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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 2017 ANNUAL REPORT

1. IMPORTANT NOTICE

- 1.1 This summary is extracted from the full text of the 2017 annual report of the Company for the year ended 31 December 2017. Investors who wish to know more details are advised to refer to the full text of the 2017 annual report which will be published on the website (<http://www.sse.com.cn>) of SSE, and on the website (<http://www.hkex.com.hk>) of HKEx or other websites designated by CSRC carefully.
- 1.2 The Board, the Supervisory Committee and the Directors, supervisors and senior management collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this summary and confirm that there are no false information, misleading statements or material omissions in this summary.
- 1.3 The financial reports of the Group and the Company for the Reporting Period are prepared in accordance with the China Accounting Standards for Business Enterprises, which are audited by BDO China Shu Lun Pan Certified Public Accountants LLP which had issued an unqualified auditors' report in respect thereof.
- 1.4 Profit distribution plan or plan of carrying over reserved funds to equity shares during the Reporting Period as considered by the Board

As audited and confirmed by BDO China Shu Lun Pan Certified Public Accountants LLP: the net profit of the Group attributable to the shareholders of the Company of 2017 amounted to RMB2,061,651,929.01. Based on the net profit of the Company of RMB1,027,277,744.36 in 2017, a 10% statutory surplus reserve in the amount of RMB102,727,774.44 is provided, with the addition of the undistributed profit carried over from last year in the amount of RMB3,555,086,769.64, and after reducing the cash dividends of 2016 by RMB455,221,465.72, the actual distributable profits amounted to RMB4,024,415,273.84.

Based on the actual circumstances of the Company, it is proposed that based on the share capital of 1,625,790,949 shares as at the end of 2017, a cash dividend of RMB3.81 (inclusive of tax) for every 10 shares, an aggregate of RMB619,426,351.57 be distributed. The undistributed portion shall be transferred to the next distribution. There will not be any capitalization of capital reserve for 2017.

The profit distribution plan will be submitted to the 2017 Annual General Meeting for approval.

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

1.6 All the information required to be contained in the summary of the 2017 annual report of the Company pursuant to paragraph 45 of Appendix 16 to the Listing Rules of HKEx will be published on the website of HKEx in due course.

2. DEFINITIONS

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

Company/the Company/ GYBYS	Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited
PRC or China	the People's Republic of China
Reporting Period/Year/ the current year	the 12 months ended 31 December 2017
Group	the Company and its subsidiaries
Board	the board of directors of the Company
Supervisory Committee	the supervisory committee of the Company
CSRC	China Securities Regulatory Commission
SSE	The Shanghai Stock Exchange
HKEx	The Stock Exchange of Hong Kong Limited
Articles of Association	the articles of association of the Company
Listing Rules of HKEx	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

GPHL	Guangzhou Pharmaceutical Holdings Limited (廣州醫藥集團有限公司)
Zhong Yi	Guangzhou Baiyunshan Zhong Yi Pharmaceutical Company Limited (廣州白雲山中一藥業有限公司)
Chen Li Ji	Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Company Limited (廣州白雲山陳李濟藥廠有限公司)
Qi Xing	Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. (廣州白雲山奇星藥業有限公司)
Pan Gao Shou	Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.(廣州白雲山潘高壽藥業股份有限公司)
Jing Xiu Tang	Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. (廣州白雲山敬修堂藥業股份有限公司)
Wang Lao Ji	Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. (廣州王老吉藥業股份有限公司)
Guangzhou Han Fang	Guangzhou Baiyunshan Han Fang Contemporary Pharmaceutical Co., Ltd. (廣州白雲山漢方現代藥業有限公司)
WLJ Great Health	Guangzhou WLJ Great Health Industry Co., Ltd. (廣州王老吉大健康產業有限公司)
GP Corp.	Guangzhou Pharmaceuticals Corporation (廣州醫藥有限公司)
Cai Zhi Lin	Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (廣州采芝林藥業有限公司)
Pharmaceutical Import & Export	Guangzhou Pharmaceutical Import & Export Company Limited (廣州醫藥進出口有限公司)
Guangyao Baiyunshan Hong Kong Company	Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited (廣藥白雲山香港有限公司)
Baiyunshan General Factory	Guangzhou Baiyunshan Pharmaceutical General Factory (廣州白雲山醫藥集團股份有限公司廣州白雲山製藥總廠)
Chemical Pharmaceutical Factory	Guangzhou Baiyunshan Chemical Pharmaceutical Factory (廣州白雲山醫藥集團股份有限公司廣州白雲山化學製藥廠)

He Ji Gong	Guangzhou Baiyunshan Pharmaceutical Co., Ltd. Baiyunshan He Ji Gong Pharmaceutical Factory (廣州白雲山醫藥集團股份有限公司白雲山何濟公製藥廠)
Tian Xin	Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. (廣州白雲山天心製藥股份有限公司)
Guang Hua	Guangzhou Baiyunshan Guang Hua Pharmacy Co., Ltd., (廣州白雲山光華製藥股份有限公司)
Ming Xing	Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. (廣州白雲山明興製藥有限公司)
HWBYS	Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited (廣州白雲山和記黃埔中藥有限公司)
Guangyao General Institute	Guangzhou Pharmaceutical Research General Institute (廣州醫藥研究總院有限公司)
Baiyunshan Pharmaceutical Marketing	Guangzhou Baiyunshan Pharmaceutical Marketing Co., Ltd. (廣州白雲山醫藥銷售有限公司)
Baiyunshan Medical and Healthcare Industry Company	Guangzhou Baiyunshan Medical and Healthcare Industry Investment Co., Ltd. (廣州白雲山醫療健康產業投資有限公司)
WLJ Investment	Guangzhou WLJ Investment Co., Ltd. (廣州王老吉投資有限公司)
Medical Instrument Investment Company	Guangzhou Baiyunshan Medical Instrument Investment Company (廣州白雲山醫療器械投資公司)
Guangzhou Baiyunshan Hospital	Guangzhou Baiyunshan Hospital Co., Ltd. (廣州白雲山醫院有限公司)
WLJ Catering	Guangzhou WLJ Catering Management Development Co., Ltd. (廣州王老吉餐飲管理發展有限公司)
Yi Gan	Guangzhou Guangyao Yigan Biological Products Co., Ltd. (廣州廣藥益甘生物製品股份有限公司)
Yi Xintang	Yunnan hongxiang Yi Xintang pharmaceutical (Group) Company Limited (雲南鴻翔一心堂藥業(集團)股份有限公司)

GDP	the English abbreviation of Gross Domestic Product. It refers to the market value of all final products and labor produced by all permanent units in a country (within national borders) in a given period. GDP is the core indicator of the national economic accounting, and it is also an important indicator to measure the overall economic conditions of a country or region.
GMP	the English abbreviation of Good Manufacturing Practice, and it is a set of mandatory standards applicable to the pharmaceutical industry, which requires the pharmaceutical companies to ensure the quality of medicines in the production process shall conform to the national standards in accordance with the GMP requirements.
Medical Insurance Catalogue	a Catalogue of the List of Pharmaceutical Products under the National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance of the PRC (國家基本醫療保險、工傷保險和生育保險藥品目錄) (referred to as “Pharmaceutical List”), being the standard payable drugs fees for the basic medical insurance, work-related injury insurance and maternity insurance fund.
GZ SOA Development	Guangzhou State-owned Asset Development Holdings Limited (廣州國資發展控股有限公司)
GZ Chengfa	Guangzhou China Life Urban Development Industry Investment Enterprise (Limited Partnership) (廣州國壽城市發展產業投資企業(有限合夥))
Yunfeng Investment	Shanghai Yunfeng Xinchuang equity investment center (limited partnership) (上海雲鋒新創股權投資中心(有限合夥))

3. COMPANY PROFILE

3.1 Company Profile

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

	Secretary to the Board	Representative of securities affairs
Name	Huang Xuezheng	Huang Ruimei
Address	45 Sha Mian North Street, Liwan District, Guangzhou City,	
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3.2 Profile of the main business and products

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

3.2.1 Great Southern TCM (medicine manufacturing business)

There are 26 pharmaceutical manufacturing companies and organizations under the Company (including 3 branches, 19 subsidiaries and 4 joint ventures). The above enterprises or institutions engage in the R&D and manufacturing of Chinese patent medicine and western medicine, chemical raw materials, intermediates chemical raw materials, biomedicine and natural medicine, etc..

- 1) The Group is an epitome of the southern TCM. The Company has 12 China time honored brand enterprises such as Zhong Yi, Chen Li Ji, Qi Xing, Jing Xiu Tang, Pan Gao Shou, etc. (including subsidiaries and joint ventures), among which, 10 of them are century old time-honored enterprises. The Company and its joint ventures has 3 protected Chinese traditional medicine of national grade, and 54 exclusively made Chinese traditional medicine. Main products include Xiao Ke Pill, Hua Tuo Zai Zao Pill, compound Salvia Milltiorrhiz slice, Ban Lan Gen Granule, Qing Kai Ling series, An Gong Niu Huang Pill, Zi Shen Yu Tai Pill, Shu Jin Jian Yao Pill, Xiao Chai Hu Granule BaoJi series, Xia Sang Ju Granule, Zhui Feng Tou Gu Pill etc.. The Group boasts clear brand and variety advantages in proprietary Chinese medicines in southern China and even countrywide.
- 2) The Group has a complete antibiotic production chain ranging from raw material medicine to preparation and male medicine, with products covering commonly used antibiotic varieties. The Group integrated the antibiotic brands with the famous trademark “Kang Zhi Ba”, striving to create a market image as the number one brand of oral antibacterial anti-inflammatory. The Group’s chemical medicine includes Cefathiamidine, Cefixime, Amoxicillin and Sildenafil Citrate Tablets, etc..

3.2.2 Great Health Industry

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

3.2.3 Great Commerce (Pharmaceutical distribution business)

The pharmaceutical distribution business of the Group and its joint ventures mainly includes the wholesale, retail, and import and export business of pharmaceutical products, medical equipment and healthcare products etc.. The wholesale business is carried out principally through the Company’s joint venture, namely GP Corp. and its subsidiary, namely Cai Zhi Lin and Pharmaceutical Import & Export. The retail business is carried out principally through Cai Zhi Lin pharmacy chains, Jian Min pharmacy chains and Ying Bang pharmacy, etc.. GP Corp., is the leading medicine circulation enterprise in Southern China.

3.2.4 Great Medical Care

The Group leveraged Baiyunshan Medical and Healthcare Industry Company as the main investment vehicle and used various means, including new establishment, joint venture and co-operation to focus on the development of three areas, i.e. medical service, health maintenance and modern elderly care.

Currently, the Great Medical Care segment is at the stage of investment expansion. In the healthcare service field, Guangzhou Baiyunshan Hospital has grown from a community hospital into a comprehensive Class II healthcare service institution, featured by rehabilitation as the focus, supplemented by orthopedics and urology integrating medical treatment and convalesce. In the health and preservation field, the Tibetan-style Health Preservation Castle in Nyingchi of Tibet invested by the Company has been constructed, whose operating model is to be refined and improved. In the medical device field, the Group has contributed to the setup of a joint venture, Guangzhou Zhongcheng Medical Device Company (廣州眾成醫療器械公司), and is pushing forward its presence in and development of the medical device industry. The Company is negotiating a partnership with domestic and overseas large medical and healthcare institutions in respect of several projects.

