SINOPHARM GROUP CO. LTD.*
國 藥 控 股 股 份 有 限 公 司

(A joint stock limited company incorporated in the People's Republic of China with limited liability and carrying on business in Hong Kong as 國控股份有限公司)
(Stock Code: 01099)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

The Board of Directors (the "Board") of Sinopharm Group Co. Ltd. (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") prepared under the Hong Kong Financial Reporting Standard ("HKFRS") for the year ended 31 December 2009 (the "Reporting Period"), together with the comparative figures for the corresponding period of last year as follows.

CHAIRMAN'S STATEMENT

Although year 2009 was just a short moment in history, it was undoubtedly the most remarkable year in the history of the development of the Group and was full of challenges and achievements.

The Group was established on 8 January 2003 by China National Pharmaceutical Group Corporation ("CNPGC") and Shanghai Fosun Industrial Investment Co., Ltd. and successfully listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 23 September 2009 after restructuring and business integration. This realized our dream of being the largest listed pharmaceutical distribution company of China. In this listing, apart from the Company's success in raising proceeds of over HK$10 billion, the Company has also become a state-owned public company with a diversified base of shareholders, which laid a solid foundation to capture opportunities arising from the national healthcare system reform. The Group was launched onto the world stage and was awarded the "Best IPO Awards of the Year (年度最佳IPO獎項)", the "Best Equity Deal (最佳股權交易獎)" and the "Best IPO Awards of the Year — China (中國地區年度最佳IPO獎項)" from three most influential financial magazines in Asia, namely FinanceAsia, IFR Asia and Asiamoney, respectively, because of its successful listing.

As the chairman of the Group, I am proud of the remarkable achievements of the Group. At the same time, I am also happy that many domestic and overseas institutional and individual investors have become new shareholders of the Group. Last year was an extraordinary year with the lingering impacts of the financial crisis and the uncertainties of the future global economy. With such a background, you still choose the Group. I admire your courage and professionalism. I would like to extend my heartfelt appreciation to you for your understanding and trust in the Group.

The Company has an extensive geographical and market coverage and maintains good relationships with customers and suppliers. Coupled with its comprehensive logistics arrangement, advanced value-added supply chain services and facilities and its renowned "Sinopharm" brand name, the Company has the most competitive pharmaceutical distribution network in China.

Operating results continued to grow rapidly and scale of economy further enhanced

In 2009, in spite of the difficulties and challenges that arose from the complicated domestic and overseas political and economic environment, the Group achieved results that are satisfactory to all its investors. The production and operations sustained stable and healthy development. Major economic indicators reached a record high. Indicators such as operating revenue maintained steady growth, while various financial indicators, including profit, rose significantly. Based on HKFRS, revenue of the Group in 2009 amounted to RMB47,046 million, representing a growth of 23.18% as compared with the corresponding period in 2008. Profit attributable to the shareholders of the Company was RMB846 million, representing a growth of 43.88% as compared with the corresponding period in 2008. The achievement of the above excellent results provided strong support for the future sustainable growth of the Group.

Dividends

Based on the Group's results and financial resources, as well as considering the need for the Group's future development, the Board proposes to distribute a final dividend of RMB1.01 cents per share. The aggregate amount of the proposed dividend is RMB22,879,250, which shall be distributed out of the profit attributable to the shareholders of the Company in 2009. Subject to the approval of the shareholders in the forthcoming annual general meeting, the final dividend is expected to be distributed on 20 July 2010 to shareholders whose names appear on the register of members of the Company on 28 May 2010.

Corporate strength and competitiveness improved significantly

Leveraging the successful listing, the strength and market competitiveness of the Group improved significantly in 2009. In terms of the market capitalization as at 31 December 2009, the Group continued to rank first in the pharmaceutical distribution industry in China, and ranked third among the largest pharmaceutical distributors in the world.

