IND from the United States Food and Drug Administration (FDA) for conducting clinical trials of its self-developed BYS10 tablet; the research results of Zi Shen Yu Tai Pill of Zhong Yi in relation to Assisted Reproductive Technology medications was published on Obstetrics & Gynecology, an academic authority publication in obstetrics and gynecology in the United States. During the Reporting Period, the Group obtained one national qualification and one provincial platform, respectively, in which the National Engineering Research Center for Pharmaceutical Process Technology and Novel Drug Innovation and Manufacturing of TCM (中藥製藥過程技術與新藥創制國家工程研究中心) constructed by Baiyunshan Han Fang was the only national engineering research center of TCM in Guangdong Province.

(VI) Stringently implementing quality management to promote constant improvements in quality management

In 2022, the Company further enhanced the construction of quality and safety production systems while actively promoting its excellent performance-based management model and continuously accelerating the construction of pharmacovigilance system to constantly improve quality management. During the Reporting Period, subsidiaries of the Company were awarded a number of quality awards at various level and of various categories, in which Zhong Yi was awarded the gold medal by the 2022 International Convention on Quality Control Circles (ICQCC), and Guangxi Ying Kang was credited as the 2022 Guangxi Industrial Enterprise Quality Management Benchmark (2022年度廣西工業企業質量管理標杆).

(VII) Constantly expanding layout of industrial investment to enhance capital operation capabilities

During the Reporting Period, the Company completed the transaction for acquiring 18.1847% of the equity interest of GP Corp. held by Alliance BMP Limited in cash, and after that the equity interest of GP Corp. held by the Company increased to 90.9237%. The Company subscribed for 99.9% of GP Fund with its own capital of RMB999 million. GP Fund has completed the filing of private equity fund in July 2022. Guangzhou State-owned Assets Mixed Ownership Reform Phase II Equity Investment Fund Partnership (Limited Partnership) (廣州國資混改二期股權投資基金合夥企業(有限合夥)) and Guangzhou Time Honored Revitalization Fund Partnership (Limited Partnership) (廣州老字號振興基金合夥企業(有限合夥)), of which the Company participated in the establishment, have also completed the filing of private equity fund.

(VIII) Constantly promoting the initiatives of strengthening enterprise by talents and optimizing talent structure; and constantly deepening professional manager reform to expand pilot sites for the professional manager reform.

(IX) Constantly strengthening the normalized management of internal control and risk control, launching the integrated and collaborative model of risk review and carrying out 10 special audits for major risks, establishing the “Risk Control 136 Monitoring System (風控136監管系統)”, and constructing and improving the compliance management system to further enhance the Group’s integrated capability in risk early warning, monitoring, prevention and control.

(X) Constantly fulfilling social responsibilities to build a good social image for the Company

The Group maximized its efforts to support the front line of anti-pandemic combat and secure the supply of pharmaceutical medicines and equipment. At the same time, the Group established an end-side supply-securing system through chain drug stores, which has assured the market supply, and the Group constantly provided volunteering and convenience services for communities. Furthermore, the Group stepped up its efforts on progressing village revitalization and endeavored to fulfill social responsibilities, which has exhibited the Group’s active willingness to shoulder responsibilities and established a good corporate social image.

7.2 Analysis of principal operations during the Reporting Period

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

Items	The Reporting Period (RMB'000)	The corresponding period of 2021 (RMB'000)	Increase/ (Decrease) over the corresponding period of 2021 (%)
Revenue	70,788,155	69,014,052	2.57
Include: income from principal operations	70,550,190	68,757,954	2.61
Cost of sales	57,510,952	55,780,767	3.10
Include: cost from principal operations	57,452,974	55,721,967	3.11
Selling and distribution expenses	5,875,439	5,954,789	(1.33)
General and administrative expenses	2,218,270	2,032,281	9.15
Research and development expenses	819,454	874,720	(6.32)
Financial expenses	(162,456)	(133,010)	(22.14)
Profit before tax	5,043,244	4,723,071	6.78
Net profit attributable to shareholders of the Company	3,966,522	3,719,878	6.63
Net cash flow from operating activities	6,999,076	5,673,497	23.36
Net cash flow from investing activities	(7,253,188)	(931,569)	(678.60)
Net cash flow from financing activities	45,950	(1,493,979)	103.08
Other income	480,423	309,880	55.04
Investment income	421,175	193,588	117.56
Gains from changes in fair value	(3,591)	196,881	(101.82)
Impairment losses in respect of credit	(45,146)	(109,813)	58.89
Impairment losses in respect of assets	(7,984)	(11,860)	32.68
Non-operating income	18,120	45,307	(60.01)
Non-operating expense	49,276	108,278	(54.49)

Notes:

- (1) Net cash flow generated from investing activities decreased year-on-year due to: ① the increase in purchases of fixed bank deposits and large-denomination certificates of bank deposits during the Reporting Period by the subsidiaries of the Company to increase the revenue from funds; ② during the Reporting Period, the Company paid RMB1,003 million in cash to acquire minority equities in GP Corp..
- (2) The year-on-year increase in net cash flow from financing activities was attributable to the facts that: ① GP Corp., the Company's subsidiary, issued super short-term commercial paper; ② The Company and its subsidiaries short-term loan increased year-on-year.
- (3) Other income increased year-on-year due to an increase in government grants recognized by the subsidiaries of the Company year-on-year.

- (4) The year-on-year increase in investment income was attributable to the fact that: ① Baiyunshan Biological was included in the scope of consolidation of the Company during the Reporting Period, and the equity interests previously held was remeasured at their fair values at the acquisition date, resulting in recognized investment gains of RMB162 million; ② The recognized investment gains from large-denomination certificates of deposit and other investments purchased by the Company and its subsidiaries increased year-on-year.
- (5) Gains from changes in fair value decrease year-on-year due to the decrease in fair value of financial assets held by the Company at the end of the Reporting Period.
- (6) Impairment losses in respect of credit decreased year-on-year due to the reversal of part of the separate provision for bad debt of account receivables by the subsidiaries of the Company during the Reporting Period.
- (7) Impairment losses in respect of assets decreased year-on-year due to the decrease in the provision for decline in value of inventories made by the subsidiaries of the Company.
- (8) The year-on-year decrease in non-operating income was attributable to a year-on-year decrease in income from government compensations for land requisition and resettlement recognized by the subsidiaries of the Company.
- (9) Non-operating expenses decreased year-on-year due to a decrease in non-operating expenses recognized by the subsidiaries of the Company year-on-year.

7.2.1 Analysis of revenue and cost

- a) Analysis of the operation results by industry, product, regional and sales model

Industries	Results of principal operations by industry					
	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 2021 (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2021 (%)	Profit margin of principal operations (%)	Increase/ (Decrease) over the same period of 2021 (percentage point)
Great Southern TCM	10,461,569	(3.04)	5,445,148	(9.77)	47.95	An increase of 3.88 percentage points
Great Health	10,473,094	(3.48)	5,914,955	3.52	43.52	A decrease of 3.82 percentage points
Great Commerce	49,131,493	5.03	45,676,898	4.59	7.03	An increase of 0.39 percentage point
Other	484,034	42.74	415,973	38.34	14.06	An increase of 2.73 percentage points
Total	70,550,190	2.61	57,452,974	3.11	18.56	A decrease of 0.40 percentage point

Types of products	Results of principal operations by product					
	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 2021 (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2021 (%)	Profit margin of principal operations (%)	Increase/ (Decrease) over the same period of 2021 (percentage point)
Chinese patent medicine	5,616,963	6.59	3,272,869	8.20	41.73	A decrease of 0.87 percentage point
Chemical medicine	4,844,606	(12.23)	2,172,279	(27.83)	55.16	An increase of 9.69 percentage points
Total of Great Southern TCM	10,461,569	(3.04)	5,445,148	(9.77)	47.95	An increase of 3.88 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 2021 (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) over the same period of 2021 (%)	Profit margin of principal operations (%)	Increase/ (Decrease) over the same period of 2021 (percentage point)
Southern China	55,440,052	4.51	46,782,961	4.25	15.62	An increase of 0.21 percentage point
Eastern China	5,315,640	(8.86)	3,807,227	(4.37)	28.38	A decrease of 3.37 percentage points
Northern China	2,584,211	(14.51)	1,619,889	(15.77)	37.32	An increase of 0.95 percentage point
North-Eastern China	595,387	(3.14)	448,379	(2.81)	24.69	A decrease of 0.26 percentage point
South-Western China	4,613,340	9.31	3,235,355	12.22	29.87	A decrease of 1.82 percentage points
China -Western China	1,973,121	(0.27)	1,532,895	(1.88)	22.31	An increase of 1.27 percentage points
Exports	28,439	(33.59)	(26,268)	(28.57)	7.64	A decrease of 6.48 percentage points

Results of principal operations by sales model						
Sales models	Income from principal operations	Increase/ (Decrease) over the same period of 2021	Cost of principal operations	Increase/ (Decrease) over the same period of 2021	Profit margin of principal operations	Increase/ (Decrease) over the same period of 2021
	(RMB'000)	(%)	(RMB'000)	(%)	(%)	(percentage point)
Industrial model	20,934,663	(3.26)	11,360,103	(3.31)	45.74	An increase of 0.03 percentage point
Commercial model	49,131,493	5.03	45,676,898	4.59	7.03	An increase of 0.39 percentage point
Other model	484,034	42.74	415,973	38.34	14.06	An increase of 2.73 percentage points

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

Notes: The significant increase in the income from and the cost of principal operations of the other segments was mainly attributable to: the year-on-year increase in the number of outpatient visits at the Baiyunshan Hospital, a subsidiary of the Company and the sales of medical equipments such as epidemic prevention supplies during the Reporting Period.

