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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 2014 ANNUAL REPORT**

### **1. IMPORTANT NOTICE**

- 1.1** This summary is extracted from the full text of the 2014 annual report of of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (the “Company”) for the year ended 31 December 2014 (the “Reporting Period” or the “Year”). Investors who wish to know more details are advised to refer to the full text of the 2014 annual report which will be published on the website (<http://www.sse.com.cn>) of The Shanghai Stock Exchange (“SSE”), and on the website (<http://www.hkex.com.hk>) of The Stock Exchange of Hong Kong Limited (“HKEx”) or other websites designated by China Securities Regulatory Commission (the “CSRC”) in due course.
- 1.2** This summary is prepared in both English and Chinese. In the event of discrepancy in interpretation, the Chinese version shall prevail.
- 1.3** The financial reports of the Company and its subsidiaries (the “Group”) and the Company for the Reporting Period are prepared in accordance with the China Accounting Standards for Business Enterprises, which are audited by BDO China Shu Lun Pan Certified Public Accountants LLP which had issued an unqualified auditors’ report in respect thereof.
- 1.4** All the information required to be contained in the summary of the 2014 annual report of the Company pursuant to paragraph 45 of Appendix 16 to the Rules Governing the Listing of Securities on HKEx (the “Listing Rules”) has been published on the website of HKEx.

## 1.5 Company Profile

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

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## 2 PRINCIPAL FINANCIAL DATA AND INFORMATION ON SHAREHOLDERS

### 2.1 Principal financial data

	2014	2013	Year on year increase/ (decrease) (%)	2012	2011	2010
Income from operations (RMB'000)	<b>18,799,881</b>	17,608,193	6.77	12,062,642	8,869,704	7,523,493
Net profit attributable to the shareholders of the Company (RMB'000)	<b>1,192,472</b>	980,045	21.68	729,040	542,763	469,216
Net profit attributable to the shareholders of the Company after deducting non-recurring items (RMB'000)	<b>1,112,771</b>	891,802	24.78	706,882	509,456	397,109
Net cash flow from operating activities (RMB'000)	<b>1,761,382</b>	1,339,140	31.53	999,230	83,079	402,565
Total profit (RMB'000)	<b>1,467,177</b>	1,229,190	19.36	881,063	656,121	575,572

	As at 31 December 2014	As at 31 December 2013	Year on year increase/ (decrease) (%)	As at 31 December 2012	As at 31 December 2011	As at 31 December 2010
Net assets attributable to the shareholders of the Company (RMB'000)	7,739,301	6,831,768	13.28	5,566,352	4,943,960	4,471,669
Total assets (RMB'000)	14,210,784	12,249,123	16.01	9,394,208	7,742,904	7,250,778
Total liabilities (RMB'000)	6,251,805	5,226,886	19.61	3,638,244	2,626,151	2,622,278
Net assets per share attributable to the shareholders of the Company (RMB)	5.99	5.29	13.28	4.41	3.92	3.55

## 2.2 Principal financial indicators

	2014	2013	Year on year increase/ (decrease) (%)	2012	2011	2010
<b>Principal accounting data</b>						
Basic earnings per share (RMB)	0.923	0.768	20.26	0.578	0.430	0.372
Diluted earnings per share (RMB)	0.923	0.768	20.26	0.578	0.430	0.372
Basic earnings per share after deducting non-recurring items (RMB)	0.862	0.699	23.32	0.560	0.404	0.315
Weighted average return on net assets ratio (%)	16.38	15.71	An increase of 0.67 percentage point	13.89	11.50	11.01
Ratio of weighted return on net assets after deducting non-operating items (%)	15.29	14.30	An increase of 0.99 percentage points	13.47	10.80	9.32
Return on total equity attributable to shareholders of the Company (%)	15.41	14.35	An increase of 1.06 percentage points	13.10	10.98	10.49
Ratio on total equity attributable to shareholders of the Company to total assets (%)	54.46	55.77	A decrease of 1.31 percentage points	59.25	63.85	61.67
Gearing ratio (%) (note)	43.99	42.67	An increase of 1.32 percentage points	38.73	33.92	36.17

*Note: Gearing ratio = Total liabilities ÷ Total assets × 100%*

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

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

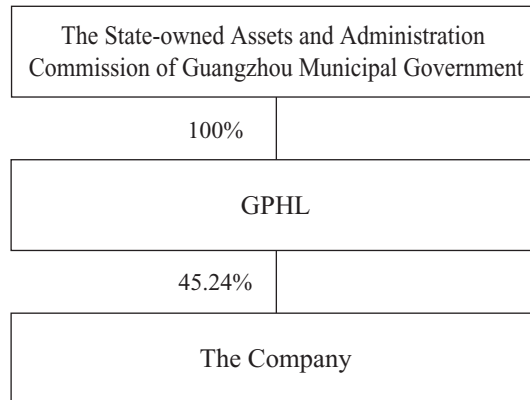
**Total number of shareholders as at the end of the Reporting Period**      **87,063**      **Total number of shareholders as at the end of the fifth trading day before the date of disclosure of the summary**      **73,299**

Shareholders	Class of shares	Number of shares held as at the end of the Reporting Period (share)	Approximate % of the total issued share capital (%)	Number of shares subject to selling restrictions (share)	Number of shares pledged or locked up (share)
Guangzhou Pharmaceutical Holdings Limited (“GPHL”)	A Shares	584,228,036	45.24	34,839,645	Nil
HKSCC Nominees Limited	H Shares	219,547,479	17.03	Nil	Unknown
Refinance securities subsidiary accounts of Citic securities	A Shares	9,829,145	0.76	Nil	Unknown
Zhao Xuguang	A Shares	6,733,817	0.52	Nil	47,500
The national social security fund - Combination One-Two	A Shares	4,999,669	0.39	Nil	Unknown
China Construction Bank - Hua Xia Dividend hybrid open securities investment funds	A Shares	4,301,239	0.33	Nil	Unknown
Agricultural Bank of China Co., Ltd. - Guo Tai Guo Zheng healthcare industry index classification securities investment funds	A Shares	4,138,636	0.32	Nil	Unknown
Industrial and Commercial Bank of China - Guo Tou Rui Yin core enterprise equity securities investment funds	A Shares	3,557,784	0.28	Nil	Unknown
The Investment Authority of Kuwait government - Equity fund	A Shares	3,545,002	0.27	Nil	Unknown
PICC Property and Casualty Company Limited - Tradition-Return portfolio	A Shares	2,799,912	0.22	Nil	Unknown

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

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

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



## 2.5 Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the Year.

## 2.6 Public float

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

## 2.7 Pre-emptive rights

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

### 3. REPORT OF THE DIRECTORS

#### 3.1 Management Discussion and Analysis

##### *3.1.1 Business scope and analysis of operations*

The Group is principally engaged in: (1) the research and development, manufacturing and sales of Chinese and western patent medicine, chemical active pharmaceutical ingredients (API), natural medicine, biological medicine and chemical API intermediates; (2) wholesale, retail and import and export of western and Chinese pharmaceutical products and medical apparatus; (3) research and development, production and sales of great health products; and (4) investment in health industry with healthcare, health management and health nursing, etc.

##### *3.1.2 Analysis of Operating Results*

During the Reporting Period, the Group actively promoted the implementation of the “Economy of Scale 136 Project”, pushed forward the strategic upgrading of three segments namely “Grand Southern TCM”, “Grand Health” and “Grand Commerce”, and proactively deployed three new businesses known as “e-commerce, healthcare and capital finance”. In addition, the Group actively responded to the impact brought by various factors including medical reform policy and market competition by vigorously promoting innovation in management, strengthening integrated operation and taking effective measures to reduce operating costs, thereby maintaining a steady growth in the operating results of the Group.

In 2014, the Group’s revenue amounted to RMB18,799,881,000, up by approximately 6.77% year-on-year; the total profit was RMB1,467,177,000, up by approximately 19.36% year-on-year; and the net profit attributable to shareholders of the Company was RMB1,192,472,000, up by approximately 21.68% year-on-year.

During the Reporting Period, firstly, the Group increased efforts in brand marketing and enhanced core competitiveness by capitalizing on its brand advantages. During the Year, while focusing on promoting the brand recognition and reputation of “GYBYS”, the Group actively carried out the filing work in respect of Chinese famous trademarks and successfully received three new Chinese famous trademarks for its products including “He Ji Gong”, “Pan Gao Shou” and “Tian Xin”, making its total number of Chinese famous trademarks to seven, among which “Guangyao”, “Baiyunshan” and others were recognized as outstanding proprietary brands of Guangdong Province; Guangzhou Baiyunshan Pharmaceutical General Factory of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (“Baiyunshan General Factory”) was recognized as one of the “Top 100 Industry Enterprises in terms of Comprehensive Strength in China’s Pharmaceutical Industry for 2014”; and Baiyunshan Xiaochaihu Granule was listed as one of the top brands of pharmaceuticals in China for 2014.

Secondly, actively developed the Grand Health segment, strengthened and improved the marketing team and marketing channels, devoted more efforts in developing the food and beverage market, raised the merchandise coverage in the market, streamlined brand positioning, properly protected brand assets, and stepped up efforts in innovation of brand marketing. During the Reporting Period, the Group improved customers' satisfaction and recognition by taking effective service measures, fully enhanced its comprehensive marketing capability by focusing its resources on channel optimization, and developed both on-line and off-line interactive communication platforms through strategic cooperation with companies such as Tencent, Yixun, JD.com. In addition, brand marketing was made more charity-oriented and targeting young clients through projects such as "Four Season Rainbow" and "Wang Lao Ji Super Luck Cup". The Group also held the press conference in relation to the identification results of Wang Lao Ji DNA bar-coding technology with a focus on applying such technology to the identification of raw materials of botanical beverages, and established the first provincial research centre of herbal tea engineering and technology in China. At the same time, Wang Lao Ji set up the benchmark for intellectual property rights protection by initiating the protection and inheritance of Chinese Long-established brands and shops, established its northern head office in Beijing, and prepared to build the Herbal Tea Creator-Wang Lao Ji Museum. Moreover, by making good use of the sales channels of Wang Lao Ji Herbal Tea, the Group continuously rolled out new products in an effort to develop the Grand Health Product Cluster. The completion and trial production of Wang Lao Ji Grand Health Industry (Ya'an) Production Base in Ya'an, Sichuan, have enhanced Wang Lao Ji's overall competitiveness in the domestic market. Moreover, by utilizing the sales channels of Wang Lao Ji Herbal Tea, the Group continuously launched new products in an effort to develop the Grand Health product cluster.