As compared with 2008, total assets of the Group increased from RMB16,125 million to RMB28,275 million, net assets increased from RMB3,413 million to RMB12,504 million, and gearing ratio decreased from 78.83% to 55.78%. Financial structure of the Group improved significantly.

In 2009, capital expenditure of the Group for the year amounted to RMB349 million and was primarily used in developing and improving distribution channels, which greatly enhanced the market share and brand reputation of the Group.

Corporate Governance

In the previous year, the Group was dedicated to optimizing the structure of corporate governance and developed a sound and modern operational system to enhance operational efficiency. At the same time, a series of internal control systems have been formulated and implemented to standardize the Company's operation.

Investor Relations

The Group values its relationship with investors and endeavours to maximize value of the Company and returns for the shareholders. In order to allow the investors to have a better understanding of the Group, the Group maintains flexible and timely communication between investors and management of the Group through different channels including the media, internet, roadshows, etc. The Group responds to enquires raised by relevant authorities as and when necessary in accordance with the Group's Corporate Governance Practice, and has gradually increased the transparency of its operational management.

Future Developments and Prospects

In 2010, the international and domestic economies will remain under severe strain. However, the Group believes that China's economic foundation and the core impetus for China's development will remain unchanged. Prolonged industrialization and urbanization and the huge and gradual demands of consumption and investment in China will facilitate the potent and sustainable development of enterprises. In addition, after thirty years of the reform and opening up policy, the Chinese government has accumulated extensive experience in the operation and management of market economy to effectively overcome any challenges. The Group is confident about the middle to long term development of the domestic economy of China.

Looking forward to 2010, the Group will adhere to its core corporate values and at the same time respond to market changes. The Group will provide guidance and support to its subsidiaries in strategic decision-making, human resources allocation and regulation of standards. The Group will strive to enhance its competitive edge by strengthening risk control and at the same time grasping at new opportunities arising from the market changes. Benefitting from the core impetus for economic development in China and capitalising on the major competitive advantages of the Company and the endeavours of its staff, the Group has confidence in consolidating its leading position in the process of economic recovery and creating greater value for its shareholders.

The pharmaceutical distribution industry in which the Group operates is closely related to China's macro-economy and people's daily lives. The Group has clear understanding of and accurate judgement on the current situation and is well prepared to capture the unprecedented strategic opportunities.

Based on a scientific concept of development, the Group will continue to capitalize on any new opportunities and prepare for upcoming challenges to further enhance its business performance and development, and to reinforce its strength and competitiveness.

CONSOLIDATED BALANCE SHEET

As at 31 December 2009

	Note	As at 31 December **2009** *RMB'000*	*2008* *RMB'000*
ASSETS			
Non-current assets			
Land use rights		**504,196**	416,068
Investment properties		**95,322**	70,763
Property, plant and equipment		**1,447,946**	1,263,014
Intangible assets		**391,255**	204,020
Investments in associates		**330,845**	306,528
Available-for-sale financial assets		**55,936**	52,911
Deferred income tax assets		**143,128**	143,035
Other non-current assets		**19,387**	5,184
		2,988,015	2,461,523
Current assets			
Inventories		**4,272,807**	3,154,820
Trade receivables	4	**10,463,660**	7,913,583
Prepayments and other receivables		**707,926**	597,440
Available-for-sale financial assets		**15**	15
Short-term loans receivable		**2,905,584**	—
Pledged bank deposits		**320,442**	285,835
Cash and cash equivalents		**6,616,801**	1,712,119
		25,287,235	13,663,812
Total assets		**28,275,250**	16,125,335
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		**2,264,568**	1,637,037
Reserves		**8,646,288**	630,009
		10,910,856	2,267,046
Minority interest		**1,593,599**	1,146,352
Total equity		**12,504,455**	3,413,398