3.3 Current circumstance of the development of the industry

In recent years, with the increasingly intensified efforts in medicine bidding and medical insurance cost control, as well as the slowdown in GDP growth and the near completion of full coverage at medical insurance, the growth rate of the pharmaceutical industry has declined. The total industrial output value of medicines in 2017 was RMB2,818.6 billion, representing an increase of 12.50%; total profit amounted to RMB331.4 billion, representing an increase of 17.80%.

3.4 Position of the Company in the Industry

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

4 PRINCIPAL FINANCIAL DATA

4.1 Principal financial data

	2017	2016	Year on year Increase/ Decrease (%)	2015	2014		2013	
					After Restatement	Before Restatement	After Restatement	Before Restatement
Principal financial data								
Income from operations (RMB'000)	20,954,225	20,035,681	4.58	19,124,658	18,818,232	18,799,881	17,628,142	17,608,193
Net profit attributable to the shareholders of the Company (RMB'000)	2,061,652	1,508,033	36.71	1,300,351	1,194,141	1,192,472	979,376	980,045
Net profit attributable to the shareholders of the Company after deducting non- recurring items (RMB'000)	1,935,560	1,071,111	80.71	1,128,765	1,092,530	1,112,771	873,052	891,802
Net cash flow from operating activities (RMB'000)	1,833,691	2,544,672	(27.94)	1,941,956	1,751,690	1,761,382	1,341,176	1,339,140
Total profit (RMB'000)	2,492,976	1,945,053	28.17	1,628,122	1,468,061	1,467,177	1,228,521	1,229,190

	As at 31 December 2017	As at 31 December 2016	Year on year Increase/ Decrease (%)	As at 31 December 2015	As at 31 December 2014		As at 31 December 2013	
					After Restatement	Before Restatement	After Restatement	Before Restatement
Principal financial data								
Net assets attributable to the shareholders of the Company (RMB'000)	18,871,521	17,345,080	8.80	8,450,814	7,705,137	7,739,301	6,795,505	6,831,768
Total assets (RMB'000)	28,314,713	25,897,170	9.34	15,870,577	14,266,903	14,210,784	12,321,777	12,249,123
Total liabilities (RMB'000)	9,051,560	8,243,380	9.80	7,186,644	6,344,908	6,251,805	5,335,803	5,226,886
Equity attributable to the shareholders of the Company per share (RMB)	11.61	10.67	8.80	6.55	5.97	5.99	5.26	5.29
Total equity (RMB'000)	1,625,791	1,625,791	–	1,291,079	1,291,341	1,291,341	1,291,341	1,291,341

4.2 Principal financial indicators

Principal accounting data	2017	2016	Year on year Increase/ Decrease (%)	2015	2014		2013	
					After restatement	Before restatement	After restatement	Before restatement
Basic earnings per share (RMB)	1.268	1.075	17.95	1.007	0.925	0.923	0.767	0.768
Diluted earnings per share (RMB)	1.268	1.075	17.95	1.007	0.925	0.923	0.767	0.768
Basic earnings per share after deducting non-recurring items (RMB)	1.191	0.764	55.90	0.874	0.846	0.862	0.684	0.699
Weighted average return on net assets ratio (%)	11.34	12.75	A decrease of 1.41 percentage points	15.91	16.48	16.38	15.70	15.71
Ratio of weighted return on net assets after deducting non-operating items (%)	10.64	9.06	An increase of 1.59 percentage points	13.81	15.08	15.29	13.99	14.30
Return on total equity attributable to shareholders of the Company (%)	10.92	8.69	An increase of 2.23 percentage points	15.39	15.50	15.41	14.41	14.35
Ratio on total equity attributable to shareholders of the Company to total assets (%)	66.65	66.98	A decrease of 0.33 percentage point	53.25	54.01	54.46	55.15	55.77
Gearing ratio (%)	31.97	31.83	An increase of 0.14 percentage point	45.28	44.47	43.99	43.30	42.67

Notes:

- (1) The above financial data and indicators are computed based on the consolidated financial statements.
- (2) $Gearing\ ratio = Total\ liabilities \div Total\ assets \times 100\%$.
- (3) In August 2016, the Company completed the non-public offering of Renminbi-denominated ordinary shares (A shares) to raise funds, with an increase in share capital of RMB334 million. In 2016, the earnings per share was calculated based on the weighted average number of shares. The Company did not experience any change in its share capital during the Reporting Period.

(4) *In August 2016, the Company completed the non-public offering of Renminbi-denominated ordinary shares (A shares) to raise funds, with an increase in net assets attributable to ordinary shareholders of the Company of RMB7.863 billion. In 2016, the return on net assets was calculated based on the weighted average net assets. The Company did not have any matters related to new share offering or debt to equity in 2017.*

4.3 Principal financial data of 2017 on quarterly basis

	The first quarter (January – March) (RMB'000)	The second quarter (April – June) (RMB'000)	The third quarter (July – September) (RMB'000)	The forth quarter (October – December) (RMB'000)
Income from operations	5,287,931	5,827,407	4,851,593	4,987,293
Net profit attributable to the shareholders of the Company	484,662	673,478	327,511	576,001
Net profit attributable to the shareholders of the Company after deducting non-recurring items	461,835	665,274	317,867	490,584
Net cash flow from operating activities	225,970	639,028	946,425	22,268

5. SHAREHOLDERS

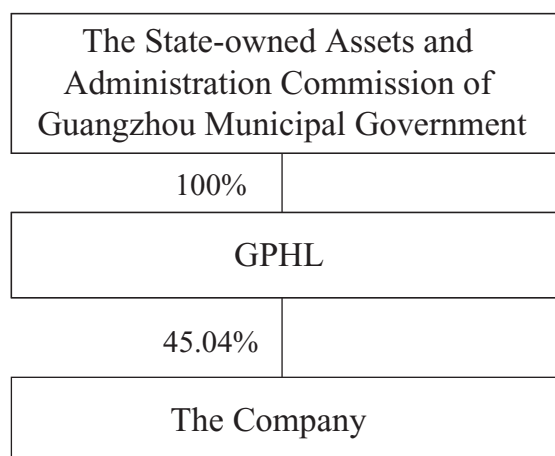
5.1 Total number of shareholders and the top ten shareholders as at the end of the Reporting Period

	Total number of shareholders as at the end of the Reporting Period	65,632	Total number of shareholders as at 28 February 2018	72,808			
The top ten shareholders of the Company							
Shareholders	Increase/Decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Approximate percentage of the total issued share capital (%)	Number of shares subject to selling restrictions (share)	Number of shares pledged or locked (share)	Class of shares	
GPHL	0	732,305,103	45.04	148,338,467	0	Domestic shares	
HKSCC Nominees Limited	6,000	219,677,469	13.51	0	0	H shares	
GZ SOA Development	0	87,976,539	5.41	87,976,539	0	Domestic shares	
Guangzhou Chengfa	0	73,313,783	4.51	73,313,783	0	Domestic shares	
China Securities Finance Corporation Limited	11,240,731	47,603,582	2.93	0	0	Domestic shares	
Yufeng Investment	0	21,222,410	1.31	21,222,410	21,222,410	Domestic shares	
Central Huijin Asset Management Co., Ltd.	0	15,260,700	0.94	0	0	Domestic shares	
The Industrial and Commercial Bank of China Co., Ltd. – Southern Consumption Vitality Flexibly Configured Mixed Initiate Securities Investment Funds	-2,492,000	7,453,228	0.46	0	0	Domestic shares	
The National Social Security Fund – One One Five Combination	7,100,033	7,100,033	0.44	0	0	Domestic shares	
Huaxia Fund – Agricultural Bank of China – Huaxia Financial Asset Management Plan	1,745,600	5,231,736	0.32	0	0	Domestic shares	

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

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

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



5.3 Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s shares during the Year.

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

5.5 Public float

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

5.6 Pre-emptive rights

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

6. DISCUSSION AND ANALYSIS ON OPERATION

6.1 Management Discussion and Analysis

During the Reporting Period, in accordance with the development concept of “year of quality and benefits”, the Group actively coped with the opportunities and challenges brought by the new normalization of economy and the medical industry policies, always adhered to emphasizing on improving its development quality and efficiency, proactively promoted the business development of the four principal sectors, i.e. Great Southern TCM, Great Health, Great Commerce and Great Medical Care, focused on improving the quality of the product, operation, service and talent, vigorously created product brand and enterprise brand, strived to improve the quality benefits, and has achieved sustained and steady development of business performance.

In 2017, the Group’s revenue amounted to RMB20,954,225,000, increased by 4.58% year-on-year; the total profit was RMB2,492,976,000, increased by 28.17% year-on-year; and the net profit attributable to shareholders of the Company was RMB2,061,652,000, increased by 36.71% year-on-year.

During the Reporting Period, the Group rigorously pushed the following works:

The first is to polish up China’s well-known trademarks and time-honored brands, intensify the promotion efforts on its brands and products and enhance the quality benefits of Great Southern TCM. (1) Strengthened the efforts on channel construction and brand promotion of the products with huge potentials, also followed up on key products with sluggish growth, re-formulated marketing programs and enhanced the product marketing capability. During the Reporting Period, Sildenafil Citrate Tablet (“Jin Ge”), Amoxicillin series, Xiao Chai Hu Granule of Guang Hua, Zi Shen Yu Tai Pill of Zhong Yi and Hua Tuo Zai Zao Pill of Qi Xing recorded a sales growth, of which, sales revenue of Jin Ge increased by over 40% year on year. (2) Seized the opportunity of the implementation of Traditional Chinese Medicine Law and the PRC’s vigorous development of traditional Chinese medicine to propose the concept of developing “fashionable Chinese medicine”, strive to drive the transformation and development of traditional Chinese medicine segment through advanced technology and fashionable marketing, driving a satisfactory growth in the sales revenue of a large variety of Chinese patent medicine. During the Reporting Period, sales revenue of Zi Shen Yu Tai Pill of Zhong Yi and Shu Jin Jian Yao Pill of Chen Li Ji increased by approximately 50% year on year. (3) Continued to implement the resource integration strategy and further consolidated Great Southern TCM resource. During the Reporting Period, Qi Xing successfully obtained the approval document for holders of marketing licenses, which effectively solved the problem of redundant development arising from the overall relocation of the enterprise, and provided favorable conditions for subsequently strengthening resources integration. In addition, it promoted the marketing integration of Baiyunshan General Factory, Guang Hua and Jing Xiu Tang at a steady pace; strengthened resource sharing of national Top 100 chain stores, leveraged on

the delivery network and logistic advantages of Great Commerce and coordinated the closer cooperation of Great Southern TCM and Great Commerce to realize their mutual promotion and development.