Thirdly, the Group vigorously promoted research and development of scientific research and innovative projects, cultivated "cash cow product types" and to create new driving engines for profit growth. During the Reporting Period, Baiyunshan "Jin Ge", the first "Viagra" generics developed by Baiyunshan General Factory, a branch company of the Company, officially debuted, changing the situation that all pharmaceuticals used to treat erectile dysfunction were imported. Subsequently, Baiyunshan "Tie Ma" (a type of solid beverage mixed with maca, ginseng and sealwort) was launched by Hutchison Whampoa Guangzhou Baiyunshan Grand Health Company (白雲山和黃大健康公司) ("HWBYS") to echo "Jin Ge". In addition, the exclusive new product-Antivirus capsule (抗病毒軟膠囊) and Cefaclor for suspension were introduced to the market smoothly.

Fourthly, the Group vigorously promoted the extension of modern medical logistics services, e-commerce and healthcare investments in trading business, thereby expanding and strengthening the business and health care segments. As for extension of modern medical logistics services, Guangzhou Pharmaceuticals Corporation (“GP Corp.”) has entered into cooperative agreements for extension of modern medical logistics services with the Second People’s Hospital of Guangdong Province, the Second People’s Hospital of Liwan District, the People’s Hospital of Qingyuan, Shunde Guizhou Hospital, Stomatology Hospital of Guangzhou Medical University, Affiliated Hospital of Guangdong Medical College and seven medical institutions in Yuexiu District, respectively. Among them, the “Smart Pharmacy” jointly established with the Second People’s Hospital of Guangdong Province became a benchmark project of the extension of modern medical logistics services in China. At the same time, GP Corp. entered into the “Guangzhou Hub Logistics Cooperation Project” with Novo Nordisk to jointly establishing a “cold storage chain” logistics hub. Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (“Cai Zhi Lin”) extended its TCM pharmacy trusteeship business into five fundamental medical institutions located in Haizhu District, Liwan District, Tianhe District and other areas in Guangzhou. As to e-commerce, by utilizing third-party platforms such as Tmall.com, JD.com, Yhd.com, meituan.com and nuomi.com and capitalizing on means of communication such as Weibo and WeChat, the Group realized on-line and off-line resource sharing through planning and marketing, thus achieving a relatively fast growth. As for health care, the Group established Guangzhou Baiyunshan Medical and Health Industry Investment Company Limited to expand into a number of new fields including medical care, health management and health nursing.

Fifthly, the Group paid close attention to the industrial policy, actively responded to the catalogue addition of basic pharmaceuticals in all regions, accelerated the development of and distribution in the basic pharmaceutical market, and raised the share of pharmaceutical usage by glass root medical institutions. Meanwhile, the Group actively grasped the opportunities brought by the Catalogue of Medicine at Low Price issued by the National Development and Reform Commission. During the Reporting Period, over 300 individual quality specifications of the Group were selected for inclusion in the List of Medicine at Low Price of the State, including some main products with sales revenue of hundreds of million RMB such as Baiyunshan compound Salvia Milltiorrhiz slice, Baiyunshan Ban Lan Gen, Xiao Ke Wan, amoxicillin etc, while 4 exclusive products, namely Xiao Ke Wan, Ru He San Jie Pian, Zhang Yan Ming Pian and Gu Shen Ding Chuan Wan were also enlisted.

Sixthly, the Group strengthened the integration of resources and integrated operations by promoting centralized procurement. During the Reporting Period, remarkable results were achieved in centralized procurement. In addition, the Group also stepped up its efforts to push forward external investment and merger and acquisition as well as the construction of GAP planting bases for bulk raw materials of Chinese herbal medicine.



During the Reporting Period, the gross profit margin of the manufacturing operations was 43.06%, representing an increase of 3.70 percentage points as compared with last year; the gross profit margin of the trading operations was 8.82%, representing an increase of 1.57 percentage points as compared with last year.

As at 31 December 2014, the Group had 35 retail chain pharmacy outlets, including 34 “Cai Zhi Lin” which specialized in traditional Chinese medicines, and 1 pharmacy named Ying Bang.

(1) Analysis of changes in the financial statement related subjects:

Item	The Reporting Period (RMB'000)	The corresponding period of 2013 (RMB'000)	Increase/(Decrease) compared with the same period of 2013
			(%)
Revenue	18,799,881	17,608,193	6.77
Including: income from principal operations	18,614,517	17,463,016	6.59
Cost of sales	12,173,919	11,806,295	3.11
Including: cost from principal operations	12,136,640	11,768,412	3.13
Selling and distribution expenses	3,942,791	3,485,311	13.13
General and administrative expenses	1,265,268	1,227,255	3.10
Financial expenses	1,720	28,305	(93.92) <i>(note 1)</i>
Profit before tax	1,467,177	1,229,190	19.36
Net profit attributable to shareholders of the Company	1,192,472	980,045	21.68
Net cash flow from operating activities	1,761,382	1,339,140	31.53 <i>(note 2)</i>
Net cash flow from investing activities	(287,420)	(323,700)	11.21
Net cash flow from financing activities	(363,998)	(211,689)	(71.95) <i>(note 3)</i>
Research and development expenses	279,286	282,195	(1.03)

*Notes:*

- (1) The financial expenses decreased as compared with the corresponding period of last year was mainly due to (i) the Group actively developed potential internal funds, improved the operating efficiency of funds, gradually repaid external bank borrowing, during the Reporting Period; and (ii) the subordinate enterprises of the Company had a great increased in their interest income through allocated funds accordingly, and improved the efficiency of operating funds.
- (2) Net cash flow from operating activities increased as compared with the corresponding period of last year was mainly due to the increase in the Group's sales revenue and improvement in fund collection during the Reporting Period.
- (3) Net cash flow from financing activities decreased as compared with the corresponding period of last year was mainly due to the great increase in the payment of dividends and interest during the Reporting Period.

(2) Revenue

(i) Analysis of the factors leading to changes in operation income

In 2014, the main factors leading to changes in the revenue of the Group:

Facing a tough challenge from the continuous “two declines and one rise” in the pharmaceutical industry and amid a constant growth in the pharmaceutical sector, the Group focused its resources on the development of the “Great Health” segment, thereby achieving a rapid growth in its sales revenue.

(ii) Major customers

Goods and services sold to the 5 largest customers amounted to RMB1,637,453,000, representing 8.79% of the total sales. Sales to the largest customer amounted to RMB467,614,000, representing 2.51% of the total sales of the Group.

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

(3) Cost

(i) Analysis of cost

Principal Operating Cost	Items	2014		2013		Percentage of changes in the proportion (%)
		Amount (RMB'000)	Percentage of the proportion of operation costs (%)	Amount (RMB'000)	Percentage of the proportion of operation costs (%)	
Medicine and healthcare	Raw materials	3,463,865	43.08	3,377,255	40.39	2.56
	Fuel	114,980	1.43	98,667	1.18	16.53
	Labor costs	311,169	3.87	310,216	3.71	0.31
	Others	4,150,527	51.62	4,575,473	54.72	(9.29)
	Procurement costs	4,096,099	100.00	3,406,801	100.00	20.23

Type of products	Items	2014		2013		Percentage of Changes in the proportion (%)
		Amount (RMB'000)	Percentage of the proportion of operation costs (%)	Amount (RMB'000)	Percentage of the proportion of operation costs (%)	
Manufacturing	Raw materials	3,463,865	43.08	3,377,255	40.39	2.56
	Fuel	114,980	1.43	98,667	1.18	16.53
	Labor costs	311,169	3.87	310,216	3.71	0.31
	Others	4,150,527	51.62	4,575,473	54.72	(9.29)
Trading	Procurement Costs	4,096,099	100.00	3,406,801	100.00	20.23

(ii) Major suppliers

During the year, purchases of goods and services from the 5 largest suppliers amounted to RMB1,521,126,000 representing approximately 16.84% of the total purchases. The purchases from the largest supplier amounted to RMB377,685,000 representing 4.18% of the total purchases.

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

(4) Expenses

During the Reporting Period, the Group's selling distribution expenses was approximately RMB3,942,791,000 with a growth of 13.13% as compared with last year, mainly due to the Group's active marketing efforts to increase sales revenue in the Year. The Group increased advertising efforts and sales associated expenses such as marketing personnel expenses.

During the Reporting Period, the Group's general and administrative expenses was approximately RMB1,265,268,000 representing a growth of 3.10% as compared with last year, mainly due to the remuneration of the employees of the Group increased.

During the Reporting Period, the Group's financial expense was approximately RMB1,720,000 representing a decrease of 93.92% as compared with last year, mainly due to: (i) the Group actively developed potential internal funds, improve the operating efficiency of funds, gradually repaid external bank borrowing during the Reporting Period; and (ii) the subsidiaries had a great increase in interest income through allocated funds accordingly, improved the efficiency of operating funds.

During the Reporting Period, the Group's income tax expenses was approximately RMB256,533,000 with a growth of 15.43% as compared with last year, mainly due to the increase in profit of the Company's subsidiaries.

(5) Research and development expenses

Current cost of research and development expenses (RMB'000)	278,521
Current capitalization of research and development expenses (RMB'000)	765
Total research and development expenses (RMB'000)	279,286
Total research and development expenses accounted for the proportion of net assets (%)	3.51
Research and development expenses to total operating income ratio (%)	1.49

In 2014, the Group vigorously promoted scientific and research innovation, enhanced its intellectual property right related affairs and made remarkable achievements, mainly including:

(1) Approval

During the Reporting Period, the Group obtained one medicine clinical research approval for phosphorylcholine injection manufactured by Guangzhou Baiyunshan Tianxin Pharmaceutical Co., Ltd. ("Tianxin Pharmaceutical"). In addition, the Group acquired six approvals for medicine manufacturing, namely ceftizoxime sodium for injection (0.5g and 1.0g) manufactured by Tianxin Pharmaceutical, citric acid sildenafil raw material by the chemical pharmaceutical factory, cefprozil granule of 0.125g (supplemental application for additional specification), citric acid sildenafil of 50mg (supplemental application for the domestic Viagra-Baiyunshan "Jin Ge") and ceftizoxime sodium of 0.25g for injection (supplemental application) manufactured by Guangzhou Baiyunshan Pharmaceutical General Factory.