	Note	As at 31 December 2009 RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Bank borrowings		**50,000**	130,000
Deferred income tax liabilities		**97,261**	68,041
Post-employment benefit obligations		**276,286**	302,697
Other non-current liabilities		**592,393**	329,865
		1,015,940	830,603
Current liabilities			
Trade payables	5	**12,135,002**	9,053,074
Accruals and other payables		**1,251,843**	864,087
Dividends payable		**—**	363,959
Current income tax liabilities		**83,697**	96,044
Bank borrowings		**1,284,313**	1,504,170
		14,754,855	11,881,334
Total liabilities		**15,770,795**	12,711,937
Total equity and liabilities		**28,275,250**	16,125,335
Net current assets		**10,532,380**	1,782,478
Total assets less current liabilities		**13,520,395**	4,244,001

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

		Year ended 31 December	
		2009	2008
	Note	***RMB'000***	*RMB'000*
Revenue	6	**47,045,853**	38,191,909
Cost of sales		**(43,261,285)**	(35,152,762)
Gross profit		**3,784,568**	3,039,147
Other income	7	**52,864**	69,923
Distribution and selling expenses		**(1,250,304)**	(966,020)
General and administrative expenses		**(1,036,849)**	(969,540)
Operating profit		**1,550,279**	1,173,510
Other gains — net	8	**171,195**	93,317
Finance income		**23,758**	24,312
Finance costs		**(239,765)**	(265,996)
Finance costs — net	11	**(216,007)**	(241,684)
Share of results of associates		**66,905**	54,186
Profit before income tax		**1,572,372**	1,079,329
Income tax expense	12	**(386,234)**	(259,286)
Profit for the year		**1,186,138**	820,043
Attributable to:			
Shareholders of the Company		**845,819**	587,613
Minority interest		**340,319**	232,430
		1,186,138	820,043
Earnings per share for profit attributable to the shareholders of the Company during the year (expressed in RMB per share)			
— Basic and fully diluted	13	**0.47**	0.36
Dividends	14	**627,296**	105,699

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Attributable to shareholders of the Company *RMB'000*	Attributable to minority interest *RMB'000*	Total equity *RMB'000*
Year ended 31 December 2009			
Profit for the year	845,819	340,319	1,186,138
Other comprehensive income:			
Revaluation of available-for-sale financial assets			
— gross	11,883	15,421	27,304
— tax	(3,004)	(3,822)	(6,826)
Other comprehensive income, net of tax	8,879	11,599	20,478
Total comprehensive income for the year	854,698	351,918	1,206,616
Year ended 31 December 2008			
Profit for the year	587,613	232,430	820,043
Other comprehensive income:			
Revaluation of available-for-sale financial assets			
— gross	(6,857)	(7,837)	(14,694)
— tax	1,655	2,018	3,673
Other comprehensive income, net of tax	(5,202)	(5,819)	(11,021)
Total comprehensive income for the year	582,411	226,611	809,022

NOTES

1 Organisation and principal activities

The Company was incorporated in the People's Republic of China (the "PRC") on 8 January 2003 as a company with limited liability under the PRC Company Law.

On 6 October 2008, the Company was converted into a joint stock limited liability company under the PRC Company Law by converting its registered share capital and reserves as at 30 September 2007 with the proportion of 1: 0.8699 into 1,637,037,451 shares of RMB1 each. In September 2009, the Company issued overseas-listed foreign invested shares ("H Shares"), which were listed on the Main Board of the Hong Kong Stock Exchange on 23 September 2009.

The address of the Company's registered office is 221 Fuzhou Road, Huangpu District, Shanghai, the PRC.

The Group is mainly engaged in: (1) distribution of medicines and pharmaceutical products to customers including hospitals, other distributors, retail drug stores and clinics, (2) operation of pharmaceutical chain stores, and (3) distribution of laboratory supplies, manufacture and distribution of chemical reagents, and production and sale of pharmaceutical products.

The ultimate holding company of the Company is CNPGC, which is incorporated in the PRC.