b) Analysis of production, sales and inventory

Main products	Production	Sales	Inventory	Production increase/ (decrease) over the same period of 2021	Sales increase/ (decrease) over the same period of 2021	Inventory increase/ (decrease) over the same period of 2021
Sildenafil Citrate Tablet (thousand tablets)	79,696.29	86,829.08	22,712.25	(31.65)	(11.85)	(23.95)
Zi Shen Yu Tai Pill (thousand boxes/ thousand bottles)	8,540.22	8,316.23	1,310.76	18.65	20.19	37.02
Cefixime series (thousand tablets/ thousand packs/thousand grains)	207,898.72	229,867.56	4,821.38	(36.70)	(32.92)	(72.66)
Xiao Ke Pill (thousand bottles)	31,187.12	34,439.16	4,124.31	(29.41)	(12.19)	(45.22)
Xiao Chai Hu Granule (thousand packs)	36,990.60	38,437.42	5,672.40	(4.82)	(4.36)	(22.57)
Cefuroxime Sodium for Injection (thousand bottles)	89,099.46	84,300.77	307.39	70.96	65.41	(59.14)
Hua Tuo Zai Zao Pill (thousand boxes)	6,966.64	6,248.72	1431.54	18.19	12.81	36.79
Amoxicillin series (thousand packs/thousand grains)	1,159,051.64	1,297,070.29	1,376.76	(20.13)	(4.28)	(98.73)
Bao Ji series (thousand boxes/ thousand ampoules)	174,197.77	181,174.67	31,546.17	(13.14)	1.66	(29.56)
Xia Sang Ju Granule (thousand packs)	349,141.85	347,309.28	55,099.60	9.78	7.62	1.58

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

- ① The reason for a year-on-year decline in production of Sildenafil Citrate Tablet: Due to the high stock level of this product in 2021 and the sales situation in 2022, the Company's subsidiary controlled the production, resulting in a decrease in production compared to the previous year.
- ② The reason for a year-on-year increase in inventory of Zi Shen Yu Tai Pill: Continue to strengthen academic promotion activities was carried out during the Reporting Period and facilitate the marketing of this product, leading to a growth in both production and sales. In anticipation of an increase in market demand, the Company's subsidiary prepared stocks in advance, resulting in an increase in inventories.

- ③ The reason for a year-on-year decline in production, sales and inventory of Cefixime series: The sales of the products decreased year on year; meanwhile, the Company's subsidiary controlled the production, resulting in a decline in production and inventory.
- ④ The reason for a year-on-year decline in inventory of Xiao Ke Pill: Sales of this product dropped slightly due to the decline in the number of hospital outpatients and inpatients in 2022. The Company's subsidiary controlled the production, leading to a decrease in inventory.
- ⑤ The reason for a year-on-year increase in production and sales, and a year-on-year decline in inventory of Cefuroxime Sodium for Injection: The product won the bid in the fifth round of national centralised procurement. Since the implementation of centralised procurement in October 2021, sales volumes have increased year on year, and production has also risen year on year to meet market demand. As a result, the product turnover accelerated and inventory fell significantly.
- ⑥ The reason for a year-on-year increase in inventory of Hua Tuo Zai Zao Pill: The Company's subsidiary further strengthened their market development and promotion efforts and increased production volumes in response to the increased sales demand. In order to meet the market sales demand, inventory increased accordingly.
- ⑦ The reason for a year-on-year decrease in inventory of Amoxicillin series: Following the adjustment of control policy, the demand for this product was stimulated and inventory declined rapidly.

c) Analysis of cost

Industrial	Components	Results by industry 2022		2021		Increase/ (decrease) over the same period of 2021 (%)
		Amount (RMB'000)	% of the proportion of operation cost (%)	Amount (RMB'000)	% of the proportion of operation cost (%)	
Manufacturing business	Raw material	8,652,130	75.85	9,033,663	76.83	(4.22)
	Fuel	155,225	1.37	139,968	1.19	10.90
	Labor cost	501,879	4.40	386,341	3.29	29.91
	Others	2,095,838	18.38	2,196,901	18.69	(4.60)
Pharmaceutical distribution business	Cost of purchase	45,676,898	100.00	43,672,667	100.00	4.59
Others	Other cost	371,004	100.00	292,427	100.00	26.87

d) Major customers and suppliers

During the Year, sales by the Group to the five largest customers amounted to RMB3,887,991,000 (2021: RMB4,810,902,000), representing approximately 5.52% of the total sales (2021: 7.00%) of the Group. The sales to the largest customer amounted to RMB1,006,698,000 (2021: RMB1,474,432,000), representing 1.43% (2021: 2.14%) of the total sales of the Group. Sales to related parties amounted to RMB0 among the sales to the five largest customers, representing 0% of the total sales of the Group for the Year.

During the Reporting Period, there were new customers among the five largest customers:

Number	Customers	Sales (RMB'000)	% of the proportion of total sales for the year (%)
1	Customer 1	753,754	1.07
2	Customer 2	738,431	1.05

During the Year, purchases by the Group from the five largest suppliers amounted to RMB5,862,511,000 (2021: RMB7,769,776,000), representing approximately 8.56% of the total purchases (2021: 12.87%) of the Group for the Year. The purchases from the largest suppliers amounted to RMB1,371,101,000 (2021: RMB3,050,896,000), representing 2.00% (2021: 5.05%) of the total purchases of the Group for the Year. Purchases from related parties amounted to RMB0 among the purchases from the five largest suppliers, representing 0% of the total purchases of the Group for the Year.

During the Reporting Period, there were new suppliers among the five largest suppliers:

Number	Suppliers	Purchases (RMB '000)	% of the proportion of total purchases for the year (%)
1	Supplier 1	1,201,196	1.75
2	Supplier 2	934,837	1.36

Situation of the purchases from the Group's top five suppliers accounted for less than 10% of the total purchase of the Group, while situation of the sales from the Group's top five customers accounted for less than 10% of the total sales during the Reporting Period. There is no heavy reliance on a few number of suppliers or customers.

To the knowledge of the Board, 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.

7.2.2 Expenses

During the Reporting Period, the Group's selling and distribution expenses were approximately RMB5,875,439,000 (2021: RMB5,954,789,000), representing a decrease of approximately 1.33% as compared with last year.

During the Reporting Period, the Group's general and administrative expenses were approximately RMB2,218,270,000 (2021: RMB2,032,281,000), representing an increase of approximately 9.15% as compared with last year.

During the Reporting Period, the Group's research and development expenses were approximately RMB819,454,000 (2021: RMB874,720,000), representing a decrease of approximately 6.32% as compared with last year.

During the Reporting Period, the Group's financial expenses were approximately RMB-162,456,000 (2021: RMB-133,010,000), representing a decrease of approximately 22.14% as compared with last year.

During the Reporting Period, the Group's income tax expenses were approximately RMB789,874,000 (2021: RMB754,085,000), representing an increase of approximately 4.75% as compared with last year.

7.2.3 Research and development investments

1) Research and development investments

Applicable Not Applicable

Cost of research and development investments in the current year (RMB'000)	814,168
Capitalization of research and development investments in the current year (RMB'000)	250,456
Total research and development investments (RMB'000)	1,064,624
Ratio of research and development investments to income from operations (%)	1.50
Ratio of total research and development investments to net assets (%)	3.16
Percentage of the capitalization of research and development investments (%)	23.53

2) Research and development staff

Applicable Not Applicable

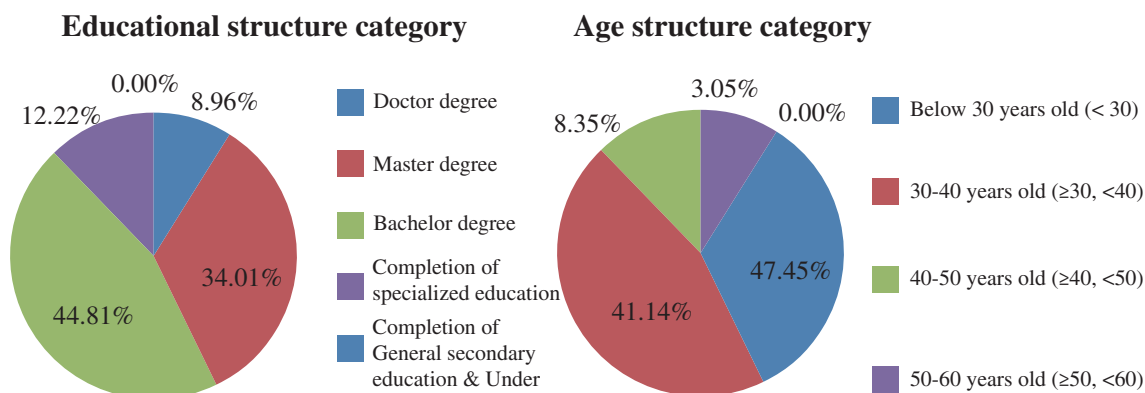
The numbers of research and development staff of the Company	491
Proportion of research and development staff of the Company	2

Educational level of research and development staff

Categories of educational level	Total amount
Doctor degree	44
Master degree	167
Bachelor degree	220
Completion of specialized education	60
Completion of General secondary education & Under	0

Age structure of research and development staff

Categories of age	Total amount
Below 30 years old (<30)	233
30-40 years old (≥30, <40)	202
40-50 years old (≥40, <50)	41
50-60 years old (≥50, <60)	15
60 years old and above 60	0



3) Explanation of the situation

Applicable Not Applicable

4) Reasons of major changes in the structure of research and development staff and impacts on future development of the Company

Applicable Not Applicable

7.24 Cash flow

Items	The Reporting Period (RMB'000)	The corresponding period of 2021 (RMB'000)	Increase/ (Decrease) as compared with the same period of 2021 (%)	Reasons
Net cash flow from operating activities	6,999,076	5,673,497	23.36	/
Net cash flow from investing activities	7,253,188	(931,569)	678.6	(1) The increase in purchases of fixed bank deposits and large-denomination certificates of bank deposits during the Reporting Period by the subsidiaries of the Company to increase the revenue from funds; (2) during the Reporting Period, the Company paid RMB1,003 million in cash to acquire minority equities in GP Corp..
Net cash flow from financing activities	45,950	(1,493,979)	103.08	(1) GP Corp., the Company's subsidiary, issued super short-term commercial paper; (2) The Company and its subsidiaries short-term loan increased year-on-year.