(2) Science and Technology Awards

During the Reporting Period, the Group totally obtained one National Science & Technology Progress Award (second class), two Science & Technology Progress Awards of Guangdong Province (third class), two Science & Technology Progress Awards of Guangzhou City (second class) and three such awards (third class), three Science & Technology Progress Awards of various districts, and other technological honours and awards, among which citric acid sildenafil of 50mg (domestic Viagra-Baiyunshan "Jin Ge") manufactured by

Guangzhou Baiyunshan Pharmaceutical General Factory obtained the New Technological Innovative Result Pilgrimage Award of the Chinese pharmaceutical industry. The project of “Basic and Applied Research on Prevention and Treatment of Metabolic Disorders of Glycolipid by Eliminating Dampness Through Harmonised Liver and Smoothed Pivot” jointly submitted by four units including Hutchison Whampoa Guangzhou Baiyun Chinese Medicine Company Limited (HWBYS) and Guangdong Pharmaceutical University was granted the National Science & Technology Progress Award (second class). “Technical innovation research and application for the excellent quality Chinese patent medicine Clearing Heat and Anti-inflammation series of products” conducted by Guangzhou Baiyunshan Jingxiutang Pharmaceutical Company Limited (Jingxiutang Pharmacy) obtained the 2014 ACFIC Science and Technology Award (third class), which has been made public. The project of “Excellent quality Chinese patent medicine Naoxinqing tablet quality Standard Improvement and quality control key technology industrialisation” carried out by HWBYS obtained the Science & Technology Progress Awards of Guangdong Province (third class). Guangzhou Baiyunshan Pharmaceutical General Factory was granted the Science & Technology Progress Award of Guangdong Province, thanks to its “Multiple combination drugs gelatin skeleton sustained release tablet core and micro-dose coating technology platform construction and industrialisation” project. Projects such as “Rabies vaccine and industrialisation” conducted by Guangzhou Baiyunshan Baidi Biomedicine Co., Ltd. and “Study and application of fritillaria cirrhosa new source fritillaria Taibaiensis”, which have been made public, carried out by Guangzhou Pangaoshou Pharmaceutical Company Limited obtained the Science and Technology Award of Guangzhou (second class). Moreover, projects like “Multiple combination drugs felatin skeleton sustained release tablet core and micro-dose coating technology platform construction and industrialisation” conducted by Guangzhou Baiyunshan Pharmaceutical General Factory, “Clearing heat and anti-inflammation function material basis and quality specification study and application” conducted by Jingxiutang pharmacy and “Xia Sang Ju particle quality system research and standard improvement”, which have been made public, carried out by Guangzhou Baiyunshan Xingqun Pharmaceutical Co., Ltd. obtained the 2013 Science and Technology Award of Guangzhou (third class). In addition, “Study and overall application of the MES in the management and control for the production process of Chinese patent medicine” of Guangzhou Baiyunshan Zhongyi Pharmaceutical Co., Ltd. (Zhongyi Pharmacy) was affirmed to be a technological achievement of Guangzhou and at the same time, it obtained the 2014 Technological Innovation Achievement (second class) awarded by the Chinese Association of Quality Evaluation. Furthermore, the Company, Guangzhou WLJ Pharmaceutical Company Limited, Guangzhou WLJ Great Health Industry Co., Ltd. and Guangzhou Chenliji Pharmaceutical Factory won the title of “Guangdong Self-dependent Innovation

Demonstration Enterprise”. Zhongyi Pharmacy was recognised as among the sixth batch of intellectual property rights demonstration enterprises in the Guangzhou Economic Development Zone.

### (3) Intellectual Property Rights

During the Reporting Period, the companies under the Group totally applied for 62 Chinese patents for invention and obtained 33 Chinese patent licences for invention. In addition, the levoulifloxacin research project received the certificate of European (U.K., France and Germany) invention patent. Cefathiamidime for injection manufactured by Guangzhou Baiyunshan Pharmaceutical General Factory won the title of “China’s Chemical Pharmaceutical Industry and Excellent Original Drugs Product Brand for 2014. In the same year, Guangzhou Baiyunshan Pharmaceutical General Factory passed the national intellectual property standards to become among the first batch of companies in the country, and the first pharmaceutical manufacturer in South China that passed the inspection and certification for its intellectual property management system at state level. Besides, Zhongyi Pharmacy received the registration certificate for one computer software copyright, “Baiyunshan Zhongyi Pharmacy Integrated Application Management Software V1.0 for Chinese Patent Medicine Manufacturing and Execution”. Furthermore, two awards in respect of intellectual property rights were received, among which the “16th China Patent Award, Excellent Award” was granted to Guangzhou Baiyunshan Pharmaceutical General Factory for its invention patent of “Cefixime Tablet and Preparation Method”. Zhongyi Pharmacy was recognised as among the sixth batch of intellectual property rights model enterprises in Guangzhou Economic Development Zone.

### (6) Cash flow

Item	The Reporting Period (RMB'000)	The corresponding period of 2013 (RMB'000)	Increase/(Decrease) compared with the same period of 2013 (%)	Reason of changes
Net cash flow from operating activities	1,761,382	1,339,140	31.53	During the Reporting Period, increase was due to the increase of the sales and improvement in collection of accounts receivable of the Group.
Net cash flow from investing activities	(287,420)	(323,700)	11.21	During the Reporting Period, the Group received the cash income from investment increased.
Net cash flow from financing activities	(363,998)	(211,689)	(71.95)	During the Reporting Period, the Group paid dividends, interest.

## 3.2 Industry, product and regional analysis of the operational results

3.2.1 Breakdown of the operational results of the principal operations of the Group during the Reporting Period is set out as follows:

Principal Operations	Income from principal operations		Cost of principal operations		Gross profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/ (Decrease) compared with the same period of 2013 (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) compared with the same period of 2013 (%)	Gross profit margin of principal operations (%)	Increase/ (Decrease) compared with the same period of 2013 (Percentage point)
Medicine and healthcare	18,614,517	6.59	12,136,640	3.13	34.80	An increase of 2.19 percentage points

Gross profit margin = (Income from principal operations - Cost of principal operations)/Income from principal operations x 100%

3.2.2 Analysis of sales of major products in the Reporting Period is as follows:

Type of products	Income from principal operations		Cost of principal operations		Gross profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/ (Decrease) compared with the same period of 2013 (%)	Cost of principal operations (RMB'000)	Increase/ (Decrease) compared with the same period of 2013 (%)	Gross profit margin of principal operations (%)	Increase/ (Decrease) compared with the same period of 2013 (Percentage point)
Manufacturing operations	14,122,230	2.41	8,040,541	(3.84)	43.06	An increase of 3.70 percentage points
Trading operations	4,492,287	22.30	4,096,099	20.23	8.82	An increase of 1.57 percentage points

Gross profit margin = (Income from principal operations - Cost of principal operations)/Income from principal operations x 100%

3.2.3 Regional analysis of sales of the Group for the year 2014 is set out as follows:

<b>Region</b>	<b>Income (RMB '000)</b>	<b>Increase/ (Decrease) compared with the corresponding period of 2013 (%)</b>
Southern China	10,023,751	5.99
Eastern China	3,396,065	7.49
Northern China	2,096,738	8.76
North-Eastern China	245,163	(27.13)
South-Western China	1,634,989	0.38
North-Western China	606,514	18.42
Exports	611,297	38.51
<b>Total</b>	<b><u>18,614,517</u></b>	<b><u>6.59</u></b>

### 3.3 Investment analysis

#### 3.3.1 Overall analysis of foreign equity investment

At the end of the Reporting Period, the foreign equity investment of the Group amounted to RMB1,950,765,000 with a growth of RMB80,032,000 as compared with the end of 2013, mainly due to the increase in the long-term equity investment by investment income calculated using the joint venture equity method as adopted by the Group, and no significant change occurred.

<b>Invested unit</b>	<b>Principal business</b>	<b>Shares equity directly held by the Company (%)</b>
GP Corp.	Sales of western pharmaceutical products and medical apparatus	50.00
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Manufacturing, processing and sales of Chinese patent medicine; food and medicine homologous drink and candy	48.05
Guangzhou Promise Biological Products Co., Ltd.	Production of Rabies bacterin, export of goods and technology	50.00



<b>Invested unit</b>	<b>Principal business</b>	<b>Shares equity directly held by the Company (%)</b>
HWBYS	Manufacturing, constructing, research and development, and sales of medicine, NHPs, food and Chinese herbs	50.00
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.	Production of large capacity injection, imports and wholesales of medicine	50.00
Hangzhou Zhe Da Han Fang Chinese Medicine Information Engineering Company Limited	Development of technology and technology service	44.00
Golden Eagle Fund Management Co., Ltd.	Fund management	20.00
Guangzhou Goldsum Pharmaceutical technology Co., Ltd.	Research and development; NHPs, Chinese medicine and food	38.25
Guangzhou Baiyunshan Wei Yi Medical Investment Management Co., Ltd.	Medical investment management	50.50

*3.3.2 During the Reporting Period, the Company did not have any entrusted investment activities.*

### 3.3.3 The Group's entrusted loans during the Reporting Period.

Name of borrowers	Entrusted loan amount (RMB'000)	Term of the loan	Lending rates	Whether overdue	Whether be connected transactions	Relationship with the Company
Cai Zhi Lin	15,000	One year	5.60%	No	No	Wholly-owned subsidiary
Cai Zhi Lin	263,000	One year	6.00%	No	No	Wholly-owned subsidiary
Guangzhou Pharmaceutical Import & Export Company Limited	20,000	One year	5.60%	No	No	Wholly-owned subsidiary
Guangzhou Pharmaceutical Import & Export Company Limited	145,000	One year	6.00%	No	No	Wholly-owned subsidiary
Guangzhou Baiyunshan Bai Di Bio-technology Co., Ltd.	14,000	One year	5.60%	No	No	Subsidiary
Guangzhou Baiyunshan Bai Di Bio-technology Co., Ltd.	10,000	One year	6.00%	No	No	Subsidiary
<b>Total</b>	<b>467,000</b>					

As at 31 December 2014, the Company provided entrusted loans totaling RMB467,000,000 to its subsidiaries.

### 3.3.4 Use of Proceeds from the issue of A shares

Applicable  Not applicable

### 3.3.5 The non-fund-raising project

Applicable  Not applicable

### 3.4 The principal subsidiaries and companies in which the Company has shareholding interest during the Reporting Period

Name of enterprises	Business nature	Major products or services	Registered Capital (RMB'000)	Shares equity directly held by the Company (%)	Total assets (RMB'000)	Net assets (RMB'000)	Net profit (RMB'000)
<b>Subsidiaries</b>							
WLJ Great Health	Manufacturing	Production and sales of prepackaged food, dairy products, etc.	10,000	100.00	3,184,116	401,794	340,356

Except as mentioned in the above table, the Company did not derive any investment income from any single investee company amounting to more than 10% of the net profit of the Group during the Reporting Period.