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board on 23 March 2010.

2 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with HKFRS. They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

In May and December 2009, the Group acquired 100% equity interests in Guangxi Guoda Pharmacy Chainstore Co., Ltd. and Guangxi Huiqing Investment Co., Ltd. from CNPGC. These transactions have been accounted for using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5, "Merger Accounting for Common Control Combinations" issued by the HKICPA. The consolidated financial statements include the financial position, results and cash flows of Guangxi Guoda Pharmacy Chainstore Co., Ltd. and Guangxi Huiqing Investment Co., Ltd. as if the acquisitions had been completed prior to the beginning of the year. For the other companies acquired from (or disposed to) a third party during the year, they are included in (excluded from) the consolidated financial statements of the Group from the date of the relevant acquisition (disposal).

(i) New and amended standards adopted by the Group

- HKAS 24 (Revised), 'Related party disclosures' (effective for annual year starting from 1 January 2011). The amendment introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government-related entities and the government. Those disclosures are replaced with a requirement to disclose: the name of the government and nature of their relationship; and the nature and amount of any individually-significant transactions; and the extent of any collectively-significant transactions qualitatively or quantitatively. It also clarifies and simplifies the definition of a related party. The Group has early adopted the government-related entity exemption from 1 January 2009.

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting years beginning on or after 1 July 2009 or later years, but the Group has not early adopted them:

- HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective for annual year starting from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from the financial year beginning on 1 January 2010.

- HKFRS 3 (Revised), 'Business combinations' (effective for annual year starting from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from the financial year beginning on 1 January 2010.

- HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption') (effective for annual year starting from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to HKFRS 1 states that these amendments are applied prospectively from the date of transition to HKFRSs. The Group will apply HKFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

- There are a number of minor amendments to HKFRS 7, 'Financial instruments: Disclosures', HKAS 1, 'Presentation of financial statements', HKAS 7, 'statement of cash flows', HKAS 8, 'Accounting policies, changes in accounting estimates and errors', HKAS 10, 'Events after the balance sheet date', HKAS 17, 'Leases', HKAS 18, 'Revenue', HKAS 34, 'Interim financial reporting', HKAS 36, Impairment of assets', HKAS 38, 'Intangible assets', HKAS 39, 'Financial instruments: Recognition and measurement', HKFRS 5, 'Non-current assets held for sale and discontinued operations' and HKFRS 8, 'Operating Segments' which are not addressed above. These amendments are unlikely to have any significant impact on the Group's financial statements and have therefore not been analysed in detail.

(iii) Amendments and interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting years beginning on or after 1 July 2009 or later years but are not relevant for the Group's operations:

- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective for annual year starting from 1 July 2009).

- HK(IFRIC) – Int 17 — 'Distributions of non-cash assets to owners' (effective for annual year starting from 1 July 2009).

- HK(IFRIC) – Int 18, 'Transfers of Assets from Customers' (effective for annual year starting from 1 July 2009).

(iii) Amendments and interpretations to existing standards that are not yet effective and not relevant for the Group's operations (continued)

- HKFRS 2, 'share-based payment' (effective for annual year starting from 1 July 2009).
- HKAS 39, 'Financial instruments: Recognition and measurement' (effective for annual year starting from 1 January 2010).
- HK(IFRIC) – Int 9, 'Reassessment of embedded derivatives' (effective for annual year starting from 1 July 2009).
- HK(IFRIC) – Int 16, 'Hedges of a net investment in a foreign operation' (effective for annual year starting from 1 July 2009)

3 Segment information

Management has determined the operating segments based on the reports reviewed by the operating committee (comprising the general manager and the executives at the general manager office) that are used to make strategic decisions. The operating committee considers the business from a business type perspective. The reportable operating segments derive their revenue primarily from the following three business types in the PRC:

(i) Pharmaceutical distribution — distribution of medicine and pharmaceutical products to customers, including hospitals, other distributors, retail drug stores and clinics;

(ii) Retail pharmacy operations — operation of medicine chain stores; and

(iii) Other business operations — distribution of laboratory supplies, manufacturing and distribution of chemical reagents and production and sale of pharmaceutical products.