7.3 Analysis of financial conditions

7.3.1 Liquidity

As at 31 December 2022, the current ratio of the Group was 1.53 (31 December 2021: 1.64), and its quick ratio was 1.24 (31 December 2021: 1.31). Accounts receivable turnover rate was 5.54 times (31 December 2021: 5.93 times), representing a decrease of 6.58% as compared with the corresponding period of 2021. Inventory turnover rate was 5.41 times (31 December 2021: 5.48 times), representing a decrease of 1.34% as compared with the corresponding period of 2021.

7.3.2 Financial resources

As at 31 December 2022, cash and cash equivalents of the Group amounted to RMB20,804,699,000 (31 December 2021: RMB21,013,364,000), of which approximately 99.85% and 0.15% were denominated in Renminbi and foreign currencies, such as Hong Kong dollar, respectively.

As at 31 December 2022, the Group had bank borrowings of RMB10,675,850,000 (31 December 2021: RMB9,210,851,000), including short-term borrowings of RMB8,538,065,000 (31 December 2021: RMB8,428,008,000), current portion of non-current liabilities of RMB498,582,000 (31 December 2021: RMB30,031,000) and long-term borrowings of RMB1,639,203,000 (31 December 2021: RMB752,812,000).

7.3.3 Capital structure

As at 31 December 2022, the Group's current liabilities amounted to RMB37,395,116,000 (31 December 2021: RMB32,253,851,000), representing an increase of 15.94% as compared with the corresponding period of 2021, and its long-term liabilities was RMB3,632,325,000 (31 December 2021: RMB2,537,270,000), with an increase of 43.16% as compared with the corresponding period of 2021. The shareholders' equity attributable to the shareholders of the Company amounted to RMB32,065,125,000 (31 December 2021: RMB29,062,184,000), with an increase of 10.33% as compared with the corresponding period of 2021.

7.3.4 Capital expenditure

The Group expects the capital expenditure for 2023 to be approximately RMB2.677 billion (2022: RMB1.565 billion), which would be mainly applied in the construction of development bases, the construction of production bases and upgrade of equipments, etc. The Group will raise funds to meet the capital requirements of capital expenditure plan by resorting to its internal funds, bank loans, etc.

7.3.5 Assets and liabilities

Items	As at	% of the	As at	% of	Increase/ (decrease) over the	Reasons for changes
	31 December 2022 (RMB'000)	total assets (%)	31 December 2021 (RMB'000)	the total assets (%)	corresponding period of 2021 (%)	
Financial assets held for trading	56,873	0.08	–	0	100.00	During the Reporting Period, the contingent consideration related to performance pledge between GP Corp., a controlling subsidiary of the Company, and its non-controlling shareholders was changed from “other non-current financial assets” to this item for presentation.
Dividends receivable	218,767	0.29	343,767	0.52	(36.36)	During the Reporting Period, the Company received dividends receivable, resulting in a year-on-year decrease in the amount under this item.
Current portion of non-current assets	653,116	0.87	–	0	100.00	During the Reporting Period, the purchase of large-denomination certificates of deposit held to maturity by subsidiaries of the Company with a maturing period of less than one year.
Other current assets	2,262,190	3.03	827,458	1.25	173.39	During the Reporting Period, the purchase of large-denomination certificates of deposit held to maturity by subsidiaries of the Company with a maturing period of less than one year.
Debt investment	3,164,499	4.24	630,712	0.95	401.73	The year-on-year increase in the amount of held-to-maturity deposits and large-denomination certificates of deposit of the Company and its subsidiaries.

Items	As at	% of the	As at	% of	Increase/ (decrease) over the	Reasons for changes
	31 December 2022 (RMB'000)	total assets (%)	31 December 2021 (RMB'000)	the total assets (%)	corresponding period of 2021 (%)	
Other non-current financial assets	1,038,819	1.39	574,278	0.87	80.89	(1) During the Reporting Period, the purchase of large-denomination certificates of deposit held for resale by subsidiaries of the Company with maturity of more than one year; (2) the contingent consideration related to performance pledge between GP Corp., a controlling subsidiary of the Company, and its non-controlling shareholders was changed from this item to “financial assets held for trading” for presentation
Construction in progress	2,108,327	2.82	1,564,091	2.37	34.80	The year-on-year increase in the amount of investment by the Company and its subsidiaries in construction in progress.
Development expenditure	240,668	0.32	10,567	0.02	2,177.44	(1) During the Reporting Period, Baiyunshan Biological was included in the scope of consolidation of the Company, and the consideration and the shares of fair values of identifiable assets at the acquisition date were transformed into development expenditure on the same date; (2) there was an year-on-year increase in expenses for the development stage of intangible assets incurred by the Company and its subsidiaries.
Other non-current assets	239,830	0.32	168,481	0.25	42.35	The year-on-year increase in the amount of construction prepayment by the Company and its subsidiaries under the contract.

Items	As at	% of the	As at	% of	Increase/ (decrease) over the	Reasons for changes
	31 December 2022 (RMB'000)	total assets (%)	31 December 2021 (RMB'000)	the total assets (%)	corresponding period of 2021 (%)	
Contract liabilities	5,644,202	7.56	2,740,338	4.14	105.97	(1) As the Spring Festival came earlier in 2023 than in 2022, WLJ Great Health, a wholly-owned subsidiary of the Company stocked up and collected accounts receivable mostly in late 2022, resulting in an increase in the balance of advance payments on sales during the Reporting Period; (2) The year-on-year increase in advance payments on sales from other subsidiaries of the Company.
Taxes payable	375,711	0.50	233,497	0.35	60.91	There was an increase in the amount of payable corporate income tax and value-added tax of subsidiaries of the Company when compared with the end of last year.
Interest payable	-	0.00	460	0.00	(100.00)	The subsidiaries of the Company paid the interest payable at the beginning of the period.
Current porting of non-current liabilities	706,732	0.95	245,803	0.37	187.52	During the Reporting Period, large-denomination certificates of deposit held to maturity by subsidiaries of the Company with a maturing period of less than one year were changed from "long-term borrowings" to this item for presentation.
Other current liabilities	1,325,366	1.78	346,060	0.52	282.99	(1) During the Reporting Period, GP Corp., a controlling subsidiary of the Company, issued super short-term commercial paper; (2) there was a year-on-year decrease in the taxes to be written off in the advance payments to be received from customers within one year of the subsidiaries of the Company.
Long-term borrowings	1,639,203	2.20	752,812	1.14	117.74	There was an year-on-year increase in bank borrowings by subsidiaries of the Company.

Items	As at	% of the	As at	% of	Increase/ (decrease) over the	Reasons for changes
	31 December 2022 (RMB'000)	total assets (%)	31 December 2021 (RMB'000)	the total assets (%)	corresponding period of 2021 (%)	
Minority interest	1,572,733	2.11	2,264,484	3.42	(30.55)	The Company's acquisition of minority equities in GP Corp. during the Reporting Period resulted in a year-on-year decrease in minority interests.

7.3.6 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. Changes in exchange rates will affect the value of assets, liabilities and foreign investment entities denominated in foreign currencies, and will indirectly cause changes in the Group's revenue or cash flows for a certain period. With the market-oriented reform of exchange rate, the exchange rate between RMB and other convertible currencies fluctuates greatly. The Group will continue to pay attention to the foreign exchange risks that may exist in the process of foreign exchange settlement.

7.3.7 Main cash resources and applications

As at 31 December 2022, cash and cash equivalents of the Group amounted to RMB20,804,699,000 with a decrease of RMB208,665,000 as compared with the beginning of 2022. Net cash flow from operating activities amounted to RMB6,999,076,000 with a year-on-year increase of RMB1,325,579,000.

7.3.8 Contingent liabilities

As at 31 December 2022, the Group had no material contingent liabilities.

7.3.9 Charge on the Group's assets

As at 31 December 2022, 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 HKD5,973,000, and by investment properties with the original value amounting to HKD6,843,000 and net value of HKD4,623,000, had obtained the overdraft amounting to HKD300,000, and letter of credit and 90-day credit in the total amount of HKD100,000,000 from Bank of China (Hong Kong) Co., Ltd.. Unexpired letter of credit of USD284,000 in value had also been obtained.

7.3.10 Bank loans, overdraft and other borrowings

As at 31 December 2022, the bank loans of the Group amounted to RMB10,675,850,000 (31 December 2021: RMB9,210,851,000), with an increase of RMB1,464,999,000 as compared with the beginning of 2022. The above bank loans included short-term borrowings of RMB8,538,065,000 long-term borrowings of RMB1,639,203,000 and current portion of non-current liabilities of RMB498,582,000.

7.3.11 Gearing ratio

As at 31 December 2022, the Group's gearing ratio (total liabilities/total assets × 100%) was 54.95% (31 December 2021: 52.62%).