During the Reporting Period, the Company did not engage in any other operations which had significant impact on the net profit of the Group.

### 3.5 Analysis of financial conditions

#### 3.5.1 Liquidity

As at 31 December 2014, the current ratio of the Group was 1.47 (31 December 2013: 1.45), and its quick ratio was 1.04 (31 December 2013: 1.00). Accounts receivable turnover rate was 21.23 times, representing a decrease of 5.90% as compared with the corresponding period of 2013. Inventory turnover rate was 4.98 times, representing a decrease of 8.22% as compared with the corresponding period of 2013.

#### 3.5.2 Financial resources

As at 31 December 2014, cash and cash equivalents of the Group amounted to RMB3,029,136,000, of which approximately 99.4% and 0.6% were denominated in Renminbi and foreign currencies, like Hong Kong dollar, respectively.

As at 31 December 2014, the Group had bank borrowings of RMB560,530,000 (31 December 2013: RMB518,279,000), including short-term borrowings of RMB560,530,000 (31 December 2013: RMB509,652,000) and no long-term borrowings (31 December 2013: RMB8,627,000).

### 3.5.3 Capital structure

As at 31 December 2014, the Group's current liabilities amounted to RMB6,061,527,000 (31 December 2013: RMB5,050,078,000), representing an increase of 20.03% as compared with the corresponding period of 2013, and its long-term liabilities was RMB190,278,000 (31 December 2013: RMB176,808,000), with an increase of 7.62% as compared with the corresponding period of 2013. The shareholders' equity attributable to the shareholders of the Company amounted to RMB7,739,301,000 (31 December 2013: RMB6,831,768,000), with an increase of 13.28% as compared with the corresponding period of 2013.

### 3.5.4 Capital expenditure

The Group expects that the capital expenditure for 2015 to be approximately RMB1,393 million (2014: RMB441 million), which would be mainly applied in production sites, factories and infrastructure, purchases of machines, equipment, information system construction, external purchases, etc. The Group will raise funds to meet the capital requirements of capital expenditure by resorting to its internal funds, bank loans, etc.

### 3.5.5 Assets and Liabilities

Item	As at	% of the total assets	As at	% of the total assets	Increase/ (Decrease) compared with the same period of 2013	Reason of changes
	31 December 2014 (RMB'000)		31 December 2013 (RMB'000)		(%)	
Cash	3,180,888	22.38	1,935,682	15.80	64.33	The increase was mainly due to the increase in the Group's sales revenue.
Financial assets at fair value through profit or loss	4,686	0.03	3,363	0.03	39.35	In the Year, the price of the shares of Zhong Zhi and Ha Yao held by the Company rose.
Advance to suppliers	326,857	2.30	613,882	5.01	(46.76)	The decrease was mainly due to the decrease in prepayments by the Company's subsidiaries for the purchase of pharmaceutical raw materials and packagings in the Year.
Other receivables	306,277	2.16	181,146	1.48	69.08	As at 31 December 2014, the increase was mainly due to the increase in the deposits paid by the Group.

Item	As at 31 December 2014 (RMB'000)	% of the total assets	As at 31 December 2013 (RMB'000)	% of the total assets	Increase/ (Decrease) compared with the same period of 2013 (%)	Reason of changes
Construction in progress	441,810	3.11	335,423	2.74	31.72	Increase was mainly due to the increase in the investments in GMP reformation and construction of the production base by the Group in the Year.
Notes payable	356,573	2.51	130,774	1.07	172.66	The Company trading subsidiaries adopted a bankers' acceptances settlement method for short term fund facilities to reduce finance costs in the Year.
Accounts payable	2,075,534	14.61	1,470,361	12.00	41.16	The increase was mainly due to the active development with high quality suppliers and obtaining better commercial credit policy by the Company's subsidiaries in the Year.
Taxes payable	176,414	1.24	403,384	3.29	(56.27)	As at 31 December 2014, the decrease was mainly due to the decrease in value-added tax payable and corporate income tax of the Group.
Interests payable	237	0.00	675	0.01	(64.96)	As at 31 December 2014, the decrease was mainly due to the decrease in the bank loans.
Dividends payable	46,932	0.33	113,513	0.93	(58.66)	Mainly due to the 2012 special dividend distribution of the Group had not been paid as at the end of 2013.
Long-term borrowings	—	—	8,627	0.07	(100.00)	As at 31 December 2014, the Group repaid the long term bank loan in advance.
Deferred income tax liabilities	15,500	0.11	3,475	0.03	345.99	As at 31 December 2014, the increase was mainly due to the increase in the difference of the income tax payable in the future.

### *3.5.6 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.

### *3.5.7 Main cash resources and applications*

As at 31 December 2014, cash and cash equivalents of the Group amounted to RMB3,029,136,000 with an increase of RMB1,110,184,000 as compared with the beginning of 2014. The net cash inflow derived from operating activities amounted to RMB1,761,382,000 with an increase of RMB422,242,000 as compared with 2013. The increase was mainly due to the increase in sale revenue and increase in advanced payments for goods from customers.

### *3.5.8 Contingent liabilities*

As at 31 December 2014, the Group had no material contingent liabilities.

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

As at 31 December 2014, Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited, a wholly-owned subsidiary of the Company, had a general banking facility of HK\$300,000, a letter of credit and a letter of trust with total limit of HK\$100,000,000 and drew up an unearned credit with US\$179,000, YEN 131,858,000 granted by Bank of China (Hong Kong) Limited with a charge over its fixed assets, properties and buildings with original value of HK\$8,893,000 and net value of HK\$6,545,000 and investment properties with original value of HK\$6,843,000 and net value of HK\$4,109,000.

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

As at 31 December 2014, the bank loans of the Group amounted to RMB560,530,000 (31 December 2013: RMB518,279,000), with a decrease of RMB42,251,000 as compared with the beginning of 2014. The above bank loans included short-term loans of RMB560,530,000 and long-term loans of RMB 0.

### *3.5.11 Gearing ratio*

As at 31 December 2014, the Group's gearing ratio (total liabilities/total assets ×100%) was 43.99% (31 December 2013: 42.67%).

### *3.5.12 Material investment*

As at 31 December 2014, the Group did not have any other material additional investment.

### 3.5.13 Employees

Employees of the headquarter	171
Employees of the major subsidiaries	12,025
Total	12,196
Retired workers of the headquarter and major subsidiaries whose expenses were assumed by the Company and major subsidiaries	8,947
Gross payroll of the Group	RMB1,139,000,000

#### Composition

Category	Number
Production staff	4,829
Sales personnel	3,000
Technical staff	2,184
Finance staff	325
Administrative staff	1,858
Total	12,196

#### Educational Level

Category	Number
Graduate	327
Post-Bachelor	3,759
Junior college	2,986
Secondary and below	5,124
Total	12,196

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

The Group realised the great importance to improving the overall quality of its staff and has formulated various plans for talent training, thereby constantly enhancing corporate management standards and market competitiveness. In 2014, the Group carried out relevant training in accordance with the integrated management system and ensured the normal operation of various systems as required.

In line with the development needs of the Group to implement the knowledge update project for professional and technical personnel, strengthen enterprise management and comprehensively improve the overall quality, in 2015, the Group will, on the basis of corporate needs, leveraging on innovative methods and take quality improvement as its goal to continue to widen training channels, promote coordinated development of the scale, quality and efficiency of training. Firstly, the Group will thoroughly carry out training for high level operation management

talents based on the actual needs of the enterprise. Secondly, the Group will train all staff and carry out pre-job training for college graduates to enhance the awareness of the staff in teamwork and improve work standards. Thirdly, the Group will improve its internal trainer team and build a continuing education platform for professionals to promote staff development through multiple channels.

### 3.6 Impact on the consolidated financial statements with implementing the new accounting standards

Applicable     Not applicable

#### 3.6.1 Impact on the consolidated financial statements with changes of long-term equity investment standard

Invested unit	Basic information	As at 31 December 2013			
		Equity attributable to the shareholders of parent company as at 1 January 2013 (+/-)(RMB)	Long-term equity investment (+/-)(RMB)	Financial assets available for sale (+/-)(RMB)	Equity Attributable to the shareholders of parent company (+/-)(RMB)
Shanghai Jiuhe Tang Chinese Medicine Co., Ltd.	proportion of shareholding: 9.53%	-	(547,193.71)	547,193.71	-
Qi Xing Ma Zhong Pharmaceutical Co., Ltd. (note)	proportion of shareholding: 40%	-	(362,826.38)	362,826.38	-
Indonesia San You Industrial Co., Ltd. (note)	proportion of shareholding: 50%	-	-	-	-
Guangzhou Pharmaceutical Products Company Bei Jing Road Pharmaceutical Products Store (note)	proportion of shareholding: 20%	-	(218,399.05)	218,399.05	-
Guangzhou Yu Fa Medical Instrument Co., Ltd.	proportion of shareholding: 10%	-	-	-	-
Bank of Guangzhou Co., Ltd.	-	-	(100,000.00)	100,000.00	-
Beijing Imperial Court Cultural Development Company Ltd.	proportion of shareholding: 10%	-	(200,000.00)	200,000.00	-
South China Innovative Pharmaceutical Co., Ltd of Guangdong	proportion of shareholding: 11.12%	-	(10,000,000.00)	10,000,000.00	-
Shenzhou Zhong Lian Guang Shen Pharmaceutical Group Co., Ltd.	proportion of shareholding: 0.3001%	-	(312,077.00)	312,077.00	-
Guangzhou China – UK Cambridge Technology Venture Park Co., Ltd.	proportion of shareholding: 9.97%	-	-	-	-
Northeast Pharmaceutical General Factory	-	-	-	-	-
Wuhan Pharmaceutical Inc.	proportion of shareholding: 2.8%	-	-	-	-
Securities of Corporate Events Centre	-	-	-	-	-



As at 31 December 2013

Invested unit	Basic information	Equity	Long-term equity	Financial assets	Equity
		attributable to the shareholders of parent company as at 1 January 2013 (+/-)(RMB)			investment
Guangzhou Dong Nin Pharmaceutical Co., Ltd.	proportion of shareholding: 5%	-	-	-	-
Guangzhou Nan Xin Pharmaceutical Co., Ltd.	proportion of shareholding: 13%	-	(7,677,876.51)	7,677,876.51	-
Baxter Healthcare (Guang Zhou) Co., Ltd.	proportion of shareholding: 12.5%	-	(82,338,800.00)	82,338,800.00	-
<b>Total</b>	-	-	<b>(101,757,172.65)</b>	<b>101,757,172.65</b>	-

*Note:* The Group does not engage in the operation and management of Qi Xing Ma Zhong Pharmaceutical Co.,Ltd.,Indonesia San You Industrial Co., Ltd. and Guangzhou Pharmaceutical Products Company Bei Jing Road Pharmaceutical Products Store and does not exert significant influence on them. Accordingly, those shareholdings have been reclassified from long-term equity investment to financial assets available for sale.