The second is to make Wang Lao Ji brand stronger and enhance the quality benefits of Great Health. In accordance with the “Triangle” strategy of “fashion, science and technology, culture”, the Group has constantly consolidated and improved the market position of Wang Lao Ji in herbal tea industry to facilitate its development in the Great Health industry. (1) On the basis of refined channel construction, the Group further expanded the coverage of traditional channel by establishing strong foundation for the market. (2) Promoted the modernization of science and technology, by leveraging on the project of “Medical herb DNA barcoding system for species identification”, Wang Lao Ji was granted the second prize of National Science and Technology Progress Award, and became the first brand to receive the honor in the herbal tea industry. In addition, WLJ Great Health was identified as the national high-tech enterprise and Wang Lao Ji Herbal Tea plant beverage as a new high-tech product in Guangdong Province. (3) Vigorously advanced the international construction of Wang Lao Ji brand. During the Reporting Period, Wang Lao Ji Herbal Tea became the exclusive official drink for Fortune Global Forum to further enhance its internationalization and influence. (4) Promoted the diversity of singular product. During the Reporting Period, WLJ Great Health successively launched two new products i.e. Black Herbal Tea and Dazhai Walnut Drink targeting the young market, and upgraded its sugar-free and low-sugar canned Wang Lao Ji and the classic PET targeting the high-end market, which were newly launched in the fourth quarter of 2016, to attract consumers with new fashionable packaging. In addition, Wang Lao Ji Catering established 4 freshly brewed herbal tea concept stores in Zhujiang New Town to try to tap into the market of “new-style tea”. (5) Promoted the differentiation of capacity layout, and carried out the capacity layout by way of self-built base and establishing asset-light base. During the Reporting Period, Wang Lao Ji Yunnan Chuxiong Light Asset Innovative Industry Base, as the first innovative industry base settled in the minority autonomous prefecture, was put into operation in May 2017, while the Wang La Ji Herbal Tea Liquid Extraction Base in Meizhou officially commenced construction in December 2017.

The third is to optimize service brand and enhance the quality benefits of Great Commerce. (1) Optimized the modern medicine logistics extension services. During the Reporting Period, the Group and the joint ventures of the Company proactively promoted the modern medicine logistics extension services project, and established a service system with automation, intelligence and informatization in response to the industry policies to constantly enhance the modern logistic management capability of the hospitals while proactively expanding the Chinese medicine distribution of the hospitals and logistic extension services of the TCM pharmacies. (2) Optimized retail service and actively explored innovative retail model. During the Reporting Period, the Company reached a strategic cooperation with Yixintang, pursuant to which, the Company contributed approximately RMB800 million for subscription of its non-publicly issued A share. GP Corp., a joint venture of the Company, changed its

retail operation concept to focus on customers, and 10 new-concept Jian Min stores with “product + service” were set up. Cai Zhi Lin, a wholly-owned subsidiary of the Company, adopted an innovative retail model together with the full operation of the traditional Chinese medicine intelligent decoction center to launch the “Internet +” businesses such as uploading the traditional Chinese medicine prescription through WeChat and providing decoction and delivery service to customers and traditional Chinese medicine new concept formula granule, which brought a new growth in the retail business. (3) Optimized the wholesale business and rigorously advanced the descending of the terminal network, which, together with the marginal effect arising from service extension, enhanced the terminal occupation rate and the coverage rate. (4) Optimized pharmaceutical e-commerce services. During the Reporting Period, the Group reached strategic cooperation with the internet platforms to strive to provide diversified services of “Internet + Medicine”. In addition, the Group and its joint ventures strengthened the business development of its own e-commerce platform to drive the sales growth of e-commerce.

The fourth is to specialize the BYS medical brand to enhance the quality benefits of Great Medical Care. (1) Upgraded and built Guangzhou Baiyunshan Hospital and vigorously developed the medical service industry. (2) Actively developed the medical device industry through industry incubation and constantly consolidated the foundation for medical care and medical device development under the guidance of the project. During the Reporting Period, Medical Instrument Investment Company, a subsidiary controlled by the Company, and Shanghai Xiecheng Investment Management Co., Ltd. and Guangzhou Aozida Medical Instrument Technology Co., Ltd. jointly established Guangzhou Zhongcheng Medical Device Development Co., Ltd. to promote the implementation of the projects in the park by building Guangzhou Baiyunshan International Medical Instrument Innovative Park as the operation platform.

The fifth is to optimize the scientific research and product quality, and enhance the quality benefits of Great Science and Technology. (1) Set “quality” as the core, enhanced the overall quality management level, improved quality management and strengthened quality control on each process in the course of production. (2) Set “integration” as the main line, strengthened the construction of the innovation system, strengthened the overall assessment of scientific research, and made a further new step forward scientific research. (3) Promoted independent innovation by means of “talent attraction + incentive”. (4) Set “cooperation” as the starting point, promoted the establishment of major science and technology innovation projects, sped up the carrying out of consistency assessment and facilitated the construction of biological sample testing center project of Guangyao General Institute. During the Reporting Period, Baidi Company, one of the controlled subsidiaries of the Company, and Nanfang Hospital jointly carried out a development and application project of novel anti-tumor vaccines, and entered into a strategic cooperation framework agreement with Wuxi Biologics to carry out the development of new biological drugs such as innovative tumor immune antibodies, bispecific antibody drugs and innovative ADC antibody drugs. In addition, the Group actively conducted the consistency assessment study on the generic drug.

During the Reporting Period, the Group and its joint ventures newly added 2 provincial level engineering centers and 4 provincial level corporate technical centers. In addition, the topic on the “industrialization of new injection lipid excipients and common key technological research and development of application, as well as the international registration” participated by Guangzhou Han Fang was elected for one of the National Science and Technology Major Projects. HWBYS obtained “2016 National Demonstration Academician Expert Works”. The “Guangdong Engineering Research Center for Modern Traditional Chinese Medicine” of Zhong Yi was accredited by Guangdong Provincial Department of Science and Technology. The “Guangdong Engineering Research Center for Innovation Pharmaceutical Manufacturing Technology and Process Control” of Chemical Pharmaceutical Factory was accredited by Guangdong Provincial Department of Science and Technology. Guang Hua, Guangzhou Han Fang, Wang Lao Ji and Ming Xing obtained the accreditation from provincial level corporate technical centers. The “Technology Improvement and Application Research of Technique Quality Control of TCM Sub-Melting Double Gastrointestinal Pill” of Chen Li Ji was granted the third prize of Guangdong Province Science and Technology Award. “Basic Research and Application on the Glucolipid Metabolism Pathology and the Comprehensive Prevention and Control for Non-alcoholic Fatty Liver Disease” of HWBYS was granted the first prize of Science and Technology Award by Chinese Association of the Integration of Traditional and Western Medicine. “Use of Isatis Root Polysaccharide in Preparation of Anti-influenza Virus Drug” of HWBYS and “A Blood-tonifying and Iron-supplementing Drug and its Preparation Method” of Chen Li Ji won the 19th China Patent Excellence Award. “A Method for Examining Galangal and Quercetin Content in Persimmon Leaves” of HWBYS won the Guangzhou Patent Excellence Award. The Phytogenic Antineoplastic Vinorelbine Tartrate of Guangzhou Han Fang received the Certification of Suitability to the Monographs of the European Pharmacopoeia Certification issued by European Directorate for the Quality Control of Medicines (EDQM).

The sixth is to optimize the quality of operation, expend great efforts in strategy, assessment, standard, cost, safety and risk management, vigorously promote information construction and enhance the quality benefits of the great management.

6.2 Analysis of principal operations

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

Items	The Reporting Period (RMB'000)	The corresponding period of 2016 (RMB'000)	Increase/ (Decrease) over the same period of 2016 (%)
Revenue	20,954,225	20,035,681	4.58
Include: income from principal operations	20,789,416	19,875,179	4.60
Cost of sales	13,063,229	13,412,063	(2.60)
Include: cost from principal operations	13,023,398	13,372,298	(2.61)
Selling and distribution expenses	4,285,949	3,823,589	12.09
General and administrative expenses	1,579,583	1,439,734	9.71
Financial expenses	(210,571)	(96,520)	(118.16)
The profit before tax	2,492,976	1,945,053	28.17
Net profit attributable to shareholders of the Company	2,061,652	1,508,033	36.71
Net cash flow from operating activities	1,833,691	2,544,672	(27.94)
Net cash flow from investing activities	(2,440,644)	(489,158)	(398.95)
Net cash flow from financing activities	(484,274)	6,724,722	(107.20)
Research and development expenses	373,288	330,368	12.99

Notes:

- (a) *The financial expenses for the Reporting Period decreased as compared with the same period of last year, mainly due to improvement in the Group's fund management, reduction in bank borrowings, increase in interest income and reduction in financial costs as a result of the Group's reasonable fund allocation, increase in capital efficiency as well as optimization in types of deposits.*
- (b) *Net cash flow from investing activities for the Reporting Period decreased as compared with same period of last year, mainly due to the increase in the Group's purchase of structured deposits and wealth management products year-on-year and the Company's fund for subscription of the non-public A shares of Yi Xin Tang.*
- (c) *Net cash flow from financing activities for the Reporting Period decreased as compared with the same period of last year, mainly because the Company received proceeds from the non-public offering of Renminbi-denominated ordinary shares (A shares) for the year 2016 and the Company replaced its bank loans with entrusted loans through internal fund transfer during the Reporting Period.*
- (d) *The increase in net profit attributable to shareholders of the Company for the period as compared to the same period last year was mainly due to the increase in operating profit, financial income and investment income of joint ventures of the Group during the year.*

6.2.1 Analysis of revenue and cost

In 2017, the main factor leading to changes in the income from operations of the Group was: the continued growth of the Group's operating results, which was mainly attributed to the active efforts made by the Group during the Reporting Period to drive the development of the four segments of Great Southern TCM, Great Health, Great Commerce and Great Medical Care as well as the three new types of operation of e-commerce, capital finance and medical device and promote business growth by vigorously building the brand and improving the quality benefits.

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

Industry	Results of principal operations by industry					
	Income from principal operations	Increase/Decrease over the same period of 2016	Cost of principal operations	Increase/Decrease over the same period of 2016	Profit margin of principal operations	Increase/Decrease over the same period of 2016
	(RMB'000)	(%)	(RMB'000)	(%)	(%)	(percentage point)
Great Southern TCM	7,795,967	12.88	4,256,275	9.30	45.40	An increase of 1.78 percentage points
Great Health	8,573,656	10.35	4,694,133	2.02	45.25	An increase of 4.47 percentage points
Great Commerce	4,328,826	(15.92)	4,002,443	(17.29)	7.54	An increase of 1.54 percentage points
Other	90,967	78.26	70,547	85.62	22.45	A decrease of 3.07 percentage points
Total	20,789,416	4.60	13,023,398	(2.61)	37.36	An increase of 4.64 percentage points

Results of principal operations by products						
Types of products	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/Decrease over the same period of 2016 (%)	Cost of principal operations (RMB'000)	Increase/(Decrease) over the same period of 2016 (%)	Profit margin of principal operations (%)	Increase/(Decrease) over the same period of 2016 (percentage point)
Chinese patent medicine	3,913,564	21.61	2,295,620	30.15	41.34	A decrease of 3.85 percentage points
Chemical medicine	3,882,403	5.26	1,960,655	(7.96)	49.50	An increase of 7.25 percentage points
Total of Great Southern TCM	7,795,967	12.88	4,256,275	9.30	45.40	An increase of 1.79 percentage points

Results of principal operations by regions						
Regions	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/Decrease over the same period of 2016 (%)	Cost of principal operations (RMB'000)	Increase/(Decrease) over the same period of 2016 (%)	Profit margin of principal operations (%)	Increase/(Decrease) over the same period of 2016 (percentage point)
Southern China	11,487,792	6.18	7,599,785	(0.60)	33.84	An increase of 4.51 percentage points
Eastern China	3,642,067	2.20	2,083,507	(9.06)	42.79	An increase of 7.08 percentage points
Northern China	2,098,028	(7.28)	1,132,840	(13.55)	46.00	An increase of 3.91 percentage points
North-Eastern China	387,188	15.49	218,362	5.61	43.60	An increase of 5.27 percentage point
South-Western China	2,468,998	12.49	1,598,859	6.90	35.24	An increase of 3.38 percentage points
North-Western China	654,256	3.86	340,151	(4.27)	48.01	An increase of 4.42 percentage points
Exports	51,087	(26.08)	49,894	(26.02)	2.33	A decrease of 0.09 percentage point