7.3.12 Material investment

1. Significant Equity Investments

Name of Investee	Principal Business	Whether the Subject is Mainly Engaged in Business of Major Operations	Way of Investment	Investment Amount (RMB'0000)	Shareholding Ratio (%)	Whether Consolidated	Statement Items (if applicable)	Source of Funds	Cooperating Party (if applicable)	Investment Period (if any)	Progress as of Balance Sheet Date	Expected Return (if any)	Effect of Profit or Loss for the Period	Whether Involved in Litigation	Date of Disclosure (if any)	Index of Disclosure (if any)
GP Corp.	Pharmaceutical business (wholesale, retail)	Yes	Purchase in cash	100,326.06	18.1847	Yes	-	Self-owned funds	-	-	-	-	-	No	8 August 2022	http://www.ssc.com.cn/ http://www.hkex.com.hk
Total	-	-	-	100,326.06	-	-	-	-	-	-	-	-	-	-	-	-

2. Significant Non-equity Investments

Name of Investment Project	Main Investor	Particulars of Investment Project	Planned Investment Amount (RMB'0000)	Progress of Project Execution
The project for the establishment of Guangzhou Baiyunshan Chemical & Pharmaceutical (Zhuhai) Co., Ltd.	Chemical & Pharmaceutical Technology Company	Construction of chemical raw medicine production base for production and sales of cefathiamidine, sildenafil citrate and other raw medicine	73,187.91	Civil construction acceptance completed, electromechanical installation basically completed, equipment installation and commissioning in progress.
GYBYS Biological Medicine and Health R&D Sales Headquarters Project	The Company	Establishment of an R&D platform and R&D center for innovative drugs and medical devices, an international pharmaceutical cooperation and exchange center, a technology incubator and dual-innovation base, etc.	109,985.30 (including 40,410,000 at the time of capital increase)	Structural roofing completed, curtain wall and decoration in progress.
Nansha Base (Phase I) Project of Guangzhou WLJ Great Health Industry Co., Ltd.	WLJ Great Health	Establishment of WLJ herbal tea canning production line	74,965.73	Civil construction and electromechanical installation basically completed, equipment installation in progress.

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

Applicable Not applicable

7.4 Discussion and analysis on future development

7.4.1 Competition within and the development trend of the industry

- (i) The Policy supports for the development of the biological medicine and health industry. The biological medicine and health industry as one of the strategic emerging industries in China has got strong policy support from the government in recent years. Industry regulators tend to systematize the guiding and normative policies; local governments introduce differentiated industrial development plans and industrial cluster plans based on industrial foundation, location characteristics and resources to provide support in terms of land, capital, platform and etc. for the development of the biological medicine and health industry.
- (ii) Pharmaceutical policies are frequently launched to facilitate the improvement of quality and reduction of costs of pharmaceutical enterprises. As China's medical reform has entered the "deep-water area" stage, a series of pharmaceutical policies have been introduced intensively to accelerate the adjustment of the pharmaceutical industry, clearly limit and supervise the use of complementary medicines, centralized volume-based procurement of drugs, exploration of disease-diagnosis-related groups (DRGs) payment reform and other policies, which have imposed new requirements for the cost and quality of products of pharmaceutical enterprises.
- (iii) China has attached great importance to the development of traditional Chinese medicine, which has ushered in a turnaround. The state has issued a series of policies at all level, actively supporting and promoting TCM heritage innovation and quality improvement. The construction of a modernized scientific research system of TCM, the review and approval and registration mechanism of TCM are being gradually improved, while the construction of TCM characteristic talent teams and the brand building of TCM, etc. are also expected to gain accelerated development, and the recognition of traditional Chinese medicine's efficacy is increasing. However, it is likely to accelerate the process that Chinese patent medicines will be included in the scope of national centralized volume-based procurement. The pressure of cost control will force TCM enterprises to transform and upgrade. The further standardization of the use of Chinese patent medicine in the future and the establishment of a mechanism monitoring key drugs will bring about considerable challenges to TCM manufacturing enterprises.

- (iv) As the capital market environment has gradually improved, the restructuring and integration of the pharmaceutical industry have accelerated. The merger and acquisition and reorganization characterized by strategic resources complementary industrial integration, unification and strong alliance will gradually become the mainstream.
- (v) As people gradually return to normal living conditions, the strong rebound in the number of outpatient visits and inpatient visits will inevitably increase the demand for medicines. Pharmaceutical policies and supervision will still be strict, and high-quality development is always an inevitable requirement of the pharmaceutical industry.

7.4.2 Development strategy and business plan for year 2023

In 2023, the Group will vigorously focus on the development theme of “improving both effectiveness and efficiency” and continue to develop as a whole in a prudent while progressive manner. The Group strives to promote an effective improvement in quality and a reasonable increase in quantity. The Group will practically progress the following works:

1. Solidifying the foundation for the development of Great Southern TCM. The Company will continue to actively participate in national or inter-provincial alliance pharmaceutical centralized volume-based procurement. At the same time, the Company will actively pursue market opportunities to strongly promote marketing innovation and enhance brand construction, driving the development of OTC market and the third-end market, and also generate more “Diva brands” for different fields by category through separate policies. The Company will further advance the stimulation of the sleep category and accelerate the cultivation of a number of potential categories; will endeavor to develop specialized active pharmaceutical ingredients (APIs) to strengthen its competitiveness; and will continue to advance the construction of Cai Zhi Lin Meizhou Production Facility and Cai Zhi Lin Gansu TCM Technology Industrial Park to produce refined TCM pills that are in compliance with professional pharmaceutical standards.

2. Promoting the innovative development of the Great Health. We will continue to consolidate the leading position of herbal tea and that of product categories, further consolidate the advantageous markets, tap potential markets, shore up undeveloped markets, and vigorously promote product sales through all available channels; continue to jointly promote “Wang Lao Ji”, “Ci Ning Ji (刺檸吉)” and “Li Xiao Ji”, known as “Ji Xiang San Bao (吉祥三寶)”, intensively cultivate the market for new products and actively expand the market for potential products such as lozenges, tortoise herb jelly and coconut juice; continue to explore the brand value of “Ji Culture” and extend its consumption landscape so as to promote product sales.
3. Accelerating the service transformation of the Great Commerce. We will further expand financing channels to improve financing capabilities; strengthen category expansion and channel integration, enhance linkage between purchase and sales, consolidate retail business layout, vigorously expand pharmacies in the proximity of hospitals and DTP pharmacies; deepen B2B digital transformation, refine customer management, keep abreast of market needs, and promote targeted marketing.
4. Striving to create development advantages for Great Medical Care. We will advance the construction of Baiyunshan Hospital, expedite the introduction of talents, and continuously improve the overall strength of the hospital; deepen resources sharing and linkage with the Department of Neonatology and Department of Obstetrics and Gynecology of Baiyunshan Hospital, aiming to optimize and strengthen the brand of “Baiyunshan Runkang” confinement club; explore product lines with focus on the layout of featured products that are closely related to food, clothing, housing and transportation, and those with high-tech elements, and enhance the influence of the Baiyunshan brand in the field of medical devices.
5. Improving the efficiency of scientific research and the effectiveness of innovation. Based on the existing R&D platform, we will further enhance R&D innovation system and establish a first-class scientific research platform; continue to promote the consistency evaluation of generic drugs, strengthen cooperation with international and domestic enterprises, laboratories and colleges, and deploy strategic and backup technology R&D projects to expand competitive edge.
6. Improving the construction of quality management system. We will promote the establishment of a refined production management system, enhance the level of automation, digitalization and intelligence of pharmaceutical equipment; improve quality management system, strengthen the management of material suppliers, and continuously promote the establishment of a warning system for pharmacy defectiveness.

7. We will continue to promote the development of the Company with the support of talent, and continue to implement policies on corporate reform, professional manager reform, adopt tenure system for the appointment of senior management and contract management, and further optimize the composition of talent team.
8. Promoting improvement on both efficiency and profitability, while improving internal management efficiency and operational efficiency. We will focus on the weak links in management, promote the improvement of both effectiveness and efficiency; continue to carry out inspection and audit work to strengthen the comprehensive capabilities of the Group's risk warning, monitoring, prevention and control, and promote the high-quality development of the Group.

7.4.3 Potential challenges and risks

In the future, high-quality development will still be the main theme of the development of the pharmaceutical industry. With the continuous deepening of the normalization of a series of pharmaceutical reforms such as consistency evaluation and volume-based procurement, innovation transformation, industrial integration, and business model transformation are inevitable. Pharmaceutical companies are facing the pressure of industrial transformation and upgrading. Enterprises with high-cost drugs and less innovation will be eliminated at an accelerated rate, which will force enterprises to further strengthen their innovation and R&D capabilities and launch new products with differentiated advantages, which will bring challenges to the development of the Group's traditional business.

The Group will pay close attention to the implementation and promotion of new policies and make strategic deployments in advance. For the corresponding measures, please refer to the information regarding the changes in industry policies and the corresponding impacts in “(4) Analysis of industry operation information” under “5. Circumstances of the Operation during the Reporting Period” in the section headed “III Management Discussion and Analysis” in the annual report of the Company.

In addition, the pharmaceutical industry is one of the most affected industries by national policies, and it faces many risks such as industrial policy risk, drug/service quality control risk, research and development risk and market risk. With the further reform of the medical and health care system, especially the implementation of policies such as volume-based purchase, adjustment of the health care directory and reform of the medical insurance payment methods, the pharmaceutical market pattern keeps on changing, and the competition in the pharmaceutical industry intensifies. Currently, the production and operation activities will gradually return to normal. The Group will pay attention to the development situation of enterprises, assess and actively respond to the impact of the risk on the Group's financial situation, operating results and other aspects in a sustained way.