According to the requirements of the *Accounting Standards for Business Enterprise No.2-long-term equity investments* (revised), equity investments held by the Group in investees with no control, common control or significant impact for which there are no quotations in the active market and the fair value of which cannot be reliably measures will be transferred to the item of “financial assets available for sale” from the item of “long-term equity investments”, with retroactive adjustment made to the opening amount of the year. This involved an adjusted amount of RMB101,757,172.65 in the consolidated financial statements, which has no impact on the owners’ equity and net profits of the current and previous years.

### 3.6.2 Impact with other changes of standards

Applicable  Not applicable

### 3.7 Plan for profit distribution and increase in share capital from capital reserve in the Reporting Period

As audited by BDO China Shu Lun Pan Certified Public Accountant LLP, the net profit attributable to shareholders of the Company of 2014 amounted to RMB1,192,471,636.11. Based on the net profit RMB916,674,526.23 in 2014, a 10% statutory surplus reserve in the amount of RMB91,667,452.62 is provided, with the addition of the undistributed profit carried over from last year in the amount of RMB1,747,475,798.92, and after reducing the cash dividends of last year by RMB297,008,349.50, the actual distributable profits amounted to RMB2,275,474,523.03. Based on the actual circumstances of the Company, it is proposed that based on the share capital of 1,291,340,650 shares as at the end of 2014,

a cash dividend of RMB2.8 for every 10 shares or an aggregate of RMB361,575,382.00, be distributed. The undistributed portion shall be transferred to the next distribution. There will not be any capitalization of capital reserve for 2014.

The proposed final dividend will be submitted to the forthcoming 2014 annual general meeting for consideration and approval.

### **Profit of the Company in the Reporting Period without proposing scheme of cash profit distribution**

Applicable  Not applicable

## **3.8 Discussion and analysis of future development**

### *(I) The competitive patterns and development trend of the industry*

In 2014, as adversely affected by various factors including macroeconomic downward pressure, pressure resulting from the declining prices of medicine and increasingly drastic market competition, both the production and efficiency of the pharmaceutical industry recorded a slowdown, dragging the growth in sales down to a new low in recent years.

However, 2014 was still a year mixed with opportunities and challenges for the pharmaceutical industry. There were changes in the pharmaceutical industry policy, such as the introduction of the Catalogue of Medicine at Low Price and the selective two-child policy, the intended loosening restrictions on sales of medicine through the Internet and the marketisation of health care services, all bringing about vitality to the future development of the pharmaceutical industry.

Looking into 2015, the pace of development of the pharmaceutical industry will be affected by decline in domestic GDP growth, the macroeconomic structural adjustment and the possible slowdown of growth in financial investment in health care. However, the continuous increase in the aging population, the constantly increasing security levels and enhanced health awareness of the public, as well as the implementation of relevant policies such as the Catalogue of Medicine at Low Price, the selective two-child policy and the loosening restrictions on sales of medicine through the Internet, will bring opportunities for the development of the pharmaceutical industry.

### *(II) Development strategies and annual work plans for 2015*

2015 will be a year for the Group to strengthen management and improve efficiency. While focusing on the strategic objectives of future development, the Group will strive to revitalize the “Grand Southern TCM”, develop the “Grand Health”, promote the “Grand Commerce” and explore the “Grand Medical Care”, and strengthen fundamental management and internal control, thereby further deepening the integration of operations.

In 2015, the key tasks of the Group will mainly include:

1. **To revitalize the “Grand Southern TCM”**. The Group will accelerate the process of integration of resources of the companies under the Group to promote integrated operations; step up efforts to create star products and vigorously develop pharmaceuticals for children; further strengthen the implementation of famous brand strategy, fully enhance the recognition and reputation of the Group and its brands as well as customer loyalty; actively responding to local bidding policies on basic pharmaceuticals and capitalize on the opportunity of introduction of the Catalogue of Medicine at Low Price, with a view to raise the share of pharmaceutical usage by glass root medical institutions.
2. **Developing “Great Health”**. The Group will innovate marketing modes, improve channel building, enhance market exposure, and vigorously enhance the brand planning for Wanglaoji to boost market competitiveness and accelerate the internationalisation and overseas deployment and expansion of Wanglaoji Herbal Tea. Moreover, the Group will further enhance the integration of the Great Health sector, attach importance to research and technological innovation in Great Health products and build Great Health product clusters.
3. **Boosting “Great Commerce”**. The Group will aggressively develop pilot extended services for modern logistics and build a new landscape for Great Commerce. Meanwhile, the Group will increase investments in e-commerce and aim to build an e-commerce platform and a third party logistics platform on medicine and health, while actively carrying out expansion, merger and acquisition to achieve an extensional growth.
4. **Developing “Great Medicare”**. The Group will rapidly enter into the medical field through merger and acquisition, equity investment, joint venture and trusteeship, etc. In addition, it will plan to build a comprehensive Guangzhou Baiyunshan Health Industry Valley by integrating medical, drug, health maintenance and rehabilitation, leveraging on the favourable urban renewal and industrial structure adjustment policies and the current advantages in land and buildings resources.
5. **Upgrading “Great Technology”**. Firstly, the Group will actively promote the integration of the edge of the Group in the resources in technological research and development and strengthen the core competitiveness in technological innovation. Secondly, the Group will increase its investments in scientific research to carry out large projects in the key fields of antineoplastic drugs, cardiovascular drugs and the medicines for gynaecology, as well as the secondary development of excellent quality Chinese patent medicines and biological products, etc., while accelerating the cooperation projects in medical equipment and other fields. Thirdly, the Group will implement a cooperation strategy of building up an alliance with the government, the industry, the academia, research institutes and users to

establish a long-term and effective cooperation relationship with domestic and overseas first-class scientific research institutes and organisations to speed up the internationalisation process of the industry. Fourthly, the new functions and efficacy of some ancient medicines will be tapped to accelerate the second development of excellent quality Chinese patent medicines.

6. **Building “Great Capital”.** The Group will steadily boost the private placement and financing projects, accelerate undertaking performance like the assets injection of Guangzhou General Pharmaceutical Institute Co., Ltd., vigorously promote merger and acquisition in the three major sectors of “Great Southern TCM”, “Great Health” and “Great Commerce”, while actively exploring innovative ways of merger and acquisition through interpersonal relationships and widen financing channels.
7. **Building “Great Industrial Zone”.** The Group will endeavour to the deployment for production capacity and accelerate the construction progress of the Baiyun Industrial Zone, Wanglaoji Ya’an base, Meizhou base, Nansha headquarters and other bases.
8. **Keeping “Great Management” well.** The Group will stringently carry out internal management and resources integration, and further perfect its corporate governance structure, improve management efficiency, reduce cost and increase efficiency and strive to boost efficacy by focusing on the theme “management efficiency year”.

*(III) Potential challenges and risks*

The principal challenges and risks that the Group may face include: (1) the risk of the frequent changes in the bidding policy of the pharmaceutical industry, the price of some medicines may decline; (2) the risk of the fluctuations in prices of raw and auxiliary materials; (3) the risk that asset consolidation fails to meet expectations; (4) the operational risk in the process of developing new fields such as medical health, pharmacy trusteeship and e-commerce etc.; and (5) the increasingly intense market competition.

## 4 OTHER MATTERS

### 4.1 Corporate Governance

During the Reporting Period, the Company complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (“CG Code”) and the code provisions of the CG Code except that (i) former independent non-executive directors, namely Mr. Liu Jingxiang and Mr. Li Shanmin, were unable to attend the extraordinary general meeting due to other important matters which constituted a deviation from code provision A.6.7, and (ii) an independent non-executive director, namely Mr. Qiu Hongzhong, was unable to attend the general meeting in 2013 due to other important matters which constituted a deviation from code provision A.6.7.

## 4.2 The Audit Committee

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

The Audit Committee of the sixth session of the Board comprised Mr. Wong Lung Tak Patrick (chairman of the Audit Committee), Mr. Qiu Hongzhong, Mr. Fang Shuting and Mr. Chu Xiaoping. It was approved at the ninth meeting of the sixth session of the Board held on 13 March 2015 that Mr. Fang Shuting be replaced by Mr. Jiang Wenqi as a member of the Audit Committee. As at the date of this summary, the Audit Committee comprised Mr. Wong Lung Tak Patrick (chairman of the Audit Committee), Mr. Qiu Hongzhong, Mr. Chu Xiaoping and Mr. Jiang Wenqi. All four of them were independent non-executive Directors and were qualified under the relevant requirements. Among whom, the term of office of Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong and Mr. Chu Xiaoping commenced from 28 January 2014 to the date of election of the new session of the Board. The term of office of Mr. Jiang Wenqi commenced from 17 March 2015 to the date of election of the new session of the Board.

The principal work finished by the Audit Committee is set out below:

- (1) held two meetings in 2014 to review the 2013 Annual Report and 2014 Interim Report of the Group as well as the recommendations on management issued by external auditors and the respective response by the management. Each of the members of the committee attended all the meetings;
- (2) reviewed the accounting policies adopted by the Group and the relevant issues regarding accounting practice;
- (3) advised the Board on the annual re-appointment of audit firm;
- (4) advised the Company on major events of the Company or reminded the management to be aware of relevant risks.

The work on the annual audit for 2014 and relevant jobs regarding the preparation of the Annual Report are as follows:

In accordance with the issue of “Notice on preparation of the 2014 Annual Report in an orderly manner by Listed Companies” by SSE on 31 December 2014, all the members of the Audit Committee reviewed the relevant requirements seriously. The Audit Committee actively coordinate with the Company in respect of the audit for 2014 and the preparation of the annual report for 2014 in pursuance of 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 2014 Annual Report” and reviewed the audit plan submitted by the auditors.
- (2) On 16 March 2015, 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 2014 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 19 March 2015, the Audit Committee convened the first meeting in 2015 and considered and approved the 2014 Annual Report of the Company and the Company’s 2014 financial report and the re-appointment of auditor for year 2014 and the auditor on internal control for 2014. At the same time, the Audit Committee finalized its evaluation on the audit work of the auditor and believed that the auditor has carried out the audit work for the Company with cautious, independent and objective standards, and managed to abide by their professional work ethics, followed closely the auditing regulations, fulfilled their auditing responsibilities and submitted the auditors’ report on time, as well as having issued fair and unbiased management recommendations to the management of the Company, and completed the audit work satisfactorily.