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

b) Analysis of production and sales

Main products	Production	Sales	Inventory	Production	Sales	Inventory
				Increase/ Decrease over the same period of 2016 (%)	Increase/ Decrease over the same period of 2016 (%)	Increase/ Decrease over the same period of 2016 (%)
Sildenafil Citrate Tablets (thousand tables)	43,093.95	39,635.01	7,326.76	49.97	52.25	86.14
Xiao Ke Pill (thousand bottles)	41,090.72	39,604.47	5,021.31	1.41	(11.53)	25.87
Cefixime series (thousand boxes)	353,794.28	340,040.02	38,977.06	4.28	0.21	48.62
Cephathiamidine for Injection (thousand ampoules)	36,436.89	39,441.09	1,261.46	(44.71)	(36.31)	(72.59)
Xiao Chai Hu Granules (ten thousand packs)	31,411.86	31,747.93	5,206.76	1.35	4.32	(6.86)
Shu Jin Jian Yao Pill 45g (thousand bottles)	31,252.37	33,371.56	4,664.51	23.26	30.05	(32.18)
Hua Tuo Zaizao Pill (thousand boxes)	8,882.28	8,186.32	1,705.83	63.03	63.09	56.77
Amoxicillin series (thousand boxes)	927,208.79	1,134,112.93	106,105.99	(20.40)	(6.29)	(66.57)
Xia Sang Ju Granule 10g (thousand packs)	321,322.31	315,387.62	45,171.26	(8.00)	(4.17)	14.00
Zi Shen Yu Tai Pill (thousand bottles)	5,902.65	6,647.85	819.18	(51.20)	(37.77)	(48.21)

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

- a. Production volume of Sildenafil Citrate Tablet increased by 49.97% year on year, mainly due to: the launch of newly developed products, the increase in sales demand and the expansion of mass production; the sales volume increased by 52.25% year on year, mainly due to the fact that: we vigorously developed new products, expanded the market, implemented promotional tools, which drove the growth in terminal sales; inventory increased by 86.14% year on year as at the end of the period, mainly due to the increase in inventory year on year with increasing market demand.

- b. Inventory of Cefixime series as at the end of period increased by 48.62% year on year, mainly due to: the fact that the new workshop obtained GMP accreditation in December 2017 with more production volume for inspection, resulting in a significant growth in inventory year on year.
- c. Production volume, sales volume and inventory as at the end of period of cephalosporanamidine for injection decreased by 44.71%, 36.31% and 72.59% year on year, respectively, mainly due to: the fact that in accordance with the 2017 Revision of National Reimbursement Insurance Drug List, more restrictions on application of part of drugs are imposed, of which, cefathiamidine is required to provide drug sensitive test results, resulting in the decrease in its production volume, sales and inventory.
- d. Inventory of Shu Jin Jian Yao Pill increased by 30.05% year on year, mainly due to: the increase in the management of advertising and promotion and the improvement in advertising and promotion of terminal drugstores, which leading to the growth of sales; inventory as at the end of the period decreased by 32.18% year on year, mainly due to: decrease in inventory with increasing sales volume.
- e. Production volume of Hua Tuo Zai Zao Pill increased by 63.03% year on year, mainly due to: the increased production volume as a result of the addition of a pellet production line and steady supply of raw materials; the sales volume increased by 63.09% year on year, mainly due to increase in the sales volume of chain store business; inventory as at the end of period increased by 56.77% year on year, mainly due to: increase in inventory year on year with increasing market demand.
- f. Inventory of amoxicillin series at the end of period decreased by 66.57% year on year, mainly due to: a lot of similar products in market and decrease in both of competitiveness and sales volume as a result of the restriction on antibiotic; and
- g. Production volume and sales volume of Zi Shen Yu Tai Pill decreased by 51.20% ,37.77% and 48.21% year on year, respectively, mainly due to: the fact that the specification of the product was gradually changed to 30g from 60g, the unit price increased thereafter, which resulting in the decrease in demand; inventory as at the end of period decreased by 48.21% year on year, mainly due to: the corresponding decrease in stocks after the specification of the product changing to 30g from 60g.

c) Analysis of cost

		Principal operations by industry				
		2017		2016		
Principal Operation	Components	Amount (RMB'000)	Percentage of the proportion of operation cost	Amount (RMB'000)	Percentage of the proportion of operation cost	Percentage of Changes in the proportion (%)
			(%)		(%)	
Great Southern TCM	Raw materials	2,870,432	67.44	2,604,306	66.88	10.22
	Fuel	110,663	2.60	107,864	2.77	2.60
	Labor costs	285,170	6.70	284,262	7.30	0.32
	Others	990,010	23.26	897,566	23.05	10.30
Great Health	Raw materials	3,710,242	79.04	3,567,190	77.53	4.01
	Fuel	7,980	0.17	7,822	0.17	2.02
	Labor costs	8,919	0.19	9,202	0.20	(3.08)
	Others	966,992	20.60	1,016,831	22.10	(4.90)
Great Commerce	Procurement costs	4,002,443	100.00	4,839,249	100.00	(17.29)
Others	Other costs	70,547	100.00	38,006	100.00	85.62

d) Major suppliers and sale

During the year, sales by the Group to the 5 largest customers amounted to RMB2,402,240,000 (2016: RMB2,592,605,000), representing approximately 11.56% of the total sales (2016: 13.04%) of the Group. The sales to the largest customer amounted to RMB 1,019,758,000 (2016: RMB1,217,867,000), representing 4.91% (2016: 6.13%) of the total sales of the Group. The sales to the 5 largest customers included RMB1,791,169,000 being sale to related parties, representing 8.62% of the total sales of the Group for the year.

During the year, purchases by the Group from the 5 largest suppliers amounted to RMB1,912,706,000 (2016: RMB2,267,462,000), representing approximately 18.75% of the total purchases (2016: 21.14%) of the Group for the year. The purchases from the largest suppliers amounted to RMB 872,215,000 (2016: RMB772,868,000), representing 8.55% (2016: 7.20%) of the total purchases of the Group for the year. The purchases from the 5 largest suppliers included RMB1,158,392,000 being purchases from related parties, representing 11.36% of the total purchases of the Group for the year.

For the relationship between the Group and the customers and suppliers please refer to 2017 Social Responsibility Report of the Company (the full text of which had been disclosed on the website of the SSE and the HKEx).

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

6.2.2. Expense

During the Reporting Period, the Group's selling and distribution expenses was approximately RMB4,285,949,000 (2016: RMB3,823,589,000) representing an increase of 12.09% as compared with last year, this was mainly attributed to the fact that in order to increase sales income during the Reporting Period, the Group actively carried out marketing and increased market investment, which resulted in an increase in related expenses such as sales service fee..

During the Reporting Period, the Group's general and administrative expenses was approximately RMB1,579,583,000 (2016: RMB1,439,734,000) representing a growth of 9.71% as compared with last year, mainly due to the Group's continuous expansion of business and increase in employee remuneration and R&D costs.

During the Reporting Period, the Group's financial expense was approximately RMB-210,517,000 representing a decrease of 118.16% as compared with last year, mainly due to improvement in the Group's fund management, reduction in bank borrowings, increase in interest income and reduction in financial costs as a result of the Group's reasonable fund allocation, increase in capital efficiency as well as optimization in types of deposits.

During the Reporting Period, the Group's income tax expenses was approximately RMB374,221,000 with a decrease of 3.15% as compared with last year mainly due to changes in the corporate income tax rate of some of the subsidiaries of the Group that resulted in a corresponding change in deferred income tax, which increased the income tax expense in 2016. There was less impact of such factor during the Reporting Period.

6.2.3. Research and development expenses

Cost of research and development expenses in the current year (<i>RMB'000</i>)	373,288
Capitalization of research and development expenses in the current year (<i>RMB'000</i>)	—
Total research and development expenses (<i>RMB'000</i>)	373,288

Ratio of research and development expenses to income from operations (%)	1.78
Ratio of research and development expenses to income from principal operations of the Great Southern TCM (%)	4.79
Total research and development expenses accounted for the proportion of net assets (%)	1.94
Number of the research and development personnel of the Company	699
Percentage of total number of the research and development personnel in the total number of personnel of the Company (%)	3.18
Percentage of the research and development of capitalization (%)	—

6.2.4. Cash flow

Items	The Reporting Period (RMB'000)	The corresponding period of 2016 (RMB'000)	Increase/ (Decrease) as compare with the same period of 2016 (%)	Reasons for change
Net cash flow from operating activities	1,833,691	2,544,672	(27.94)	This is mainly due to the increase in the Group's cash flows from daily operating activities, and the decrease in compensation for land relocation and government grants received by the Group year-on-year during the Reporting Period.
Net cash flow from investing activities	(2,440,644)	(489,158)	(398.95)	This is mainly due to the increase in the Group's purchase of structured deposits and wealth management products year-on-year during the Reporting Period and the Company's funding for subscription of the non-public A Shares of Yi Xin Tang.
Net cash flow from financing activities	(484,274)	6,724,722	(107.20)	This is due to that the Company received proceeds from the non-public offering of Renminbi-denominated ordinary shares (A shares) for the year 2016 and the Company replaced its bank loans with entrusted loans through internal fund transfer during the Reporting Period.

6.3 Analysis of financial conditions

6.3.1 Liquidity

As at 31 December 2017, the current ratio of the Group was 2.60 (31 December 2016: 2.63), and its quick ratio was 2.15 (31 December 2016: 2.25). Accounts receivable turnover rate was 20.46 times, representing an increase of 1.35% as compared with the corresponding period of 2016. Inventory turnover rate was 3.98 times, representing a decrease of 19.88% as compared with the corresponding period of 2016.

6.3.2 Financial resources

As at 31 December 2017, cash and cash equivalents of the Group amounted to RMB11,495,535,000 (31 December 2016: RMB12,586,470,000), of which approximately 99.91% and 0.09% were denominated in Renminbi and foreign currencies, such as Hong Kong dollar, respectively.

As at 31 December 2017, the Group had bank borrowings of RMB42,807,000 (31 December 2016: RMB58,718,000), including short-term borrowings of RMB11,500,000 (31 December 2016: RMB25,216,000), current portion of non-current liabilities of RMB31,307,000 (31 December 2016: RMB0), and long-term borrowings of RMB0 (31 December 2016: RMB33,502,000).

6.3.3 Capital structure

As at 31 December 2017, the Group's current liabilities amounted to RMB8,268,854,000 (31 December 2016: RMB7,422,448,000), representing an increase of 11.04% as compared with the corresponding period of 2016, and its long-term liabilities was RMB782,705,000 (31 December 2016: RMB820,932,000), with a decrease of 4.66% as compared with the corresponding period of 2016. The shareholders' equity attributable to the shareholders of the Company amounted to RMB18,871,521,000 (31 December 2016: RMB17,345,080,000), with an increase of 8.80% as compared with the corresponding period of 2016.