8 EMPLOYEES OF THE GROUP

8.1 Situation of the employees

Numbers of the employees of the parent Company	2,059
Numbers of the employees of the major subsidiaries	22,190
Total number of employees	24,249
Retired employees of the Company and major subsidiaries whose expenses were assumed by the Company and major subsidiaries	10,381
Gross payroll of the Group	RMB3.805 billion

Sex Ratio

Male	61.06%
Female	38.94%

Composition

Category constitution	a number of constitute staff
Production staff	4,419
Sales personnel	11,137
Technical staff	3,248
Finance staff	616
Administrative staff	4,829
Total	24,249

Educational Level

	Number
Postgraduate	678
Undergraduate	8,194
University college	7,176
Secondary and below	8,201
Total	24,249

8.2 Remuneration policy

The remuneration of the employees of the Group includes salaries, subsidies, bonuses, enterprise annuities and other fringe benefits such as five social insurances and one housing fund, and supplementary medical insurance. The Group, in accordance with the relevant laws and regulations, paid different rates of remuneration to different employees, depending on their performance, qualification, position and other factors. Meanwhile, the Group provides professional and management channels for the career development of employees, as a breakthrough to the predicament in talent development due to limited management positions, so that outstanding professionals can receive enough recognition and incentives in the professional channel. In addition, the Group provides employees with care such as staff shuttles, apartments for talents, and various interest groups. The group adheres to equal employment, attaches importance to the integration of diverse cultures, respects all enterprises with different background, fairly treats employees of different nationalities, races, religious beliefs, genders and ages, and resolutely opposes to any form of discrimination.

8.3 Training plan

The Group attaches great importance to employees' career development needs. The Group established corporate university and enterprise Communist Party school, developed a sound training management system. Depending on the character of each type of talents, the Group combined the internal and external trainings to build a competent training system, covering employees at all levels from the production line workers to the senior management of the enterprise, so as to promote the common growth of employees at all levels and the Company.

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 (effective to 31 December 2022) ("CG Code") as set out in Appendix 14 to the Listing Rules of HKEX, except that Mr. Li Chuyuan, the chairperson of the Company, was unable to attend the First Extraordinary General Meeting in 2022 due to business reasons which constituted deviation from code provision F.2.2 of the CG Code. Details see the section headed "IV Corporate Governance" in the 2022 annual report.

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 effectiveness and implementation of the Company's financial monitoring, internal control, internal audit and risk management system and the soundness and effectiveness of internal control, to consider the appointment of independent auditors and to co-ordinate and to review the efficiency and quality of their work.

The Audit Committee of the eighth session of the Board was established on 29 June 2020 and comprises 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 were elected.

During the Reporting Period, the Audit Committee actively performed its duties in accordance with the Corporate Governance Guidelines for the Listed Companies, the Articles of Association, code of practice of the Audit Committee of the Board, the Corporate Governance Code and other relevant regulations. In 2022, the Audit Committee held 6 meetings and each of the members of the committee attended all the meetings, in which the members reviewed the 2021 Annual Report, 2022 Interim Report and financial reports of the Group as well as the recommendations on management issued by auditors and the respective response by the Company's management; reviewed the connected transactions of the Group; reviewed the Company's internal audit risk control report for 2021 and audit risk control work plan for 2022; review the Company's quarterly reports for the first and third quarters of 2022; review the report on inspection of the use of proceeds for the whole year of 2021 and half year of 2022; review the proposal for the Company's participation in the establishment of an equity investment fund and related party transactions as well as the estimated number of day-to-day related party transactions in 2023; advised the Company on major events of the Company or reminded the management of relevant risks and reviewed the effectiveness of internal audit risk management and internal review function; advised the Board regarding the change of auditing firm.

Major tasks accomplished by the Audit Committee in 2022 included:

1) Work regarding the change of accounting firm

During the Reporting Period, the Company engaged WUYIGE Certified Public Accountants LLP as the auditor for annual financial report and internal control of the Company for the year 2022. Upon verification, the Audit Committee believes that WUYIGE Certified Public Accountants LLP satisfies the requirements for an auditor as stipulated in the Securities Law, and possesses the qualifications and competence to provide audit services to listed companies. WUYIGE Certified Public Accountants LLP did not violate the requirements for Independence under the Code of Ethics for Chinese Certified Public Accountants, and possesses sufficient independence, integrity and ability to protect our investors, and thus satisfies the requirements of the Company for its annual financial audit and internal control audit work for 2022.

2) Supervision and evaluation of the work of external auditors

The members of the Audit Committee communicated with the Company's auditor for the 2021 annual financial statements, WUYIGE Certified Public Accountants LLP, regarding among other matters, the scope and plan of the audit and seriously urged the auditor to conduct the audit with due diligence. The Audit Committee believes that the auditor has carried out the audit work for the Company in the year of 2021 with cautious, independent and objective standards, and managed to abide to their professional ethics, followed the auditing regulations closely, fulfilled their auditing responsibilities and submitted the auditors' report in time.

3) Supervision and evaluation of the internal audit work

During the Reporting Period, the Audit Committee earnestly reviewed the Company's internal audit work plan, at the same time urged the Company's internal audit department to strictly execute the audit plan, and proposed instructional opinions on the problems identified in internal audit.

4) Supervision and evaluation of the effectiveness of internal control

Pursuant to the Company Law and Internal Control Handbook as well as relevant supporting guidelines and requirements as stipulated by the CSRC and the SSE, the Company formulated the better corporate governance structures and governance systems. The Audit Committee earnestly reviewed the Company's Internal Control Evaluation Report and the Internal Control Audit Report issued by WUYIGE Certified Public Accountants LLP, reviewed and verified the Company's financial monitor, internal monitor, internal audit and risk management systems and implementation and effectiveness.

5) The audit on the related party/connected transactions

During the Reporting Period, the Audit Committee reviewed the necessity and reasonableness of the Company's related party transactions, kept an close eye on the compliance of the pricing model, consideration and disclosure of the related party transactions with the relevant rules, reviewed one by one the issues in relation to the related party transactions of the Company, and believed that the pricing of the transactions was fair and reasonable, and was not aware of any related party/connected transactions which were harmful to the interests of the Company and its shareholders as a whole.

Work relating to the annual audit for 2022 and the preparation of the annual report is as follows:

The Audit Committee actively coordinated with the Company in respect of the audit for 2022 and the preparation of the annual report for 2022 in accordance with code of practice of the Audit Committee of the Borad and the Rules on the Annual Report of the Audit Committee, including:

- 1) The Committee negotiated with the auditors of the Company and the Company's Finance Department regarding the time line for audit and the relevant arrangements and set out the "Action plan for the Preparation of 2022 Annual Report" and reviewed the audit plan submitted by the auditors.
- 2) On 3 March 2023, 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 2022 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 17 March 2023, the Audit Committee convened the second meeting in 2023 and considered and passed the 2022 Annual Report and its summary, the Company's 2022 Financial Report and relevant proposals. At the same time, the Audit Committee finalized its evaluation of the audit work of the auditors and believed that the auditors had carried out the audit work for the Company with cautious, independent and objective standards, and managed to abide by their professional work ethics, adhering to the auditing regulations, fulfilled their auditing responsibilities and submitted the auditors' report on time, as well as issued fair and unbiased management recommendations to the management of the Company, and completed the audit work with satisfactory performance.

9.3 Management contracts

No contracts concerning the overall business or the management and administration of the whole or any substantial part of the core business of the Company were entered into or existed during the Year.

9.4 Significant Relationships with Our Employees, Customers, Suppliers and Others

The Group offers various remuneration and benefit packages to its employees in line with industry norms based on, among others, their performance, abilities and positions. In addition, the Group chooses its suppliers with due prudence and has a comprehensive supplier management system in place to ensure the superior quality of its products delivered to the customers, as an effort to protect their rights and interests. During the Reporting Period, the Group enjoyed an agreeable and stable business relationship with both its suppliers and customers. Meanwhile, the Group attaches remarkable importance to the issues concerning environmental protection and public welfare, and strives to promote the sustainable and healthy development of the Company together with its stakeholders during the economic exchanges with them.

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 2022 (Audited)	31 December 2021 (Audited)
Current assets:			
Cash at bank and on hand		22,499,552,770.75	22,376,927,861.43
Financial assets held for trading		56,872,680.00	–
Derivative financial assets		–	–
Notes receivable		1,127,351,252.18	1,222,097,099.65
Accounts receivable	10.1.3	14,857,591,768.49	12,816,537,107.40
Accounts receivable financing		3,182,767,002.04	3,171,865,961.20
Advances to suppliers		836,054,949.33	779,239,826.44
Other receivables		917,243,401.47	1,178,714,393.77
Including: Interest receivable		–	–
Dividends receivable		218,766,959.00	343,766,959.00
Inventories		10,671,572,518.76	10,437,733,799.99
Contract assets		–	–
Assets held for sales		–	–
Current portion of non-current assets		653,115,558.10	–
Other current assets		2,262,189,612.17	827,458,411.57
Total current assets		57,064,311,513.29	52,810,574,461.45

Item	Note	31 December 2022 (Audited)	31 December 2021 (Audited)
Non-current assets:			
Debt investment		3,164,498,751.59	630,712,084.75
Other debt investment		–	–
Long-term receivables		–	–
Long-term equity investment		1,584,063,326.22	1,562,878,567.36
Other equity instrument investment		109,569,842.38	123,422,079.79
Other non-current financial assets		1,038,818,757.16	574,277,570.93
Investment properties		206,705,464.62	213,975,748.27
Fixed assets		3,709,183,725.56	3,347,591,974.10
Construction in progress		2,108,326,591.35	1,564,091,121.32
Bearer biological assets		2,455,065.00	2,804,475.00
Oil and gas assets		–	–
Right-of-use assets		750,159,146.25	769,839,539.91
Intangible assets		2,585,098,403.38	2,582,390,492.30
Development expenditure		240,668,063.93	10,567,467.71
Goodwill		829,473,066.90	829,473,066.90
Long-term prepaid expenses		166,798,201.40	132,477,737.46
Deferred tax assets		865,338,772.26	794,232,420.03
Other non-current assets		239,830,085.45	168,480,956.67
Total non-current assets		17,600,987,263.45	13,307,215,302.50
TOTAL ASSETS		74,665,298,776.74	66,117,789,763.95
Current liabilities:			
Short-term borrowings		8,538,065,161.82	8,428,008,311.52
Financial liabilities held for trading		–	–
Derivative financial liabilities		–	–
Notes payable		3,760,482,808.87	3,445,815,661.30
Accounts payable	10.1.4	11,200,347,828.21	11,287,152,869.54
Advances from customers		–	–
Contract liabilities		5,644,201,576.24	2,740,338,069.29
Employee benefits payable		1,009,349,656.60	949,975,749.08
Taxes payable		375,710,536.16	233,496,725.47