### **4.3 Other significant matters**

1. As approved at the 23rd meeting of the fifth session of the Board, WLJ Great Health, a wholly-owned subsidiary of the Company, proposed to establish WLJ herbal tea production base in Ya’an to offer more jobs opportunities, the total investment of the project is expected to be RMB298 million for the construction of two canning production lines. At present, the production line and ancillary facilities of the project has started a trial run on schedule and entered the stage of trial production debugging, which is expected to put into operation before 20 April 2015.

For details, please refer to the announcement published in Shanghai Securities News (上海證券報), Securities Times (證券時報), China Securities Journal (中國證券報) and on the website of the SSE on 17 July 2013 and on the website of the HKEx on 16 July 2013.

2. As approved at the 2nd meeting of the Strategic Development and Investment Committee in 2014, Guang Hua, a subsidiary of the Company, formed Guangzhou Baiyunshan Guang Hua Health Food Company, the registered capital of which is RMB10 million, among which, Guang Hua invested RMB7.5 million in cash and held 75% interest therein; Beijing Kang Bao Rui invested RMB2.5 million in cash and held 25% interest therein. The company was established in early April 2014.
3. As approved at the 2nd meeting of the Strategic Development and Investment Committee in 2014, the Company invested in the formation of Guangzhou Baiyunshan Medical and Health Industry Investment Company Limited, the registered capital of which was RMB10 million and the Company held 100% interest. It was mainly engaged in investments in fields such as medical care, health management, health maintenance and provision for the old-aged. The new company obtained its business license on 28 May 2014 and was inaugurated on 24 June 2014.
4. As approved at the 2nd meeting of the Strategic Development and Investment Committee in 2014, the Company proposed to acquire 14.07% interest of Hunan Tian Jing Pharmaceutical Company Limited with the price of less than RMB5 million. The Company participated in the delisting activity but failed to acquire the equity interest.
5. As approved at the 3rd meeting of the Strategic Development and Investment Committee in 2014, Guangzhou Baiyunshan Chemical Technology Co., Ltd. (廣州白雲山化學藥科技有限公司) (“Chemical Technology Company”), the wholly-owned subsidiary of the Company, and Zhejiang Anglikang Pharmaceutical Co., Ltd. (浙江昂利康製藥有限公司) established Zhejiang Guangkang Pharmaceutical Co., Ltd. (浙江廣康製藥投資有限公司) (“Zhejiang Guangkang”) with registered capital of RMB85 million. Chemical Technology Company made a cash contribution of RMB51 million, representing 60% of equity interest of that company. Zhejiang Guangkang was established in November 2014.
6. As approved at the 4th meeting of the Strategic Development and Investment Committee in 2014, WLJ Great Health, a wholly-owned subsidiary of the Company and Murad Biotechnology Group Ltd. (穆拉德生物科技集團有限公司) established a joint venture, Guangzhou WLJ Murad Biotechnology Co., Ltd. (廣州王老吉穆拉德生物科技有限公司) (the “Joint Venture”) with 50% equity interest each. WLJ Great Health would make a contribution of RMB5 million in cash. This transaction is still in progress.

7. As approved at the 5th meeting of the Strategic Development and Investment Committee in 2014, the Company made additional capital injection of RMB16 million to Chemical Technology Company, a wholly-owned subsidiary of the Company. The registered capital of Chemical Technology Company increased from RMB10 million to RMB26 million after the completion of the additional capital injection prior to the end of year 2014.
8. As approved at the 6th and 7th meetings of the Strategic Development and Investment Committee in 2014, the Company proposed to acquire 30% interest of Guangzhou Xinhua Cheng Biotechnology Co., Ltd. (廣州市新花城生物科技股份有限公司) with the price of less than RMB150 million. In November 2014, the Company participated in the delisting activity but failed to acquire the equity interest.
9. As approved at the 7th meeting of the Strategic Development and Investment Committee in 2014, the Company acquired 100% of interest in Guangzhou Pharmaceutical Haima Advertising Co., Ltd. (廣州醫藥海馬品牌整合傳播有限公司) with the price of RMB7 million according to the assessment report issued by Zhonghe Appraisal Co., Ltd. (中和資產評估有限公司) as at 31 December 2013.
10. According to the arrangements of the industrial structure adjustment, 11 enterprises under the Company plan to relocate to the Baiyun base in the Biological Medicine Town of Guangzhou Pharmaceutical Group (“Baiyun base”), which covers a gross area of about 2,460 mu (of which an area of about 2,000 mu meets land planning requirements). The government of Baiyun district will provide integrated land plots for industrial use in four phases within the Guangzhou Pharmaceutical Industry Zone. A total land area of 474.41 mu (of which an area of 303.09 mu can be used for construction) will be provided in the first phase.

Mingxing Pharmacy (98.8 mu), Hejigong Pharmacy (36 mu), Baiyunshan Hutchison Whampoa (99.7 mu) and GP Corp. (68.5mu), which are under the Group, have obtained the land use rights of the land available for construction (303 mu) in the first phase, with a total land bidding price of about RMB221.29 million. At present, the relevant work is under active progress.

In addition, “Regulatory detailed planning revision on the east group plot of Bai Yun Mountain of GPLH and Wan Li Group in Bai Yun District (Planning management unit No. AB3103, AB1318)” had been approved by the Guangzhou Municipal Planning Committee and finished the research and planning work. Approximately 0.3 million square metres of land of the Company and 66,600 square metres of land of HWBYS are within the scope of planning.

11. Trading in the shares of the Company was suspended from 3 December 2014 until 12 January 2015 for the preparation of non-public issue of shares. On 12 January 2015, the Board approved the proposed placing, pursuant to which the Company proposed to issue no more than 419,463,087 new A Shares to 5 subscribers in total, being GPLH, Guangzhou State-owned Asset Development Holdings Limited\*(廣州國資發展控股有限公司), Guangzhou China Life Insurance Urban Development Industry Investment Enterprises (Limited Partnership)\*(廣州國壽



城市發展產業投資企業), Shanghai Yunfeng Xinchuang Investment Management Company Limited\* (上海雲峰新創投資管理有限公司) and China Universal Asset Management Company Limited\*(匯添富基金管理股份有限公司) (as trustee of the Employee Stock Trust) at the subscription price of RMB23.84 per new A Share, representing a maximum amount of gross proceeds of approximately RMB10,000 million (the “Proposed Placing”).

The Proposed Placing was approved by the independent shareholders, the independent shareholders of A shares and the independent shareholders of H Shares by poll at the first extraordinary general meeting, the general meeting of holders of A shares and general meeting of holders of H Shares held on 13 March 2015.

For details of the Proposed Placing, please refer to the announcement of the Company dated 12 January 2015 and 17 March 2015 and the circular of the Company dated 26 February 2015.

Save as disclosed above, the Group did not engage in any material acquisitions or disposals.

## 5. FINANCIAL REPORTS

### 5.1 Financial statements prepared in accordance with the PRC Accounting Standards (All amounts in Renminbi yuan unless otherwise stated)

#### Consolidated Balance Sheet

ITEM	Note	31 December 2014	31 December 2013
<b>Current assets</b>			
Cash at bank and on hand		3,180,887,532.85	1,935,681,740.06
Financial assets held for trading		4,686,023.00	3,362,667.20
Notes receivable		1,465,748,952.32	1,326,353,755.90
Accounts receivable	5.1.3	1,005,958,251.13	973,184,749.11
Advances to suppliers		326,857,283.13	613,882,321.78
Interests receivable		—	—
Dividends receivable		—	—
Other receivables		306,276,760.40	181,145,718.26
Inventories		2,578,594,687.08	2,245,829,748.05
Current portion of other non-current assets		—	—
Other current assets		20,039,514.77	19,347,581.15
<b>Total current assets</b>		<b>8,889,049,004.68</b>	<b>7,298,788,281.51</b>
<b>Non-current assets</b>			
Available-for-sale financial assets		133,964,228.25	119,365,279.93
Hold-to-maturity investments		—	—
Long-term receivables		—	—
Long-term equity investments		1,950,765,099.35	1,870,733,119.39
Investment properties		235,751,593.75	246,309,245.37
Fixed assets		1,824,151,461.75	1,731,881,945.85
Construction in progress		441,809,706.14	335,422,694.18
Construction materials		—	—
Fixed assets pending for disposal		—	—
Intangible assets		395,201,774.39	368,856,694.63
Development costs		4,252,391.49	3,716,517.68
Goodwill		—	—
Long-term prepaid expenses		6,119,153.03	7,099,055.93
Deferred tax assets		329,719,136.32	266,950,316.92
Other non-current assets		—	—
<b>Total non-current assets</b>		<b>5,321,734,544.47</b>	<b>4,950,334,869.88</b>
<b>TOTAL ASSETS</b>		<b>14,210,783,549.15</b>	<b>12,249,123,151.39</b>

ITEM	<i>Note</i>	31 December 2014	31 December 2013
<b>Current liabilities</b>			
Short-term borrowings		560,530,090.45	509,651,500.77
Financial liabilities held for trading		–	–
Notes payable		356,573,197.95	130,773,655.25
Accounts payable	5.1.4	2,075,534,476.45	1,470,360,537.61
Advances from customers		889,008,552.82	875,579,547.32
Employee benefits payable		411,335,807.76	334,427,927.83
Taxes payable		176,413,871.14	403,383,688.38
Interests payable		236,666.66	675,414.98
Dividends payable		46,931,687.19	113,513,301.13
Other payables		1,544,962,787.77	1,211,712,507.04
Current portion of non-current liabilities		–	–
Other current liabilities		–	–
<b>Total current liabilities</b>		<b>6,061,527,138.19</b>	<b>5,050,078,080.31</b>
<b>Non-current liabilities</b>			
Long-term borrowings		–	8,627,419.10
Debentures payable		–	–
Long-term payables		22,361,807.40	22,215,752.40
Payables for specific projects		19,058,160.00	19,058,160.00
Provisions		500,191.19	500,191.19
Deferred income		132,561,801.90	122,637,987.83
Deferred tax liabilities		15,499,610.21	3,475,327.44
Long-term employee remuneration payable		296,382.47	293,538.18
<b>Total non-current liabilities</b>		<b>190,277,953.17</b>	<b>176,808,376.14</b>
<b>Total liabilities</b>		<b>6,251,805,091.36</b>	<b>5,226,886,456.45</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital		1,291,340,650.00	1,291,340,650.00
Capital surplus		2,486,283,953.95	2,486,910,770.01
Less: Treasury share		–	–
Surplus reserve		11,878,304.70	(817,865.24)
Undistributed profits		815,487,206.38	723,819,753.76
Difference on translation of foreign currency financial statements		3,134,310,417.34	2,330,514,583.35
<b>Total equity attributable to shareholders of the Company</b>		<b>7,739,300,532.37</b>	<b>6,831,767,891.88</b>
<b>Minority interest</b>		<b>219,677,925.42</b>	<b>190,468,803.06</b>
<b>Total shareholders' equity</b>		<b>7,958,978,457.79</b>	<b>7,022,236,694.94</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		<b>14,210,783,549.15</b>	<b>12,249,123,151.39</b>