6.3.4 Capital expenditure

The Group expects that the capital expenditure for 2018 to be approximately RMB1,099 million (2017: RMB318 million), which would be mainly applied in the construction of production sites, equipment replacement and information system. The Group will raise funds to meet the capital requirements of capital expenditure by resorting to its internal funds, bank loans, etc..

6.3.5 Assets and liabilities

Item	As at 31 December 2017 (RMB'000)	% of the total assets (%)	As at 31 December 2016 (RMB'000)	% of the total assets (%)	Increase/ (Decrease) over 2016 (%)	Reasons for changes
Advances to suppliers	256,572	0.91	414,074	1.60	(38.04)	This was mainly due to the decrease in purchasing raw materials, etc. by advance payment as the Group enhanced the management of advances to suppliers during Reporting Period.
Dividends receivable	552,939	1.95	52,939	0.20	944.49	Dividends from joint ventures which have not been received by the Company as at 31 December 2017.
Inventories	3,700,223	13.07	2,781,496	10.74	33.03	This was mainly attributed to the fact that WLJ Great Health, a direct subsidiary of the Company, responded to the sales peak during the Spring Festival by stocking up on goods and other pharmaceutical subsidiaries increased their production volume and reserves such as commodity stocks and raw materials to meet the demand for drug sales as at 31 December 2017.
Other current assets	2,266,983	8.01	520,191	2.01	335.80	Structured deposits purchased by the Group using the proceeds raised and self-owned funds, increase in principal guaranteed wealth management products and reclassification of tax refund and tax credit available at year end as at 31 December 2017.

Item	As at 31 December 2017 (RMB'000)	% of the total assets (%)	As at 31 December 2016 (RMB'000)	% of the total assets (%)	Increase/ (Decrease) over 2016 (%)	Reasons for changes
Available-for-sale financial assets	1,038,860	3.67	327,889	1.27	216.83	The A shares issued through non-public offering by Yi Xin Tang and subscribed by the Company during the year and revaluation of the fair value of shares with selling restrictions according to accounting standards for business enterprises.
Development costs	800	0.00	3,017	0.01	(73.48)	Reversal of expenses due to changes occurred in some research and development projects of the Group as at 31 December 2017.
Other non-current assets	0	0.00	35,970	0.14	(100.00)	The procedure for the transfer of ownership in respect of assets purchased by the Group was completed at 31 December 2017.
Short-term borrowings	11,500	0.04	25,215	0.10	(54.39)	Repayment of bank borrowings by the Group and reduction in discounted notes receivable which are not mature as at 31 December 2017.
Taxes payable	206,462	0.73	384,192	1.48	(46.26)	A decrease in enterprise income tax payable by some enterprises under the Company at the end of the period caused by tax adjustment and other factors as at 31 December 2017.
Current portion of non-current liabilities	31,307	0.11	0	0.00	100.00	Long-term borrowings due within one year of subsidiaries of the Company presented under the current item as at 31 December 2017.

Item	As at 31 December 2017 (RMB'000)	% of the total assets (%)	As at 31 December 2016 (RMB'000)	% of the total assets (%)	Increase/ (Decrease) over 2016 (%)	Reasons for changes
Long-term borrowings	0	0.00	33,502	0.13	(100.00)	Reclassification of long-term borrowings due within one year of subsidiaries of the Company to items presented under non-current liabilities due within one year as at 31 December 2017.
Deferred tax liabilities	114,788	0.41	76,581	0.30	49.89	Increase in time differences in enterprise income tax due to fair value changes in available-for-sale financial assets of the Company as at 31 December 2017.
Other non-current liabilities	50,225	0.18	0	0.00	100.00	Performance obligations confirmed in accordance with the agreement and the articles of association as a result of the acquisition of equity interests by subsidiaries of the Company as at 31 December 2017.
Other comprehensive income	(70,207)	(0.25)	9,788	0.04	(817.27)	Fair value changes in available-for-sale financial assets held by the Company as at 31 December 2017.
Undistributed profits	6,285,996	22.20	4,782,294	18.47	31.44	Primarily the increase in net profit for the year attributable to the parent company.

6.3.6 Exposure to fluctuations in exchange rates

As the majority of the revenue, expenses, assets and liabilities of the Group are denominated or settled in Renminbi, the Group did not have significant risks in exposure to fluctuations in exchange rates.

6.3.7 Main cash resources and applications

As at 31 December 2017, cash and cash equivalents of the Group was amounted to RMB11,495,535,000 with a decrease of RMB1,090,935,000 as compared with the beginning of 2017. The net cash inflow derived from operating activities amounted to RMB1,833,691,000 with a decrease of RMB710,981,000 as compared with 2016, mainly due to the Group's cash inflow from daily operating activities and a year-on-year decrease in the amount received as compensation for requisition and relocation and government subsidies during the Reporting Period.

6.3.8 Contingent liabilities

As at 31 December 2017, the Group had no material contingent liabilities.

6.3.9 Charge on the Group's assets

As at 31 December 2017, Guangyao Baiyunshan Hong Kong Company, a subsidiary of the Company, acquired the overdraft amounted to HK\$300,000, letter of credit and 90 days credit total amounted to HK\$100,000,000 from Bank of China (Hong Kong) Co., Ltd., secured by the original value amounted to HK\$8,893,000, and net value amounted to HK\$6,355,000 of the buildings of fixed assets and the original value amounted to HK\$6,843,000 and net value amounted to HK\$3,762,000 of investment properties, and the issued but undue L/C amounted to EUR162,000, USD650,000, JPY15,325,000.

6.3.10 Bank loans, overdraft and other borrowings

As at 31 December 2017, the bank loans of the Group amounted to RMB42,807,000 (31 December 2016: RMB58,718,000), with a decrease of RMB15,911,000 as compared with the beginning of 2017. The above bank loans included short-term loans of RMB11,500,000 and current portion of non-current liabilities of RMB31,307,000.

6.3.11 Gearing ratio

As at 31 December 2017, the Group's gearing ratio (total liabilities/total assets×100%) was 31.97 % (31 December 2016: 31.83%).

6.3.12 Material investment

As of 31 December 2017, except for those disclosed in 2.(1) in in the section III "Company's Business Profile" of this annual report, the Group did not have any other material additional investment.

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

Applicable Not applicable

6.4 Discussion and analysis on future development

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

Since 2001, the gross output value of China's pharmaceutical industry has been growing rapidly, and China has become the largest emerging pharmaceutical market in the world. For the recent two years, the industry growth has slowed down due to the combination of economic restructuring and other factors. However, with the continuous progress of the medical system reform, the framework of the social security system and the medical and healthcare system has been basically constructed, and the benefits of policy reform have provided new room for the growth of the pharmaceutical market. Meanwhile, China's accelerating population aging, increasing urbanization level, changing atlas of diseases, enhancing innovation capability in the industry and improving medical security system, are beneficial generally to the development of the PRC pharmaceutical industry.

Heading into 2018, during the cycle of new medical reform policy, the pharmaceutical industry enters a new stage of slow and stable transformation. The industry's profits are expected to continue to grow at double-digit rates, with profitability higher than most industries. Nevertheless, in light of speeding industry consolidation and expanding enterprise differentiation, the survival pressure of small and medium-sized enterprises increased sharply while the leading ones benefited from the policy and became consolidators of the industry. The pharmaceutical industry has entered into a new stage of capacity cutting and supply side reform. Under the new situation, there is a high degree of prosperity in the sector of innovative drugs, high-quality generic drugs and branding traditional Chinese medicines.

6.4.2 Development strategy and annual work plan for year 2018

2018 will be a crucial year of the Group to implement the 13th Five-year Plan, and also a year of the Group to innovate and increase the benefits. In the year, the Group will carry out various work as below:

1. Set "major varieties" as the starting point to push forward revitalization and development of the Great Southern TCM segment: (1) strengthen collection and analysis of big data of key varieties to cultivate key products and execute "superstar products projects" while concentrating advantageous resources to build "superstar products"; (2) strengthen brand building and management, set strengthening brand and creating brand as the core to enhance efforts on

investment and promotion of PRC well-known trademarks and China Time-honored Brands, and further increase awareness and reputation of brands and products; (3) make great efforts to create “fashionable Chinese medicine”, and promote the construction of “popularization, mass-orientation, modernization and internationalization” of Chinese medicine with high quality and fashion as the guidance and innovation as the starting point; (4) speed up marketing integration and promote changes in marketing modes, to establish marketing advantages of the Great Southern TCM segment.

2. Promote development of the Great Health Industry by focusing on “diversified products”: (1) implement differentiated regional strategy, enhance the promotion of bottled products, and increase the sales contribution rate of PET; (2) implement diversified products strategy to establish the Great Health Industry product system featuring “one core with multi-elements” and “diversified products” (一核多元、品類多元); (3) implement precise publicity strategy, continue to increase investment in related fields, and promote the popularization of Wang Lao Ji products; speed up the implementation and construction of Wang Lao Ji museum projects, further increasing the influence of Wang Lao Ji brand; (4) implement international expansion strategy to increase product exports and overseas market presence; (5) implement modern science and technology strategy to strengthen scientific research of functional study, improvement in product quality and development of new products of Wang Lao Ji and other products.
3. Advance the expansion of the Great Commerce segment setting “furtherance+ exploitation” as the main line: (1) quicken the expansion of modern medical logistics extension services, and continue to exploit hospitals and medical institutions of each level to build smart pharmacy brands; (2) accelerate extension of the terminal delivery business network and layout of retail business, consolidating the network system of hospitals at all levels; (3) steadily promote the integration of industrial and commercial resources and sales.
4. Further promote the upgrading and reconstruction of Guangzhou Baiyunshan Hospital, and strengthen cooperation with professional and high-end medical institutions; expand this field gradually through international cooperation, merger and acquisition and shareholding, to develop new business patterns of medical device.
5. Develop high-quality innovation system driven by innovation: (1) promote innovation in science and technology to create a R&D model setting innovative medicine as the core, integrating generic medicine and innovative medicine; (2) boost technological innovation to build a more effective quality system; (3) impel management innovation to establish an information-based, standardized, scientific and efficient management system. Promote

the construction of industrial innovation incubators as well as innovation and startup platforms, accelerate the implementation of crowd innovation projects, explore innovation and business start-up modes like shareholding by operators and internal crowd fund raising, and speed up development of institutional mechanisms for internal innovation and startup.

6. Accelerate merger and acquisition and expansion of new businesses and patterns, increase efforts on capital operation, continue to promote investment and acquisition projects of four major segments, and build up a unique and differentiated medical service industry.
7. Scientifically plan and organize the layout, further improve the capacity layout, strengthen the centralized management of the Group's overall capacity development, speed up the construction of production base projects and promote the upgrade of manufacturing capacity.
8. Manage the Group strictly, reduce cost and increase the benefits to enhance the quality benefits of great management: improve the system, standardize management; control expenses, improve centralized purchasing, integrate various resources, strengthen expenses control, reduce cost and increase the benefits; increase the efforts on resource integration, continue in stages integration operation in a planned and systematic way; vigorously promote the information construction to enhance the benefits.

6.4.3 Potential challenges and risks

In 2018, in the face of implementing and promoting new policies such as acceleration of medical and health reform, GPO pilot scheme, integrated medical system, two-voice system, removal of the price markups on medicine, medical expense growth control, restriction on adjuvant drugs, price adjustment for medical insurance payments, Medical Insurance Catalogue leaning toward innovative medicine with high performance price ratio, intensified secondary price negotiation and medicine price checking becoming the norm, the development of traditional business the Group remained challenging.