Item	Note	31 December 2022 (Audited)	31 December 2021 (Audited)
Other payables		4,834,860,628.52	4,577,200,581.59
Including: Interest payable		–	460,278.35
Dividends payable		54,681,191.50	55,789,451.94
Liabilities held for sales		–	–
Current portion of non-current liabilities		706,731,706.03	245,802,906.86
Other current liabilities		1,325,366,108.82	346,060,329.07
Total current liabilities		37,395,116,011.27	32,253,851,203.72
Non-current liabilities:			
Long-term borrowings		1,639,203,064.38	752,812,083.34
Bonds payable		–	–
Lease liabilities		545,843,252.45	497,697,835.96
Long-term payables		20,396,504.60	20,464,502.00
Long-term employee benefits payable		318,220.83	304,247.44
Provisions		47,783,187.15	53,974,538.25
Deferred income		930,926,291.01	826,859,462.22
Deferred tax liabilities		394,588,189.23	331,727,982.44
Other non-current liabilities		53,265,976.60	53,429,349.59
Total non-current liabilities		3,632,324,686.25	2,537,270,001.24
Total liabilities		41,027,440,697.52	34,791,121,204.96
Shareholders' equity:			
Share capital		1,625,790,949.00	1,625,790,949.00
Capital surplus		10,105,714,430.90	9,956,953,383.38
Less: Treasury shares		–	–
Other comprehensive income		(12,900,928.58)	(17,476,356.88)
Surplus reserve		2,084,386,972.83	1,908,713,749.53
Undistributed profits		18,262,133,346.76	15,588,202,733.48
Total equity attributable to shareholders of the parent company		32,065,124,770.91	29,062,184,458.51
Minority interest		1,572,733,308.31	2,264,484,100.48
Total shareholders' equity		33,637,858,079.22	31,326,668,558.99
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		74,665,298,776.74	66,117,789,763.95

Consolidated Income Statement

Item	Notes	For the twelve	For the twelve
		months ended	months ended
		31 December 2022	31 December 2021
		(Audited)	(Audited)
1. Operating income	10.1.5	70,788,155,068.45	69,014,052,347.03
Less: Operating costs	10.1.5	57,510,951,745.55	55,780,767,281.43
Taxes and surcharges		297,662,003.76	297,832,860.98
Selling and distribution expenses		5,875,439,169.65	5,954,789,157.10
General and administrative expenses		2,218,269,994.06	2,032,281,499.65
R&D expenses		819,454,349.98	874,719,981.67
Financial expenses		(162,455,524.14)	(133,010,089.99)
Including: Interest expenses		434,408,023.62	417,830,623.16
Interest income		626,789,186.37	563,866,705.19
Add: Other income		480,422,865.61	309,880,132.62
Investment income		421,174,647.06	193,587,591.55
Including: Income from investments in associates and joint ventures		136,587,586.49	122,949,900.42
Derecognition income of financial assets measured at amortized cost		(4,837,495.52)	–
Gains from changes in fair value		(3,590,915.95)	196,881,039.74
Impairment losses in respect of credit		(45,146,385.09)	(109,813,405.46)
Impairment losses in respect of assets		(7,983,747.94)	(11,859,521.84)
Gains on disposal of assets		689,816.02	694,506.95
2. Operating profit		5,074,399,609.30	4,786,041,999.75
Add: Non-operating income		18,120,146.41	45,307,440.45
Less: Non-operating expenses		49,275,684.47	108,278,496.71
3. Total profit		5,043,244,071.24	4,723,070,943.49
Less: Income tax expenses	10.1.6	789,873,737.26	754,085,224.52
4. Net profit		4,253,370,333.98	3,968,985,718.97

Item	<i>Notes</i>	For the twelve months ended 31 December 2022 (Audited)	For the twelve months ended 31 December 2021 (Audited)
(1) Classified by the continuity of operations			
A. Net profit from continuing operations		4,253,370,333.98	3,968,985,718.97
B. Net profit from discontinued operations		-	-
(2) Classified by ownership of the equity			
A. Net profit attributable to the parent company's shareholders		3,966,522,218.54	3,719,877,680.46
B. Minority interest		286,848,115.44	249,108,038.51
5. Other comprehensive income, net of tax		5,775,602.17	127,599.28
Other comprehensive income, net of tax attributable to the parent company's shareholders		4,575,428.30	197,141.82
(1) Other comprehensive income that will not be reclassified to profit or loss		(13,694,627.23)	5,997,492.35
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		(13,694,627.23)	5,997,492.35

Item	<i>Notes</i>	For the twelve months ended 31 December 2022 <i>(Audited)</i>	For the twelve months ended 31 December 2021 <i>(Audited)</i>
D. Change in fair value of the company's own credit risk		-	-
E. Others		-	-
(2) Other comprehensive income that may be reclassified into profit or loss		18,270,055.53	(5,800,350.53)
A. Other comprehensive income that may be reclassified to profit or loss under equity method		-	-
B. Change in fair value of other debt investment		2,550,507.82	(3,320,886.12)
C. Gains and losses arising from changes in fair value of available-for-sale financial assets		-	-
D. The amount of financial assets reclassified into other comprehensive income		-	-
E. Gains and losses arising from reclassification of held-to-maturity investment to available-for-sale financial assets		-	-
F. Provision for credit loss of other debt investment		651,848.91	3,135,329.66
G. Cash flow hedge reserve		-	-
H. Difference arising from the translation of foreign currency financial statements		15,067,698.80	(5,614,794.07)
I. Others		-	-
Other comprehensive income, net of tax attributable to minority shareholders		1,200,173.87	(69,542.54)

Item	Notes	For the twelve months ended 31 December 2022 <i>(Audited)</i>	For the twelve months ended 31 December 2021 <i>(Audited)</i>
6. Total comprehensive income		<u>4,259,145,936.15</u>	<u>3,969,113,318.25</u>
(1) Total comprehensive income attributable to shareholders of the parent company		3,971,097,646.84	3,720,074,822.28
(2) Total comprehensive income attributable to minority shareholders		288,048,289.31	249,038,495.97
7. Earnings per share (EPS):			
(1) Basic earnings per share	<i>10.1.7</i>	2.440	2.288
(2) Diluted earnings per share	<i>10.1.7</i>	2.440	2.288

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 event 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 2022 and as of 31 December 2022 is as follows:

	Great Southern TCM	Great Health	Great Commerce	Other	Offset between segments	Total
External revenue	10,527,244,363.74	10,490,425,837.30	49,286,808,753.15	483,676,114.26	-	70,788,155,068.45
Inter-segment revenue	162,837,979.45	35,729,700.63	8,218,621,180.06	336,537,374.56	(8,753,726,234.70)	-
Interest income	(134,586,904.30)	(304,266,101.71)	(48,252,677.64)	(139,683,502.72)	-	(626,789,186.37)
Interest expenses	18,797,838.00	9,296,386.02	400,809,386.56	16,048,131.45	(10,543,718.41)	434,408,023.62
Income from investments in associates and joint ventures	(15,971,490.70)	-	5,468,711.99	147,229,607.07	(139,241.87)	136,587,586.49
Impairment losses in respect of credit	756,619.83	167.82	(51,030,788.55)	(1,747,079.73)	6,874,695.54	(45,146,385.09)
Impairment losses in respect of assets	2,662,450.49	-	(7,295,156.80)	(112,247.39)	(3,238,794.24)	(7,983,747.94)
Depreciation and amortization expenses	290,547,840.84	63,152,238.51	417,154,846.34	60,523,092.02	(17,977,317.51)	813,400,700.20
Total profit	2,000,219,428.68	1,803,729,257.81	879,789,067.04	1,046,170,254.88	(686,663,937.17)	5,043,244,071.24
Total assets	18,236,142,617.72	17,113,111,182.50	33,470,568,294.10	26,052,900,241.19	(20,207,423,558.77)	74,665,298,776.74
Total liabilities	9,413,738,019.32	8,480,310,571.59	26,387,957,976.98	5,639,127,817.87	(8,893,693,688.24)	41,027,440,697.52
Long-term equity investment in associates and joint ventures	41,166,671.63	-	92,055,098.47	1,450,841,556.12	-	1,584,063,326.22
Increase in other non-current assets excluding long- term equity investment	940,310,775.29	235,155,163.81	510,243,580.60	276,231,371.03	-	1,961,940,890.73

(2) The segment information for the 12 months ended 31 December 2021 and as of 31 December 2021 is as follows:

	Great Southern TCM	Great Health	Great Commerce	Other	Offset between segments	Total
External revenue	10,901,857,681.06	10,872,240,147.41	46,894,716,372.23	345,238,146.33	-	69,014,052,347.03
Inter-segment revenue	239,227,654.56	42,084,160.15	5,719,299,398.22	320,014,949.58	(6,320,626,162.51)	-
Interest income	(168,425,940.39)	(200,391,713.87)	(40,807,491.92)	(154,241,559.01)	-	(563,866,705.19)
Interest expenses	20,597,295.32	2,436,411.36	389,496,044.20	17,228,814.30	(11,927,942.02)	417,830,623.16
Income from investments in associates and joint ventures	(71,640,416.22)	-	1,158,094.66	193,537,750.33	(105,528.35)	122,949,900.42
Impairment losses in respect of credit	1,746,551.65	1,587.11	(111,912,146.86)	2,526,908.82	(2,176,306.18)	(109,813,405.46)
Impairment losses in respect of assets	(923,450.54)	-	(5,747,316.41)	(2,401,993.98)	(2,786,760.91)	(11,859,521.84)
Depreciation and amortization expenses	269,907,481.69	53,301,997.42	373,750,038.37	39,878,197.55	(16,680,414.31)	720,157,300.72
Total profit	1,878,439,092.87	1,596,043,179.71	712,955,946.83	1,129,436,654.04	(593,803,929.96)	4,723,070,943.49
Total assets	15,723,325,882.46	12,209,356,586.16	31,563,923,715.09	24,083,433,399.71	(17,462,249,819.47)	66,117,789,763.95
Total liabilities	8,331,500,185.25	4,951,146,984.29	25,151,498,689.67	4,327,567,944.03	(7,970,592,598.28)	34,791,121,204.96
Long-term equity investment in associates and joint ventures	212,586,071.58	-	70,849,220.73	1,279,443,275.05	-	1,562,878,567.36
Increase in other non-current assets excluding long- term equity investment	677,986,857.66	158,645,854.55	665,961,953.37	152,988,207.85	-	1,655,582,873.43

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:

	January to December of 2022	January to December of 2021
External revenue		
PRC	70,760,638,851.29	68,971,228,046.73
Other countries/regions	27,516,217.16	42,824,300.30
	<u>70,788,155,068.45</u>	<u>69,014,052,347.03</u>
Total non-current assets	31 December 2022	31 December 2021
PRC	12,410,020,395.81	11,171,339,196.89
Other countries/regions	12,740,744.25	13,231,950.11
	<u>12,422,761,140.06</u>	<u>11,184,571,147.00</u>

10.1.3 Accounts receivable

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

	31 December 2022	31 December 2021
Within 1 year	14,264,525,699.18	12,495,057,859.86
1 to 2 years	775,311,306.02	506,794,473.92
2 to 3 years	113,372,003.93	79,224,897.37
3 to 4 years	30,258,600.43	40,944,191.41
4 to 5 years	36,224,266.27	144,582,632.69
Over 5 years	212,044,861.90	70,053,170.53
	<u>574,144,969.24</u>	<u>520,120,118.38</u>
Less: Provision for bad debts		
	<u>14,857,591,768.49</u>	<u>12,816,537,107.40</u>

10.1.4 Accounts payable

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

	31 December 2022	31 December 2021
Within 1 year	10,815,708,160.32	11,003,981,552.80
Over 1 year	384,639,667.89	283,171,316.74
	<u>11,200,347,828.21</u>	<u>11,287,152,869.54</u>

10.1.5 Operating income and Operating costs

	For the 12 months ended 31 December 2022		
	Main businesses	Other businesses	Subtotal
Operating income	70,550,190,409.59	237,964,658.86	70,788,155,068.45
Operating costs	57,452,974,096.15	57,977,649.40	57,510,951,745.55
Gross profit	<u>13,097,216,313.44</u>	<u>179,987,009.46</u>	<u>13,277,203,322.90</u>
	For the 12 months ended 31 December 2021		
	Main businesses	Other businesses	Subtotal
Operating income	68,757,954,215.27	256,098,131.76	69,014,052,347.03
Operating costs	55,721,967,199.49	58,800,081.94	55,780,767,281.43
Gross profit	<u>13,035,987,015.78</u>	<u>197,298,049.82</u>	<u>13,233,285,065.60</u>

10.1.6 Income tax expenses

	For the 12 months ended 31 December 2022	For the 12 months ended 31 December 2021
Current income tax expenses	811,465,684.24	752,183,488.69
Deferred income tax expenses	(21,591,946.98)	1,901,735.83
	<u>789,873,737.26</u>	<u>754,085,224.52</u>

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

	For the 12 months ended 31 December 2022
Total profit	5,043,244,071.24
Income tax calculated at statutory rate	756,486,610.68
Tax effect of different rates applicable to subsidiaries in the scope of consolidation	100,762,964.74
Effect of income tax adjustment for prior period	18,650,904.30
Non-taxable and tax relief income	(60,651,201.10)
Non-deductible costs, expenses and losses	21,085,113.44
Effect of using deductible losses of deferred tax assets unrecognized in prior period	(22,319,207.21)
Effect of deductible temporary differences and deductible losses which are not recognized in current period	76,901,233.50
Tax effect of R&D expenditure deduction	(100,914,279.04)
Changes in the balance of deferred income tax assets/liabilities at the beginning of the year due to tax rate adjustments	(128,402.05)
Income tax expenses	789,873,737.26

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), Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd (廣州白雲山星群(藥業)股份有限公司) (No. GR202044001705), Zhong Yi (No. GR202044006988), Chen Li Ji (No. GR202044002810), Guangzhou Han Fang (No. GR202044003115), Qi Xing (NO. GR202044000117), Jing Xiu Tang (No. GR202044006124), Pan Gao Shou (No. GR202044002092), Wang Lao Ji (No. GR202044006736), WLJ Great Health (No. GR202244003684), Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd (廣州白雲山天心製藥股份有限公司) (No. GR202044001663), Guang Hua (No. GR202144001816), Ming Xing (No. GR202044000339), Guangyao General Institute (No. GR GR202144002939), Guangxi Ying Kang (No. GR202145001254).

Hainan Guangyao ChenFei Pharmaceutical Co., Ltd., Guangyao (Zhuhai Hengqin) pharmaceutical Import and Export Co., Ltd., and Guizhou Wanglaoji Cilinji Industry Development Co., Ltd. enjoy the tax preference of encouraged industries. In 2022, the enterprise income tax will be paid at a reduced rate of 15%.

As a qualified software enterprise, Guangzhou Pharmaceutical Information Technology Co., Ltd. is exempt from enterprise income tax from the first year to the second year from the profit-making year. From the third year to the fifth year, the enterprise income tax is reduced by half at the statutory tax rate of 25%. The current period is the fifth year, and the enterprise income tax is reduced by half.

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:

	For the 12 months ended 31 December 2022	For the 12 months ended 31 December 2021
Net consolidated profit attributable to ordinary shareholders of the parent company	3,966,522,218.54	3,719,877,680.46
The number of weighted average outstanding ordinary shares at the period end	<u>1,625,790,949</u>	<u>1,625,790,949</u>
Weighted average basic EPS	<u><u>2.440</u></u>	<u><u>2.288</u></u>

(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:

	For the 12 months ended 31 December 2022	For the 12 months ended 31 December 2021
Net consolidated profit attributable to ordinary shareholders of the parent company	3,966,522,218.54	3,719,877,680.46
The number of outstanding ordinary shares as at the period end	<u>1,625,790,949</u>	<u>1,625,790,949</u>
EPS based on the number of shares as at the period end	<u><u>2.440</u></u>	<u><u>2.288</u></u>

(b) Diluted EPS

Diluted EPS is calculated by dividing the portion of net consolidated profit of dilutive potential ordinary shares, which are attributable to the ordinary shareholders of the parent company after adjustment to ordinary shares, by the number of weighted average outstanding ordinary shares. For the period from January to December of year 2022, the Company had no dilutive potential ordinary share (for January to December of year 2021: nil). The diluted EPS is equal to basic EPS.

10.1.8 Dividends

According to the resolution of the 2021 annual general meeting held on 26 May 2022, the Company shall pay cash dividends to all shareholders at RMB0.687 per share (tax included), which is RMB1,116,918,381.96 in total, based on the outstanding shares of 1,625,790,949 shares at the year ended of 2021.

10.2 Changes in accounting policies compared to the previous annual report.

(1) Interpretation No. 15 of Accounting Standards for Business Enterprises

The Ministry of Finance issued the “Interpretation No. 15 of Accounting Standards for Business Enterprises” (hereinafter referred to as “Interpretation No. 15”) on December 30, 2021. It regulates the accounting treatment of external sales of products or by-products produced before the fixed assets reach the intended usable state or during the research and development process and the judgment of loss contracts.

- ① Accounting treatment for external sales of products or by-products produced before the fixed assets reach the intended usable state or during the research and development process.

Interpretation No. 15 stipulates that when an enterprise sells products or by-products produced before the fixed assets reach the intended usable state or during the research and development process, it shall follow the “Accounting Standards for Business Enterprises No. 14 – Revenue”, “Accounting Standards for Business Enterprises No. 1 – Inventory” and other provisions, the income and costs related to the trial operation sales shall be accounted for separately and included in the current profit and loss, and the net amount after the trial operation sales related income offsets the cost shall not be used to offset the cost of fixed assets or R & D expenditures. At the same time, the enterprise shall separately disclose relevant information such as the amount of income and costs related to trial operation sales, specific items presented, and important accounting estimates used when determining trial operation sales related costs in the notes. This regulation came into effect on January 1, 2022, and the Company started to implement it from the date of the regulation. This change in accounting policy has no significant impact on the company’s financial statements.

- ② Judgment on loss contracts

Interpretation No. 15 stipulates that the “cost of performing the contract” considered by an enterprise when judging whether a contract constitutes a loss contract shall include the incremental cost of performing the contract and the apportioned amount of other costs directly related to the performance of the contract. This regulation came into effect on January 1, 2022. The Company started implementing it on the stipulated date, and the change in accounting policy has no impact on the company’s financial statements.