## Consolidated Income Statement

ITEM	Note	Year ended 31 December	
		2014	2013
<b>1. Revenue</b>	5.1.5	<b>18,799,880,604.61</b>	17,608,193,312.31
Less: Cost of sales	5.1.5	<b>12,173,918,801.51</b>	11,806,294,800.38
Taxes and surcharges		<b>154,481,898.08</b>	148,250,638.48
Selling and distribution expenses		<b>3,942,791,257.58</b>	3,485,311,357.52
General and administrative expenses		<b>1,265,267,891.95</b>	1,227,255,352.75
Financial expenses		<b>1,719,825.32</b>	28,305,296.93
Asset impairment losses		<b>61,172,466.77</b>	12,914,064.93
Add: Profit arising from changes in fair value		<b>1,323,355.80</b>	486,747.20
Investment income		<b>160,983,192.15</b>	219,725,064.77
Including: Share of profit of associates and jointly controlled entities		<b>156,172,120.15</b>	207,391,786.49
<b>2. Operating profit</b>		<b>1,362,835,011.35</b>	1,120,073,613.29
Add: Non-operating income		<b>182,072,994.55</b>	125,847,060.45
Including: Gain on disposal of non-current assets		<b>240,591.74</b>	115,668.82
Less: Non-operating expenses		<b>77,731,138.09</b>	16,730,234.49
Including: Losses on disposal of non-current assets		<b>8,962,017.61</b>	3,776,158.49
<b>3. Total profit</b>		<b>1,467,176,867.81</b>	1,229,190,439.25
Less: Income tax expenses	5.1.6	<b>256,533,350.01</b>	222,243,432.31
<b>4. Net profit</b>		<b>1,210,643,517.80</b>	1,006,947,006.94
– Attributable to shareholders of the Company		<b>1,192,471,636.11</b>	980,045,077.10
– Minority interest		<b>18,171,881.69</b>	26,901,929.84

ITEM	Note	Year ended 31 December	
		2014	2013
<b>5. After-tax net income of other comprehensive income</b>		<b>12,712,124.67</b>	<b>(1,517,010.51)</b>
After-tax net income of other comprehensive income attributable to the parent company		<b>12,696,169.94</b>	<b>(1,528,877.31)</b>
(A) Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period		–	1,260,544.00
1. Proportion of items will not be classified into profit or loss when under equity method		–	1,260,544.00
(B) Items will be classified into profit or loss when satisfied with certain conditions at following accounting period		<b>12,696,169.94</b>	<b>(2,789,421.31)</b>
1. Proportion of items will be classified into profit or loss when under equity method		<b>233,768.27</b>	<b>(64,143.03)</b>
2. Profit or loss arising from changes in fair value of available for sale financial assets		<b>12,337,714.04</b>	<b>(1,634,656.82)</b>
3. Differences arising from translation of foreign currency financial statements		<b>124,687.63</b>	<b>(1,090,621.46)</b>
After-tax net income of other comprehensive income attributable to minority shareholders		<b>15,954.73</b>	11,866.80
<b>6. Total comprehensive income</b>		<b>1,223,355,642.47</b>	<b>1,005,429,996.43</b>
(1) Total comprehensive income attributable to parent company		<b>1,205,167,806.05</b>	978,516,199.79
(2) Total comprehensive income attributable to minority shareholders		<b>18,187,836.42</b>	26,913,796.64
<b>7. Earnings per share</b>			
– Basic earnings per share	5.1.7	<b>0.923</b>	0.768
– Diluted earnings per share	5.1.7	<b>0.923</b>	0.768

### *5.1.1 Basis of preparation*

#### (1) Basis of preparation

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

#### (2) Going concern

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

### *5.1.2 Segment Information*

As the chief operating decision-maker, the BOD assesses performance of the operating segments and allocates resources by reviewing the Group’s internal reporting. Management has determined the operating segments based on these reports.

The BOD considered the nature of the Group’s business and determined that the Group has two reportable operating segments as follows:

- Manufacturing: manufacture and sale of the CPM produced by the Group’s manufacturing subsidiaries;
- Trading: wholesale and retail of western pharmaceutical products, medical apparatus, CPM and Chinese raw medicine, wholesale of goods other than pharmaceutical products.

Sales between segments are carried out on terms equivalent to those that prevail in arm’s length transactions.

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

(1) The segment information for 2014 and as at 31 December 2014 as follows:

	Manufacturing	Trading	Unallocated	Elimination	Total
Revenue	14,244,449,733.21	4,508,834,159.53	46,596,711.87	–	18,799,880,604.61
Inter-segment revenue	(807,432,640.00)	8,124,820,367.95	120,649,817.03	(7,438,037,544.98)	–
Interest income	(36,752,600.09)	(363,756.54)	(2,554,789.30)	4,972,076.46	(34,699,069.47)
Interest expenses	33,435,127.48	42,432,053.67	22,863,089.28	(65,283,703.64)	33,446,566.79
Share of profit or loss of associates and jointly controlled entities	66,599,571.84	–	94,337,405.27	(4,764,856.96)	156,172,120.15
Asset impairment losses	33,702,417.01	38,550,834.06	(4,172.07)	(11,076,612.23)	61,172,466.77
Depreciation and Amortization	179,366,474.35	4,941,233.47	16,483,743.07	(180,131.25)	200,611,319.64
Total profit	1,236,962,600.37	121,425,914.83	603,219,356.29	(494,431,003.68)	1,467,176,867.81
Income tax expenses	172,603,127.19	28,830,696.07	71,221,591.03	(16,122,064.28)	256,533,350.01
Net profit (Including: minority interest)	1,064,359,473.19	92,595,218.75	531,997,765.26	(478,308,939.40)	1,210,643,517.80
<b>Total assets</b>	<b>9,497,318,906.89</b>	<b>3,988,402,163.66</b>	<b>7,343,152,291.65</b>	<b>(6,618,089,813.05)</b>	<b>14,210,783,549.15</b>
<b>Total liabilities</b>	<b>6,103,667,150.76</b>	<b>3,719,893,239.95</b>	<b>968,512,607.47</b>	<b>(4,540,267,906.82)</b>	<b>6,251,805,091.36</b>
Long-term equity investments in associates and jointly controlled entities	146,820,073.53	–	1,803,945,025.82	–	1,950,765,099.35
Additions of non-current assets other than long-term equity investments	419,925,173.64	10,271,886.61	1,576,862.60	–	431,773,922.85

(2) The segment information for 2013 and as at 31 December 2013 as follows:

	Manufacturing	Trading	Unallocated	Elimination	Total
Revenue	13,888,167,949.22	3,686,349,660.19	33,675,702.90	–	17,608,193,312.31
Inter-segment revenue	32,764,367.88	3,858,216,859.27	101,166,409.71	(3,992,147,636.86)	–
Interest income	21,468,171.97	1,090,116.25	1,895,909.08	(6,724,718.45)	17,729,478.85
Interest expenses	31,074,715.72	35,504,531.50	36,128,021.28	(59,490,375.19)	43,216,893.31
Share of profit or loss of associates and jointly controlled entities	34,867,354.36	–	161,843,924.47	10,680,507.66	207,391,786.49
Asset impairment losses	10,209,732.52	1,639,207.57	87,492.29	977,632.55	12,914,064.93
Depreciation and Amortization	171,132,372.00	5,152,946.81	9,345,185.60	571,882.53	186,202,386.94
Total profit	968,319,473.42	32,376,602.44	447,952,045.38	(219,457,681.99)	1,229,190,439.25
Income tax expenses	119,148,213.30	8,548,827.66	83,243,594.32	11,302,797.03	222,243,432.31
Net profit (Including: minority interest)	849,171,260.12	23,827,774.78	364,708,451.06	(230,760,479.02)	1,006,947,006.94
<b>Total assets</b>	<b>8,177,645,896.25</b>	<b>2,166,054,216.66</b>	<b>6,918,419,046.40</b>	<b>(5,012,996,007.92)</b>	<b>12,249,123,151.39</b>
<b>Total liabilities</b>	<b>5,222,107,061.12</b>	<b>1,986,384,749.68</b>	<b>1,103,419,355.88</b>	<b>(3,085,024,710.23)</b>	<b>5,226,886,456.45</b>
Long-term equity investments in associates and jointly controlled entities	121,162,661.82	–	1,749,570,457.57	–	1,870,733,119.39
Additions of non-current assets other than long-term equity investments	421,774,612.38	4,726,393.21	304,296,402.52	–	730,797,408.11



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

	<b>Year ended 31 December 2014</b>	Year ended 31 December 2013
<b>Revenue from external customers</b>		
PRC	<b>18,188,583,292.32</b>	17,166,853,225.54
Other countries	<b>611,297,312.29</b>	441,340,086.77
	<b><u>18,799,880,604.61</u></b>	<b><u>17,608,193,312.31</u></b>
<b>Total non-current assets</b>	<b>31 December 2014</b>	31 December 2013
PRC	<b>4,939,775,252.86</b>	4,645,092,792.07
Other countries	<b>20,033,099.69</b>	20,683,653.62
	<b><u>4,959,808,352.55</u></b>	<b><u>4,665,776,445.69</u></b>

### 5.1.3 Accounts receivable

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

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

	<b>31 December 2014</b>	31 December 2013
Within 1 year	<b>944,813,755.81</b>	961,563,413.82
1 to 2 years	<b>78,706,663.12</b>	21,462,412.04
2 to 3 years	<b>6,868,859.64</b>	5,779,861.24
3 to 4 years	<b>5,239,589.65</b>	871,321.18
4 to 5 years	<b>788,470.95</b>	4,836,377.21
Over 5 years	<b>12,098,245.12</b>	8,577,552.93
	<b><u>1,048,515,584.29</u></b>	<u>1,003,090,938.42</u>
Less: Provision for bad debts	<b>42,557,333.16</b>	29,906,189.31
	<b><u>1,005,958,251.13</u></b>	<b><u>973,184,749.11</u></b>

#### 5.1.4 Accounts payable

The ageing of accounts payable is analyzed as follows:

	<b>31 December 2014</b>	31 December 2013
Within 1 year	<b>2,014,544,777.60</b>	1,440,862,487.84
Over 1 year	<b>60,989,698.85</b>	29,498,049.77
	<b><u>2,075,534,476.45</u></b>	<b><u>1,470,360,537.61</u></b>

#### 5.1.5 Revenue and cost of sales

	<b>Year ended 31 December 2014</b>		
	<b>Main operation</b>	<b>Other operation</b>	<b>Subtotal</b>
Revenue	<b>18,614,516,979.86</b>	<b>185,363,624.75</b>	<b>18,799,880,604.61</b>
Cost of sales	<b>12,136,640,310.27</b>	<b>37,278,491.24</b>	<b>12,173,918,801.51</b>
Gross profit	<b>6,477,876,669.59</b>	<b>148,085,133.51</b>	<b>6,625,961,803.10</b>
	<b>Year ended 31 December 2013</b>		
	Main operation	Other operation	Subtotal
Revenue	17,463,015,713.01	145,177,599.30	17,608,193,312.31
Cost of sales	11,768,412,156.47	37,882,643.91	11,806,294,800.38
Gross profit	5,694,603,556.54	107,294,955.39	5,801,898,511.93

#### 5.1.6 Income tax expenses

	<b>Year ended 31 December</b>	
	<b>2014</b>	2013
Current income tax	<b>309,523,166.18</b>	370,486,762.09
Deferred income tax	<b>(52,989,816.17)</b>	(148,243,329.78)
	<b><u>256,533,350.01</u></b>	<b><u>222,243,432.31</u></b>

The Group's income tax expenses attributable to Hong Kong is RMB192,377.20 during the Reporting Period.

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

	<b>Year ended 31 December</b>	
	<b>2014</b>	<b>2013</b>
Total profit	<b><u>1,467,176,867.81</u></b>	<u>1,229,190,439.25</u>
Income tax expenses calculated		
at statutory tax rates	<b>366,794,216.95</b>	307,297,609.81
Tax effect of different rates applicable to subsidiaries	<b>(82,354,266.23)</b>	(55,216,213.81)
Adjust effect for income tax of previous period	<b>(141,464.84)</b>	(4,052,228.32)
Gain or loss belong to cooperative enterprise and joint venture	<b>(30,800,503.75)</b>	(47,567,066.87)
Non-taxable revenue	<b>(2,495,764.97)</b>	(4,475,492.33)
Expenses not deductible for tax purposes	<b>9,141,977.82</b>	22,921,203.39
Effect of opening balance of deferred income tax arising from changes in tax rate	<b>(4,272,184.96)</b>	1,197,689.98
Tax effect of opening balance on deferred income tax due to changes in tax rate	<b>5,993,318.59</b>	2,137,930.46
Tax effect of deductible temporary differences & deductible loss which are not recognised	<b><u>(5,331,978.60)</u></b>	<u>—</u>
Income tax expenses	<b><u><u>256,533,350.01</u></u></b>	<u><u>222,243,432.31</u></u>

The group companies in the PRC pays the enterprise income tax in accordance with “PRC Enterprise Income Tax Law” and “Implementation Rules of PRC Enterprise Income Tax Law” and the applicable enterprise income tax rate of these entities is 25%. Guangyao Baiyunshan (Hong Kong) Co., Ltd. of the Group, pays the corporation profits tax in accordance with “Hong Kong Inland Revenue Ordinance” at a the corporation profit tax rate of 16.5%.

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

The following subsidiaries of the Group enjoy preferential tax rate of 15%. Which include: the Company (No.GR201444000590), Zhongyi (No. GR201444000836), Hanfang (No.GR201444000631), Jingxiutang (No. GR201444001464), Qixing (No.GR201444001047), Chenliji (No.

GR201444001125), Tianxin (No. GR201444000895), Mingxing (No. GR201444001349), Guanghua (No. GR201244000497), Yingkang (No. GF201245000068).

### 5.1.7 Earnings per share

#### (a) Basic earnings per share

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

Weighted average basis earnings per share is calculated by dividing consolidated net profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding:

	<b>Year ended 31 December</b>	
	<b>2014</b>	<b>2013</b>
Consolidated net profit attributable to ordinary shareholders of the Company	<b>1,192,471,636.11</b>	980,045,077.10
Weighted average number of ordinary shares outstanding	<b>1,291,340,650.00</b>	1,276,290,237.50
Basis Earnings per share	<b><u>0.923</u></b>	<b><u>0.768</u></b>

##### (ii) Fully diluted Basic earnings per share

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

	<b>Year ended 31 December</b>	
	<b>2014</b>	<b>2013</b>
Consolidated net profit attributable to ordinary shareholders of the Company	<b>1,192,471,636.11</b>	980,045,077.10
Number of ordinary share outstanding	<b>1,291,340,650.00</b>	1,291,340,650.00
Basic earnings per share fully diluted	<b><u>0.923</u></b>	<b><u>0.759</u></b>

(b) *Diluted earnings per share*

Diluted earnings per share is calculated by adjusted net profit for the current year attributable to ordinary shareholders by the adjusted weighted average number of ordinary shares outstanding. During the year ended 31 December 2014, there were no potential ordinary shares (Year ended 31 December 2013: nil), diluted earnings per share is equal to basic earnings per share.

*5.1.8 Dividends*

Pursuant to the resolution of board of shareholders 2013 on 26 June 2014, the Group distributed cash dividends amounted to RMB297,008 thousand which was calculated by issued shares amounted to 1,291,340,650 to all shareholders, total distributed cash dividends was RMB0.23 per share.

*5.1.9 Net current assets*

	<b>31 December 2014</b>	31 December 2013
Current assets	<b>8,889,049,004.68</b>	7,298,788,281.51
Less: Current liabilities	<b>6,061,527,138.19</b>	5,050,078,080.31
Net current assets	<b><u>2,827,521,866.49</u></b>	<b><u>2,248,710,201.20</u></b>

*5.1.10 Total assets less current liabilities*

	<b>31 December 2014</b>	31 December 2013
Total assets	<b>14,210,783,549.15</b>	12,249,123,151.39
Less: current liabilities	<b>6,061,527,138.19</b>	5,050,078,080.31
Total assets less current liabilities	<b><u>8,149,256,410.96</u></b>	<b><u>7,199,045,071.08</u></b>

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

Standards revised and issued by the Ministry of Finance at the year of 2014:

The Ministry of Finance revised and issued 1 basic standard and 8 specific standards.

The Group performed 5 of the above-mentioned standards in advance, which includes <Accounting Standards for Business Enterprises No.9-Employee benefits>, <Accounting Standards for Business Enterprises No.30-Presentation of financial statements>, <Accounting Standards for Business Enterprises No.33-Consolidated financial statements >, <Accounting Standards for Business Enterprises No.39-Fair value measurement >, <Accounting Standards for Business Enterprises No.40-Joint

arrangements>, the Ministry of Finance issued this 5 new and revised Accounting Standards for Business Enterprises.

The Group performed 4 of the above-mentioned standards in January and February 2014, which includes <Accounting Standards for Business Enterprises – Basic Standard>, <Accounting Standards for Business Enterprises No.2-Long-term equity investments> (revised), <Accounting Standards for Business Enterprises No.37 – Presentation of financial instruments> (revised), <Accounting Standards for Business Enterprises No.41 – Disclosure of interests in other entities> (revised).

The Company classified investments where the Group does not have control, joint control or significant influence over the investees and which are not quoted in an active market and whose fair value cannot be reliably measured to available for sale financial assets in accordance with <Accounting Standards for Business Enterprises No.2 – Long-term equity investments> (revised) and made retroactive adjustments to it.

The effect of performance for the above-mentioned standards are as below:

Consolidated balance sheet:

<b>Item</b>	<b>Opening balance before performance</b>	<b>Amount of retroactive adjustment</b>	<b>Opening balance after performance</b>
Financial assets available for sale	17,608,107.28	101,757,172.65	119,365,279.93
Long-term equity investments	1,972,490,292.04	(101,757,172.65)	1,870,733,119.39

There is no significant effect to the financial statements of the Group by performance of the above China Accounting Standards for Business Enterprises except for above ones.

- 5.3 There is no significant change in estimation and audit method when compared with the 2013 annual report.
- 5.4 There is no major accounting error during the Reporting Period.

5.5 Explanation on changes in scope of business as compared with the previous annual report.

5.5.1 Details of cessation of control arising from one-off disposal of investment in subsidiaries:

Ratio of disposal for equity (%)	Amount of disposal for equity	Disposal ratio(%)	Mode of disposal	Time of control ceases	Recognition	Differences arising from between disposal amount and proportion of net assets held by disposal investment for the range of consolidated financial statements	Ratio of the remaining equity	Book value of the remaining equity at the date of ceased control	Fair value of the remaining equity at the date of ceased control	Gain or loss arising from the remaining equity re-measured at fair value	Recognition and assumption for fair value	Profit or loss arising from transformation of other comprehensive income which is related to equity investment
Guangzhou Baiyunshan Pharmacy	-	100.00				162,851.16	-	-				-

5.5.2 Changes of scope of consolidation arising from other reason.

As at 31 December 2014, increase of 6 companies of the Group in scope of consolidation:

- (1) The Company and Guangzhou Xingzhou Pharmaceutical Co., Ltd. invested RMB86,480,000 to establish Guangzhou Baiyunshan Xingzhou Pharmaceutical Co., Ltd. in February 2014, the Company's ratio of equity interest held are 75%.
- (2) Guanghua Pharmaceutical, a subsidiary of the Company, and other shareholders established Guanghua Health in April 2014 with registered capital of RMB 10,000,000, of which was 75% of registered capital.
- (3) The Company wholly established Guangzhou Baiyunshan Medical Health Industry Investment Co., Ltd. in May 2014, registered capital amounted to RMB 10,000,000.
- (4) Caizhilin Pharmaceutical, a subsidiary of the Company, and other shareholders established Fengshun Guangyao Chinese Raw Medicine Development Co., Ltd. in January 2014, The registered capital of RMB 2,000,000, which was 60% of registered capital.
- (5) The Company wholly established Medical Technology in September 2014, registered capital amounted to RMB 26,000,000.

- (6) Medical Technology, a subsidiary of the Company, and other shareholders established Zhejiang Guangkang Pharmaceutical Co., Ltd. in November 2014 with registered capital amounted to RMB85,000,000, as at 31 December 2014, amount of contribution for Chemical Medicine Technology was 51% of paid-in capital.

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

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

Guangzhou, the PRC, 19 March 2015

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