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

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

7.1.1 According to the arrangements of the industrial structure adjustment, 11 enterprises under the Company planned to relocate to the Baiyun base in the Biological Medicine Town of GPLL ("Baiyun base"), which covers a gross area of about 2,460 mu (of which an area of about 2,000 mu meets land planning requirements). The government of Baiyun district will provide integrated land plots for industrial use in four phases within the Guangzhou Pharmaceutical Industry Zone. A total land area of 474.41 mu (of which an area of 303.09 mu can be used for construction) will be provided in the first phase.

Ming Xing (98.8 mu), He Ji Gong (36 mu), HYBYS (99.7 mu) and GP Corp. (68.5 mu), which are under the Group, have obtained the land use rights of the land available for construction (303 mu) in the first phase, with a total land bidding price of about RMB221.29 million. Currently, the construction of the pile foundation and the excavation of the groundwater pool have been completed for the He Ji Gong project. A review is being conducted on the working drawing for the Ming Xing project. Pre-drilling and site mapping have been completed for the GP Corp. project. Other relevant work is currently in active progress.

7.1.2 As approved at the 11th meeting of the Strategic Development and Investment Committee of the Company in 2015, the capital of HK\$177,500,000 or the equivalent amount of RMB will be injected to Guangyao Baiyunshan Hong Kong Company by the Company, which could be paid by installment. The first phase of capital increase of RMB58,464,000 has completed on 23 December 2015 and the second phase of capital increase is currently in progress.

7.1.3 As approved at the 2nd meeting of the Strategic Development and Investment Committee of the Company in 2016, the Company contributed additional capital of RMB20.4 million to Yi Gan, a subsidiary controlled by the Company, according to its shareholding. After the capital increase, the registered capital of Yi Gan will be increased to RMB55 million. Currently, the capital increase is in progress and has not yet been completed.

7.1.4 As approved at the 5th meeting of the Strategic Development and Investment Committee of the Company in 2016, Guangzhou Baiyunshan Chemical & Pharmaceutical Technology Co., Ltd. ("Chemical & Pharmaceutical Technology Company") and the Management Committee of Zhuhai Fushan Industrial Park ("Fushan Industrial Park") signed the Investment Agreement between the Management Committee of Zhuhai Fushan Industrial Park and Guangzhou Baiyunshan Chemical & Pharmaceutical Technology Co., Ltd. In accordance

with the Investment Agreement, upon the approval of the project environmental evaluation, the Fushan Industrial Park will transfer a piece of class-III industrial land of 133,340 square meters (200 mu) to Chemical & Pharmaceutical Technology Company for the construction of the relocated chemical and pharmaceutical plant which will involve a preliminary investment of RMB55 million.

In order to solve the funding issues, as approved at the 1st meeting of the Strategic Development and Investment Committee of the Company held on 24 January 2017, the Company agreed to contribute additional capital of RMB12.47 million in cash to Chemical & Pharmaceutical Technology Company for the purpose of the works related to the design and environment evaluation of the project.

At present, the project has commenced to conduct project planning design, foundation design and environment evaluation.

- 7.1.5 At the 7th meeting of the Strategic and Investment Committee of the Company in 2016, it was considered and approved that, the Company's subsidiary, Guangyao Baiyunshan Hong Kong Company would establish a company in Macau with a registered capital of MOP 1 million. At present, the establishment of this company is in progress.
- 7.1.6 At the 2nd meeting of the Strategic and Investment Committee of the Company in 2017, it was considered and approved that the Company contributed addition capital of RMB10.00 million to WLJ Investment, a wholly-owned subsidiary of the Company for the investment in the establishment of Wang Lao Ji Dazhai Beverages Co., Ltd. The aforesaid capital increase has been completed and the registered capital of WLJ Investment had been increased from RMB10 million to RMB20 million.
- 7.1.7 At the 2nd meeting of the Strategic and Investment Committee of the Company in 2017, it was considered and approved that the subsidiaries of the Company (the lessee) entered into a new Guangzhou Tenancy Agreement with GPLH (the lessor) in respect of the use of properties including related lands, enterprise operated real estate and employees' housing, the annual property use fee of which shall not exceed RMB20.00 million, with a lease term of three years from 1 January 2017 up to 31 December 2019.
- 7.1.8 At the 2nd meeting of the Strategic and Investment Committee of the Company in 2017, it was considered and approved that the Company (the lessor) entered into a new Guangzhou Tenancy Agreement with GP Corp. (the lessee), a joint venture of the Company, in respect of the use of properties including related lands, enterprise operated real estate and employees' housing, the annual property use fee of which shall not exceed RMB3.50 million, with a lease term of three years from 1 January 2017 up to 31 December 2019.

- 7.1.9 At the 2nd meeting of the Strategic and Investment Committee of the Company in 2017, it was considered and approved that the Company (Buyer) entered into the Purchase Agreement of Additional Legal Properties at Rear Block, 282 Beijing Road with GPLH (Seller) in respect of the purchase of additional legal properties at Rear Block, 282 Beijing Road, the market value of which, the market value of which as at the valuation date and on an “as is” basis was RMB15.273 million, the actual amount of consideration paid was RMB14.5001 million after deducting the land-transferring fees and related taxes paid by GPLH. At present, the matter is in progress.
- 7.1.10 At the 3rd meeting of the Strategic Development and Investment Committee of the Company in 2017, it was considered and approved that the Company would contribute additional capital of RMB30.00 million, which was by reference to the Company’s 75% shareholdings, to Xing Zhu, of which the first phase of RMB22.71 million was contributed in cash. At present, the first phase of capital increase has been completed.
- 7.1.11 At the 4th meeting of the Strategic Development and Investment Committee of the Company in 2017, it was considered and approved that the Company would contribute additional capital of RMB10.00 million to Guangzhou General Pharmaceutical Research Institute Co., Ltd. (廣州醫藥研究總院有限公司). Such contribution will be accounted as capital reserve and will be used to purchase scientific research equipment. At present, such capital increase has been completed.
- 7.1.12 At the 4th meeting of the Strategic Development and Investment Committee of the Company in 2017, it was considered and approved that Hutchison Whampoa Guangzhou Baiyunshan Chinese Medicine Company Limited (廣州白雲山和記黃埔中藥有限公司), a company under the Company would transfer 60% equity in Nanyang Baiyunshan Hutchison Whampoa Salvia Technology Development Co., Ltd. (南陽白雲山和黃冠寶藥業有限公司) by way of public listing with a floor price of RMB18.19 million. At present, such equity transfer has been completed.
- 7.1.13 At the 5th meeting of the Strategic Development and Investment Committee of the Company in 2017, it was considered and approved that Guangzhou Baiyunshan Medical Device Investment Co., Ltd. (廣州白雲山醫療器械投資有限公司), a wholly-owned subsidiary of the Company, and Shanghai Xiecheng Investment Management Co., Ltd. (上海協成投資管理有限公司) and Guangzhou OSMUNDA Medical Device Technology, Inc., Ltd. (廣州奧諾達醫療器械技術股份有限公司) would set up a joint venture, in order to build an operating platform for the medical equipment innovation incubator park. Guangzhou Baiyunshan Medical Device Investment Co., Ltd. intends to contribute RMB17 million in cash, accounting for 34% of the total capital, and has completed the first tranche contribution of RMB3.40 million. At present, the above project is under way.

- 7.1.14 At the 6th meeting of the Strategic Development and Investment Committee of the Company in 2017, it was considered and approved that WLJ Great Health, a wholly-owned subsidiary of the Company, would invest RMB10 million to set up an e-commerce subsidiary, to complete the e-commerce integration and operation of Wang Lao Ji series products. At present, such company has been set up.
- 7.1.15 At the 6th meeting of the Strategic Development and Investment Committee of the Company in 2017, it was considered and approved that Tian Xin, a subsidiary of the Company would set up Guangzhou Baiyunshan Tian Xin Pharmaceutical Technology Co., Ltd (廣州白雲山天心製藥科技有限公司), a subsidiary, as the project management and operation entity to construct the “Innovative Drugs Management Enterprises Incubator”. At present, such company has been set up.
- 7.1.16 At the 6th meeting of the Strategic Development and Investment Committee of the Company in 2017, it was considered and approved that the Company would contribute additional capital of RMB30 million to Baiyunshan Pharmaceutical Marketing. At present, such capital increase has been completed.

8 EMPLOYEES OF THE GROUP

8.1 Situation of the employees

Numbers of the employees of the parent Company	2,347
Numbers of the employees of the major subsidiaries	19,608
Total	21,955
Retired employees of the Company and major subsidiaries whose expenses were assumed by the Company and major subsidiaries	11,341
Gross payroll of the Group	RMB2.174 billion

Composition

Category constitution	A number of constitute staff
Production staff	4,831
Sales personnel	11,659
Technical staff	2,607
Finance staff	623
Administrative staff	2,235
Total	21,955

Educational Level

	Number
Post Graduate	433
Undergraduate	5,443
University college	6,571
Secondary and below	9,508
Total	21,955

8.2 Remuneration policy

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

8.3 Training plan

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

In 2017, the Group on the basis of “talent upgrading” strategy, carried out more training in respect of knowledge, skill and professional ability for the staff to constantly enhance their comprehensive quality and operational ability, so as to provide powerful talent support for the Group to achieve transformation and upgrading and to complete the strategic objective.

9 OTHER MATTERS

9.1 Corporate Governance

During the Reporting Period, the Company complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (“CG Code”) and the code provisions of the CG Code except that (i) Mr. Chen Mao, Ms. Liu Juyan, Mr. Ni Yidong, Mr. Wu Changhai and Mr. Wang Wenchu, executive Directors, were unable to attend the annual general meeting in 2016 due to business reasons which constituted deviation from code provision A.6.7, and (ii) Mr. Li Chuyuan and Ms. Liu Juyan, executive Directors, Mr. Chhu Xiaoping, Mr. Jiang Wenqi, Mr. Wong Hin Wing and Ms. Wang Weihong, independent non-executive Directors,, were unable to attend the first extraordinary general meeting in 2017 due to business which constituted a deviation from code provision A.6.7.

The Board continues to monitor and review the Company’s corporate governance practices to ensure compliance with the provisions in the corporate governance code.

9.2 The Audit Committee

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

The members of 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. Chu Xiaoping and Mr. Jiang Wenqi. All four of them were independent non-executive Directors and were qualified under the relevant requirements, which their term of office of the members commenced from 28 January 2014 up to the date on which members of the new session of the Board are elected.

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

Major tasks accomplished by the Audit Committee in 2017 including:

- (A) held three meetings in 2017 to review the 2016 Annual Report and 2017 Interim Report of the Group as well as the recommendations on management issued by external auditors and the respective response by the Company's management. Each of the members of the committee attended all the meetings;
- (B) reviewed the accounting policies adopted by the Group and the relevant issues regarding accounting practice;
- (C) reviewed the Company's internal control evaluation report for 2016 and audit risk control work plan for 2017.
- (D) advised the Board regarding re-appointment of auditing firm for the year;
- (E) advised the Company on major events of the Company or reminding the management of relevant risks.