(2) Interpretation No. 16 of Accounting Standards for Business Enterprises

The Ministry of Finance issued the “Interpretation No. 16 of Accounting Standards for Business Enterprises” (hereinafter referred to as “Interpretation No. 16”) on November 30, 2022. It regulates the accounting treatment of the income tax impact of dividends related to financial instruments classified as equity instruments by the issuer, and the accounting treatment of the company’s modification of cash-settled share-based payments to equity-settled share-based payments.

① Accounting treatment for the income tax impact of dividends related to financial instruments classified as equity instruments by the issuer

Interpretation No. 16 stipulates that for financial instruments such as perpetual bonds classified as equity instruments, enterprises should recognize the income tax impact related to dividends when confirming dividends payable. For the distributed profit comes from the transaction or event that generated profit or loss in the past, the income tax effect of the dividend should be included in the current profit and loss; For the profit distributed from the transactions or events previously recognized in the owner’s equity, the income tax effect of the dividend should be included in the owner’s equity item. This regulation shall come into effect on the date of announcement. The company started to implement it from the stipulated date, and the change of accounting policy has no significant impact on the Company’s financial statements.

② Accounting treatment for the modification of cash-settled share-based payment by an enterprise to equity-settled share-based payment

Interpretation No. 16 stipulates that if an enterprise modifies the terms and conditions of a cash-settled share-based payment agreement to make it an equity-settled share-based payment, on the date of modification, the enterprise shall measure the equity-settled share-based payment according to the fair value of the equity instrument granted on the day, include the services obtained in the capital reserve, and at the same time derecognize the liabilities of the cash-settled share-based payment recognized on the date of modification, the difference between the two is included in the current profit and loss. If the waiting period is extended or shortened due to the revision, the enterprise shall perform the above accounting treatment according to the revised waiting period (without considering the relevant accounting treatment provisions of adverse revisions). The Company started to implement it from the stipulated date, and the change of accounting policy has no significant impact on the company’s financial statements.

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.

(1) Mergers not under the same control occurred in the current period

Name of the acquired party	Equity Acquisition Time	Equity Acquisition Cost	Equity Acquisition Ratio (%)	Equity Acquisition Method	Equity Acquisition Date	Basis for Determining the Date	Income of the acquired party from the acquisition date to the end of the period	Net profit of the purchased party from the acquisition date to the end of the period
Baiyunshan Biological	2022.10.11	317,224,659.23	50.00	buy equity	2022.10.11	Obtain production and operation decision-making power		(19,916,247.25)

(2) Merger cost and goodwill

Items	Baiyunshan Biological
Cash	
Fair value of non-cash assets	
Fair value of debt issued or assumed	
Fair value of equity securities issued	
Fair value of contingent consideration	
The fair value of the equity held before the acquisition date on the acquisition date	317,224,659.23
other	
Total merger cost	317,224,659.23
Less: Fair value share of identifiable net assets acquired	196,178,453.17
Merger costs are more than the fair value share of identifiable net assets acquired	121,046,206.06

① Determination of fair value of merger cost:

The fair value of the non-cash assets in Baiyunshan Biological's merger consideration has been determined by Guozhonglian Assets Appraisal Land and Real Estate Appraisal Co., Ltd. according to the income valuation method.

② Explanation of contingent consideration and its changes

No.

③ The main reason for the formation of large amount of goodwill

No.

④ Reasons for the merger to form development expenditures.

The business combination of Baiyunshan Biological under non-common control this time has entered the Phase III clinical development stage of biological vaccines as a whole on the date of merger and acquisition, and has not yet been mass-produced. The essence of the merger cost is the confirmation of the market valuation of the biological vaccine research and development value as it is biological research and development innovation enterprise. Based on the judgment of commercial substance, the Company believes that the amount of the merger cost greater than the fair value share of the identifiable net assets obtained should be recognized as development expenses. The amortization will start when Baiyunshan Biological's biological vaccines are mass-produced.

(3) The acquired party's identifiable assets and liabilities on the date of acquisition

Items	Baiyunshan Biological	
	Fair value on Acquisition Date	Book value on Acquisition Date
Assets:	434,428,318.16	338,900,314.70
Cash at bank and on hand	155,530,727.98	155,530,727.98
Advances to suppliers	1,998,706.71	1,998,706.71
Other receivables	13,000.00	13,000.00
Inventories	14,771,573.79	13,947,657.84
Fixed assets	59,216,835.00	36,514,572.54
Construction in progress	51,127,644.01	49,545,244.01
Right-of-use assets	9,624,426.69	9,624,426.69
Intangible assets	128,829,104.26	9,528,044.50
Development expenditure	–	48,881,634.71
Long-term prepaid expenses	13,243,459.72	13,243,459.72
Other non-current assets	72,840.00	72,840.00
Liabilities:	42,071,411.82	28,004,496.24
Accounts payable	8,193,076.12	8,193,076.12
Employee benefits payable	2,758,249.43	2,758,249.43
Taxes payable	136,164.81	136,164.81
Other payables	5,924,384.87	5,924,384.87
Provisions	18,285.00	18,285.00
Lease liability	10,706,013.82	10,706,013.82
Deferred income	40,248.33	268,322.19
Deferred tax liabilities	14,294,989.44	–
Net assets	392,356,906.34	310,895,818.46
Less: Minority interests	196,178,453.17	155,447,909.23
Net worth acquired	196,178,453.17	155,447,909.23

Note: The fair value of the merged net assets of Baiyunshan Biological has been determined by Guozhonglian Assets Appraisal Land and Real Estate Appraisal Co., Ltd. according to the asset-based method.

- (4) Gains or losses arising from the remeasurement of the equity held before the purchase date according to the fair value

Name of the acquired party	The book value of the original equity held before the purchase date	The fair value of the original equity held on the purchase date	Gains or losses arising from the remeasurement of the original equity held before the purchase date according to the fair value	Determination method and main assumptions of the fair value of the original equity held on the purchase date	The amount of other comprehensive income related to the original equity held before the date of purchase transferred to investment income
Baiyunshan Biological	155,447,909.23	317,224,659.23	161,776,750.00	Based on the asset-based method, adjustments are made for matters affecting fair value	–

- (5) Relevant explanations that the merger consideration or the fair value of the acquired party's identifiable assets and liabilities cannot be reasonably determined on the date of purchase or at the end of the current merger period

No.

10.5.1 The other reasons for the addition of 9 companies in scope of consolidation comparing to the prior period are as follows:

- (1) In January 2022, Hainan Guangyao Chenfei Pharmaceutical Co., Ltd., an indirect holding company of the Company, established Guangyao (Hainan) Pharmaceutical Co., Ltd. with a registered capital of RMB5 million. The capital contribution subscribed by Hainan Guangyao Chenfei Pharmaceutical Co., Ltd. accounts for 100% of the registered capital.
- (2) In January 2022, Jing Xiu Tang a holding subsidiary of the Company, established Jingxiutang (Ningbo) Health Industry Development Co., Ltd., with a registered capital of RMB500,000. The capital contribution subscribed by Guangzhou Baiyunshan Jingxiutang Pharmaceutical Co., Ltd. accounts for 100% of the registered capital.
- (3) In February 2022, Baiyunshan Han Fang, a wholly-holding subsidiary of the Company, established Tibet Guangyao Hanfang Ganoderma lucidum Industry Co., Ltd., with a registered capital of RMB6 million. The capital contribution subscribed by Guangzhou Baiyunshan Hanfang Modern Pharmaceutical Co., Ltd. accounts for 100% of the registered capital.
- (4) In March 2022, Baiyunshan Medical and Healthcare Industry Company, a wholly-owned subsidiary of the Company, established Guangzhou Baiyunshan 157 hospital Co., Ltd., with a registered capital of RMB100,000. The capital contribution subscribed by Guangzhou Baiyunshan Medical and Health Industry Investment Co., Ltd. accounts for 100% of the registered capital.
- (5) In March 2022, Guangyao General Institute, a wholly-owned subsidiary of the Company, established Guangzhou Baiyunshan Bi Ge Biotechnology Co., Ltd., with a registered capital of RMB1 million. The capital contribution subscribed by Guangzhou Pharmaceutical Research Institute Co., Ltd. accounts for 100% of the registered capital.
- (6) In May 2022, GP Corp., a holding subsidiary of the Company, established Guangyao (Guangzhou Huadu) Pharmaceutical Co., Ltd., with a registered capital of RMB1 million. The capital contribution subscribed by Guangzhou Pharmaceutical Co., Ltd. accounts for 100% of the registered capital.
- (7) In July 2022, the Company established Guangzhou Guangyao Fund Equity Investment Partnership (Limited Partnership), with a registered capital of RMB1 billion. The capital contribution subscribed by the Company accounts for 99.90% of the registered capital, and the other investor is Guangzhou Guangyao Capital Private Equity Fund Management Co., Ltd., and it accounts for 0.1% of the registered capital.

- (8) In August 2022, GP Corp., a holding subsidiary of the Company, established Guangzhou Pharmaceutical (Maoming) Pharmaceutical Co., Ltd. with a registered capital of RMB5 million. The capital contribution subscribed by Guangzhou Pharmaceutical Co., Ltd. accounts for 100% of the registered capital.
- (9) In November 2022, GP Corp., a holding subsidiary of the Company, established Guangzhou Pharmaceutical Heilongjiang Pharmaceutical Co., Ltd. with a registered capital of RMB100 million. The capital contribution subscribed by Guangzhou Pharmaceutical Co., Ltd. accounts for 51%, and the other investor is Hainan An Hua Investment Co., Ltd., and it accounts for 49% of the registered capital.

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

**The Board of
Guangzhou Baiyunshan Pharmaceutical Holding Co., Ltd**

Guangzhou, the PRC, 17 March 2023

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