The work on the annual audit for 2017 and relevant jobs regarding the preparation of the Annual Report are as follows:

In accordance with "the Notice on preparation of the 2017 Annual Report in an orderly manner by Listed Companies" issued by the SSE on 31 December 2017, all members of the Audit Committee reviewed the relevant requirements seriously. The Audit Committee actively coordinate with the Company in respect of the audit for 2017 and the preparation of the annual report for 2017 pursuant to 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 2017 Annual Report" and reviewed the audit plan submitted by the auditors.
- 2) On 13 March 2018, 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 2017 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 15 March 2018, the Audit Committee convened the first meeting in 2018 and considered and passed the 2017 Annual Report and its summary and the Company's 2017 Financial Report. At the same time, the Audit Committee finalized its evaluation on the audit work of the auditor and believes that the auditor has carried out the audit work for the Company with cautious, independent and objective standards, and managed to abide by their professional work ethics, followed closely the auditing regulations, fulfilled their auditing responsibilities and submitted the auditors' report in time, as well as having issued fair and unbiased management recommendations to the management of the Company, and completed the audit work with satisfactory performance.

10. FINANCIAL REPORTS

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

(All amounts in Renminbi unless otherwise stated)

Consolidated Balance Sheet

ITEMS	<i>Note</i>	31 December 2017	31 December 2016
Current assets			
Cash at bank and on hand		11,697,218,882.84	12,821,007,880.23
Financial assets based on fair value to confirm profit or loss		4,875,057.73	6,026,123.94
Notes receivable		1,702,655,475.08	1,604,767,885.21
Accounts receivable	<i>10.1.3</i>	1,113,769,006.51	1,108,363,607.29
Advances to suppliers		256,571,758.01	414,073,610.15
Interest receivable		–	–
Dividends receivable		552,938,523.45	52,938,523.45
Other receivables		209,318,838.53	205,120,876.85
Inventories		3,700,222,896.01	2,781,495,711.45
Current portion of non-current assets		–	–
Other current assets		2,266,983,406.82	520,191,094.03
Total current assets		21,504,553,844.98	19,513,985,312.60

ITEMS	<i>Note</i>	31 December 2017	31 December 2016
Non-current assets			
Available-for-sale financial assets		1,038,859,674.96	327,889,324.24
Held-to-maturity investments		—	—
Long-term receivables		—	—
Long-term equity investments		2,008,481,257.05	2,290,443,462.70
Investment properties		217,675,779.38	228,575,391.31
Fixed assets		2,082,244,551.64	2,107,109,957.69
Construction in progress		284,672,127.45	255,276,101.16
Construction materials		—	—
Fixed assets pending for disposal		—	—
Intangible assets		728,009,270.29	668,305,151.10
Development costs		800,000.00	3,017,046.84
Goodwill		11,499,562.74	11,499,562.74
Long-term prepaid expenses		49,066,645.52	37,939,444.42
Deferred tax assets		388,850,739.31	417,159,182.77
Other non-current assets		—	35,970,282.97
Total non-current assets		6,810,159,608.34	6,383,184,907.94
TOTAL ASSETS		28,314,713,453.32	25,897,170,220.54
Current liabilities			
Short-term borrowings		11,500,000.00	25,215,424.88
Financial liabilities based on fair value to confirm profit or loss		—	—
Notes payable		252,226,384.82	320,811,521.98
Accounts payable	<i>10.1.4</i>	2,802,200,696.28	2,267,279,067.87
Advances from customers		1,888,892,476.97	1,552,885,731.40
Employee benefits payable		631,170,810.62	546,523,380.87
Taxes payable		206,462,076.94	384,192,155.39
Interest payable		253,966.40	257,658.10
Dividends payable		45,446,017.79	57,301,541.02
Other payables		2,399,394,477.50	2,267,981,520.69
Current portion of non-current liabilities		31,307,337.23	—
Other current liabilities		—	—
Total current liabilities		8,268,854,244.55	7,422,448,002.20

ITEMS	<i>Note</i>	31 December 2017	31 December 2016
Non-current liabilities			
Long-term borrowings		–	33,502,083.03
Debentures payable		–	–
Long-term payables		20,171,809.73	20,558,783.65
Payables for specific projects		14,954,855.39	16,842,773.80
Provisions		55,348,585.32	61,045,873.15
Deferred income		526,890,368.97	612,084,162.58
Deferred tax liabilities		114,788,264.17	76,581,360.14
Long-term employee benefits payable		326,532.02	316,733.72
Other non-current liabilities		50,225,000.00	–
		<hr/>	<hr/>
Total non-current liabilities		782,705,415.60	820,931,770.07
		<hr/>	<hr/>
Total liabilities		9,051,559,660.15	8,243,379,772.27
		<hr/>	<hr/>
Shareholders' equity			
Share capital		1,625,790,949.00	1,625,790,949.00
Capital surplus		9,875,177,958.43	9,875,172,584.68
Less: Treasury share		–	–
Other comprehensive income		(70,206,938.27)	9,788,066.97
Surplus reserve		1,154,762,193.41	1,052,034,418.97
Undistributed profits		6,285,996,409.09	4,782,293,720.24
		<hr/>	<hr/>
Total equity attributable to shareholders of the Company		18,871,520,571.66	17,345,079,739.86
Minority interest		391,633,221.51	308,710,708.41
		<hr/>	<hr/>
Total shareholders' equity		19,263,153,793.17	17,653,790,448.27
		<hr/>	<hr/>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		28,314,713,453.32	25,897,170,220.54
		<hr/> <hr/>	<hr/> <hr/>

Consolidated Income Statement

ITEMS	Note	Year ended 31 December	
		2017	2016
1. Revenue	10.1.5	20,954,225,189.53	20,035,681,499.37
Less: Cost of sales	10.1.5	13,063,229,348.28	13,412,062,896.03
Taxes and surcharges		204,088,804.03	189,309,156.99
Selling and distribution expenses		4,285,949,353.46	3,823,589,490.19
General and administrative expenses		1,579,582,508.93	1,439,734,312.47
Financial expenses		(210,571,299.44)	(96,520,258.97)
Asset impairment losses		19,962,967.90	6,728,893.84
Add: Profit arising from changes in fair value		(1,151,066.21)	(473,665.66)
Investment income		338,362,629.19	206,321,948.46
Including: Share of profit of associates and jointly controlled entities		281,264,687.40	194,459,911.23
Income from disposal of assets		–	–
Other income		111,775,896.26	–
2. Operating profit		2,460,970,965.61	1,466,625,291.62
Add: Non-operating income		76,504,148.53	554,792,542.30
Less: Non-operating expenses		44,498,977.44	76,364,435.58
3. Total profit		2,492,976,136.70	1,945,053,398.34
Less: Income tax expenses	10.1.6	374,220,515.80	386,379,403.17
4. Net profit		2,118,755,620.90	1,558,673,995.17
I. Items classified by continued operations			
– Net profit from continued operations		2,118,755,620.90	1,558,673,995.17
– Net profit from discontinued operations		–	–
II. Items classified by attribution of ownership			
– Minority interest		57,103,691.89	50,641,324.10
– Attributable to owners of the parent company		2,061,651,929.01	1,508,032,671.07

ITEMS	Note	Year ended 31 December	
		2017	2016
5. Other comprehensive net income after tax		(79,988,438.72)	10,516,712.10
Other comprehensive net income after tax attributable to shareholders' equity of parent company		(79,995,005.24)	10,520,745.16
I. Items will not be classified into profit or loss when satisfied with certain conditions at following accounting period		–	–
1.1) Portion of items will not be classified into profit or loss when under equity method		–	–
II. Items will be classified into profit or loss when satisfied with certain conditions at following accounting period		(79,995,005.24)	10,520,745.16
1) Portion of items will be classified into profit or loss when under equity method		20,429.81	(218,435.84)
2) Profit or loss arising from changes in fair value of available for sale financial assets		(75,775,613.41)	6,796,748.61
3) Differences arising from translation of foreign currency financial statements		(4,239,821.64)	3,942,432.39
Other comprehensive net income after tax attributable to minority shareholders' equity		6,566.52	(4,033.06)
6. Total comprehensive income		2,038,767,182.18	1,569,190,707.27
(1) Total comprehensive income attributable to shareholders' equity of parent company		1,981,656,923.77	1,518,553,416.23
(2) Total comprehensive income attributable to minority shareholders' equity		57,110,258.41	50,637,291.04
7. Earnings per share			
– Basic earnings per share	10.1.7	1.268	1.075
– Diluted earnings per share	10.1.7	1.268	1.075

10.1.1 Foundation of preparation of the financial statements

(1) Basis of preparation

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

(2) Going concern

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

10.1.2 Segment Information

With the strategic management and business development, the Group basically completed the industrial chain layout and internal structure of 4 sectors in 2015, which are “Great Southern TCM”, “Great Commerce”, “Great Health”, “Great Medical Care”, according to the requirements of regulatory laws, regulations and company management, the 4 sectors are divided into 4 operating segments, “Great medical care” is listed as other, as the business scale is less than 10%, details for other segments are as below:

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

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

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

(1) The segment information for the year ended 31 December 2017 and as of 31 December 2017 as follows:

	Great Southern TCM	Great Health	Great Commerce	Other	Elimination	Total
Revenue	7,920,991,000.47	8,574,140,675.28	4,347,030,285.90	112,063,227.88	–	20,954,225,189.53
Inter-segment revenue	206,420,129.57	14,639,317.32	6,646,327,048.34	157,223,363.39	(7,024,609,858.62)	–
Interest income	(28,847,134.42)	(64,754,810.30)	(1,660,878.11)	(123,558,909.81)	–	(218,821,732.64)
Interest expenses	18,087,138.51	–	48,411,253.25	5,293,854.77	(64,670,544.45)	7,121,702.08
Share of profit or loss of associates and jointly controlled entities	58,522,548.73	–	2,796,697.03	214,602,293.03	5,343,148.61	281,264,687.40
Asset impairment losses	2,019,902.11	(49,905.93)	7,811,480.94	6,788,238.77	3,393,252.01	19,962,967.90
Depreciation and Amortization	207,493,926.36	18,262,232.17	7,226,184.84	21,856,504.17	(144,105.00)	254,694,742.54
Total profit	1,141,613,236.46	754,765,230.42	66,824,009.16	500,858,946.13	28,914,714.53	2,492,976,136.70
Income tax expenses	55,336,427.94	131,204,377.83	15,759,901.66	153,081,430.85	18,838,377.52	374,220,515.80
Net profit (Including: minority interest)	1,086,276,808.52	623,560,852.59	51,064,107.50	347,777,515.28	10,076,337.01	2,118,755,620.90
Total assets	9,766,674,401.97	5,941,353,309.61	4,198,165,473.57	16,969,629,127.74	(8,561,108,859.57)	28,314,713,453.32
Total liabilities	5,472,206,232.20	3,727,005,385.06	3,864,261,178.27	1,061,262,999.58	(5,073,176,134.96)	9,051,559,660.15
Long-term equity investments in associates and jointly controlled entities	190,702,755.14	–	58,238,389.70	1,759,540,112.21	–	2,008,481,257.05
Additions of non-current assets other than long-term equity investments	337,184,429.82	52,757,149.44	27,021,750.62	90,631,857.68	–	507,595,187.56

(2) The segment information for the year ended 31 December 2016 and as of 31 December 2016 as follows:

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

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

Revenue from external customers	The year ended 31 December 2017	The year ended 31 December 2016
PRC	20,903,138,688.93	19,966,567,906.17
Other countries/regions	51,086,500.60	69,113,593.20
	<u>20,954,225,189.53</u>	<u>20,035,681,499.37</u>
 Total non-current assets	 31 December 2017	 31 December 2016
PRC	5,515,922,789.70	5,920,389,492.25
Other countries/regions	18,483,577.02	19,704,081.33
	<u>5,534,406,366.72</u>	<u>5,940,093,573.58</u>

10.1.3 Accounts receivable

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

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

	31 December 2017	31 December 2016
Within 1 year	1,025,013,019.97	982,667,101.58
1 to 2 years	16,408,005.59	36,338,691.74
2 to 3 years	14,051,869.29	138,822,487.95
3 to 4 years	118,686,993.67	9,523,619.45
4 to 5 years	6,469,782.39	2,646,065.97
Over 5 years	14,464,938.08	12,868,153.61
	<u>1,195,094,608.99</u>	<u>1,182,866,120.30</u>
Less: Provision for bad debts	<u>81,325,602.48</u>	<u>74,502,513.01</u>
	<u>1,113,769,006.51</u>	<u>1,108,363,607.29</u>

10.1.4 Accounts payable

The ageing of accounts payable is analyzed as follows:

	31 December 2017	31 December 2016
Within 1 year	2,625,069,157.32	2,073,358,531.89
Over 1 year	177,131,538.96	193,920,535.98
	<u>2,802,200,696.28</u>	<u>2,267,279,067.87</u>

10.1.5 Revenue and cost of sales

	The year ended 31 December 2017		
	Principal operation	Other operation	Subtotal
Revenue	20,789,416,101.26	164,809,088.27	20,954,225,189.53
Cost of sales	13,023,397,768.72	39,831,579.56	13,063,229,348.28
Gross profit	7,766,018,332.54	124,977,508.71	7,890,995,841.25

	The year ended 31 December 2016		
	Principal operation	Other operation	Subtotal
Revenue	19,875,179,176.98	160,502,322.39	20,035,681,499.37
Cost of sales	13,372,297,606.33	39,765,289.70	13,412,062,896.03
Gross profit	6,502,881,570.65	120,737,032.69	6,623,618,603.34

10.1.6 Income tax expenses

	The year ended 31 December	
	2017	2016
Current income tax	294,299,835.26	425,896,218.16
Deferred income tax	79,920,680.54	(39,516,814.99)
	<u>374,220,515.80</u>	<u>386,379,403.17</u>

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

	The year ended 31 December	
	2017	2016
Total profit	2,492,976,136.70	1,945,053,398.34
Income tax expenses calculated at 25%	623,244,034.18	486,263,349.59
Tax effect of different rates applicable to subsidiaries	(215,557,923.60)	(162,646,170.96)
Adjust effect for income tax of previous period	(4,037,095.68)	(2,936,163.85)
Gain or loss belong to associates and joint venture	(47,561,894.63)	(29,508,374.06)
Non-taxable revenue	(3,073,017.26)	(2,025,468.61)
Expenses not deductible for tax purposes	7,051,277.45	4,420,280.84
Effect of opening balance of deferred income tax arising from changes in tax rate	3,601,678.10	84,252,750.07
Tax effect of deductible temporary differences and deductible loss which are not recognized in current period	10,911,289.37	8,854,698.28
Tax effects of unrecognized deferred income tax assets	(357,832.13)	1,295,498.13
Income tax expenses	<u>374,220,515.80</u>	<u>386,379,403.17</u>

The Group companies in the PRC pay the enterprise income tax in accordance with “PRC Enterprise Income Tax Law” and “Implementation Rules of PRC Enterprise Income Tax Law” and the applicable enterprise income tax rate of these entities is 25%.

Guangyao Baiyunshan (Hong Kong) Co., Ltd. of the Group, pays the corporation profits tax in accordance with “Hong Kong Inland Revenue Ordinance” at the corporate profit tax rate of 16.5%.

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

The following subsidiaries of the Group enjoy preferential tax rate of 15% at current period, including: the Company (No. GR201744003162), Xingqun (No. GR201744011135), Zhong Yi (No. GR201744005343), Guangzhou Han Fang (No. GR201744008646), Jing Xiu Tang (No. GR 201744000331), Pan Gao Shou (No. GR201744002878), Chen Li Ji (GR201744001501), Tian Xin (No. GR201744009163), Guang Hua (No GR201544000485), Ming Xing (No. GR201744002496), Guangxi Ying Kang (No GR201545000083), WLJ Great Health (GR201644006480).

Qi Xing's certificate of High/New Technology Enterprise was issued in year 2014, and the validity period is 3 years. As the certificate of High/New Technology Enterprise has expired in year 2016, the certificate of High/New Technology Enterprise of this enterprise is in the process of being reconfirmed. At present, the temporary use of 15% preferential tax rate to declare prepaid enterprise income tax.

In accordance with "The Chinese Ministry of Finance Customs Head Office the Notice on Taxation Policy Issues concerning the In-depth Implementation of the Western Development Strategy", Wanglaoji Great Health Ya'an Industrial (Ya'an) Co., Ltd. enjoys the preferential tax rate of 15% at current period.

10.1.7 Earnings per share

(a) Basic earnings per share

(i) Weighted Average Basic Earnings per share

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

	The year ended 31 December	
	2017	2016
Consolidated net profit attributable to ordinary shareholders of the Company	2,061,651,929.01	1,508,032,671.07
Weighted average number of ordinary shares outstanding	1,625,790,949	1,402,649,816
Weighted average Basic Earnings per share	1.268	1.075

(ii) Overall diluted Basic earnings per share

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

	<u>The year ended 31 December</u>	
	2017	2016
Consolidated net profit attributable to ordinary shareholders of the Company	2,061,651,929.01	1,508,032,671.07
Number of ordinary share outstanding	1,625,790,949	1,625,790,949
Overall diluted basic earnings per share	1.268	0.928

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing adjusted consolidated net profit for the current period attributable to ordinary shareholders by the adjusted weighted average number of ordinary shares outstanding. For the year ended 31 December 2017, there were no potential ordinary shares (Year ended 31 December 2016: nil), diluted earnings per share is equal to basic earnings per share.

10.1.8 Dividends

In accordance with the resolution from 6th session of 10th board of directors on 15 March 2018, the Company distributed cash dividend amounted to RMB0.381 (including tax) per share by the number of the capital stock in total amounted to 1,625,790,949.00 at the end of year 2017, and cash dividend in total amounted to RMB619,426,351.57.

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

10.2.1 Changes in accounting policies

Implement Accounting Standards for Enterprises No. 42 – Held-for-trading Non-Current Assets, Disposal Groups and Discontinued Operations, Accounting Standards for Enterprises No. 16 – Government Grants and Ministry of Finance of the People’s Republic of China issued Circular on revising and issuing the format of financial statements for General Enterprises.

The Ministry of Finance of the People’s Republic of China issued *Accounting Standards for Enterprises No. 42 – Held-for-trading Non-Current Assets, Disposal Groups and Discontinued Operations* in year 2017 and it has been performed since 28 May 2017, the held-for-trading non-current assets, disposal groups and discontinued operations which existed since implementation date are required to be dealt with prospective application.

The Ministry of Finance of the People’s Republic of China revised *Accounting Standards for Enterprises No. 16 – Government Grants* in year 2017 and it has been performed since 12 June 2017, the government grants which existed since 1 January 2017 are required to be dealt with prospective application; the government grants which existed during the period from 1 January 2017 to implementation date are required to be dealt with this revised accounting standards.

The Ministry of Finance of the People’s Republic of China issued *Circular on revising and issuing the format of financial statements for General Enterprises* in year 2017, and has revised the format of financial statements for general enterprises, which is applicable to the financial statements for the year ended 31 December 2017 and subsequent period.

The main impact of the Group’s implementation of the provisions is as follows:

Content and changes of accounting policies	Vetting process	Affected item and amount
(1) Government grants related to the normal business are measured into other income instead of non-operating Income. Comparative data was not adjusted.	Approved by board of directors	“Other income” amounted to RMB111,775,896.26
(2) Part of government grants related to the income has offset relevant cost expense. Comparative data are not adjusted.	Approved by board of directors	A decrease in the “General and administrative expense” item of RMB1,143,335.35; A decrease in the “Non-operation expense” item of RMB57,190,147.97

Content and changes of accounting policies	Vetting process	Affected item and amount
(3) Net profit from continued operations” and ”net profit from discontinued operations” are stated in the income statement respectively. Comparative data are adjusted accordingly.	Approved by board of directors	Stated net profit from continued operations for the year ended 31 December 2017 amounted to RMB2,118,755,620.90, for the year ended 31 December 2016 amounted to RMB1,558,673,995.17; Stated net profit from discontinued operations for the year ended 31 December 2017 amounted to RMB0, for the year ended 31 December 2016 amounted to RMB0.

10.3 There is no significant change in accounting policies, estimation and audit method when compared with the 2016 annual report.

10.4 There is no major correction of accounting error during the Reporting Period.

10.5 Explanation on changes in scope of consolidation as compared with the previous annual report.

10.5.1 Changes in scope of consolidation arising from other reason:

The reason for the increase of the 6 companies in scope of consolidation comparing to the previous period are:

- (a) Chen Li Ji, a subsidiary of the Company, Guangdong Ju Xiang Zhai Great Health Industry Holdings Co., Ltd. and Guangzhou Pu Sheng Da Zheng Pharmaceutical Co., Ltd. established Guangzhou Chen Li Ji Great Health Industry Co., Ltd. in January 2017, capital contribution of Chen Li Ji accounts for 44% of registered capital amounted to RMB15 million. Guangzhou Chen Li Ji Great Health Industry Co., Ltd. is in the scope of consolidation as Chen Li Ji has the control right to it.
- (b) The 2 subsidiaries of the Company including WLJ Great Health and WLJ Investment, established Wang Lao Ji Dazhai Beverages Co., Ltd. with Shanxi Dazhai Beverages Co., Ltd. in January 2017, capital contribution of WLJ Great Health accounts for 40% of registered capital amounted to RMB50 million and capital contribution of WLJ Investment accounts for 20% of registered capital.

- (c) Wang Lao Ji Dazhai Beverages Co., Ltd., a subsidiary of the Company, established Guangzhou Wang Lao Ji Dazhai Beverages Co., Ltd. in February 2017, capital contribution of Wang Lao Ji Dazhai Beverages Co., Ltd. accounts for 100% of registered capital amounted to RMB35 million.
- (d) WLJ Great Health, a subsidiary of the Company, established Guangzhou Wang Lao Ji Great Health E-commercial Co., Ltd. in August 2017, capital contribution of WLJ Great Health accounts for 100% of registered capital amounted to RMB10 million.
- (e) Cai Zhi Lin, a subsidiary of the Company, established Meizhou Guangyao Cai Zhi Lin Pharmaceutical Co., Ltd. in August 2017, capital contribution of Cai Zhi Lin accounts for 100% of registered capital amounted to RMB10 million.
- (f) The Company established Medical Instrument Investment Company in April 2017, capital contribution of the Company accounts for 100% of registered capital amounted to RMB10 million.

10.6 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 Pharmaceutical Company Limited

Guangzhou, the PRC, 15 March 2018

As at the date of this report, the Board comprises Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning and Mr. Ni Yidong as executive directors, and Mr. Chu Xiaoping, Mr. Jiang Wenqi, Mr. Wong Hin Wing and Ms. Wang Weihong as independent non-executive directors.