Inter-segment revenue are conducted at prices and terms mutually agreed amongst those business segments.

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment assets consist primarily of land use rights, investment properties, property, plant and equipment, intangible assets, inventories, receivables and operating cash.

Segment liabilities are those operating liabilities that result from the operating activities of a segment. Segment liabilities do not include borrowings and other liabilities that are incurred for financing rather than operating purpose.

Unallocated assets mainly represent deferred income tax assets. Unallocated liabilities mainly represent corporate borrowings and deferred income tax liabilities.

Capital expenditure comprises mainly additions to land use rights, investment properties, property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

The segment information provided to the operating committee is as follows:

(i) For the Year ended 31 December 2009 and 2008

	Pharmaceutical distribution *RMB'000*	**Retail pharmacy operations** *RMB'000*	**Other business operations** *RMB'000*	**Elimination** *RMB'000*	**Group** *RMB'000*
Year ended 31 December 2009					
Segment results					
External segment revenue	43,908,578	1,215,654	1,921,621	—	47,045,853
Inter-segment revenue	260,987	—	97,058	(358,045)	—
Revenue	44,169,565	1,215,654	2,018,679	(358,045)	47,045,853
Operating profit	1,425,014	12,913	114,934	(2,582)	1,550,279
Other gains	163,678	1,101	6,416	—	171,195
Share of results of associates	66,905	—	—	—	66,905
	1,655,597	14,014	121,350	(2,582)	1,788,379
Finance costs — net					(216,007)
Profit before income tax					1,572,372
Income tax expense					(386,234)
Profit for the year					1,186,138
Other segment items included in the income statement					
Provision for impairment of trade and other receivables, net	16,583	330	219	—	17,132
Provision for impairment of inventories	15,192	63	58	—	15,313
Provision for impairment of available-for-sale financial assets	18,503	—	—	—	18,503
Amortisation of land use rights	6,670	—	2,834	—	9,504
Depreciation of property, plant and equipment	93,253	5,268	34,654	—	133,175
Depreciation of investment properties	—	—	9,561	—	9,561
Amortisation of intangible assets	38,659	96	10,562	—	49,317
Capital expenditures	**195,569**	**21,958**	**131,168**	**—**	**348,695**

	Pharmaceutical distribution *RMB'000*	Retail pharmacy operations *RMB'000*	Other business operations *RMB'000*	Elimination *RMB'000*	Group *RMB'000*
Year ended 31 December 2008					
Segment results					
External segment revenue	35,745,080	952,162	1,494,667	—	38,191,909
Inter-segment revenue	213,020	—	98,144	(311,164)	—
Revenue	35,958,100	952,162	1,592,811	(311,164)	38,191,909
Operating profit	1,057,292	11,896	107,880	(3,558)	1,173,510
Other gains/(losses)	93,564	(616)	369	—	93,317
Share of results of associates	54,137	—	49	—	54,186
	1,204,993	11,280	108,298	(3,558)	1,321,013
Finance costs — net					(241,684)
Profit before income tax					1,079,329
Income tax expense					(259,286)
Profit for the year					820,043
Other segment items included in the income statement					
(Write-back of)/provision for impairment of trade and other receivables, net	(2,508)	(1,146)	85	—	(3,569)
Provision for impairment of inventories	1,060	1,061	2,365	—	4,486
Amortisation of land use rights	8,448	—	2,770	—	11,218
Depreciation of property, plant and equipment	81,862	4,391	33,208	—	119,461
Depreciation of investment properties	—	—	6,915	—	6,915
Amortisation of intangible assets	34,859	80	1,437	—	36,376
Capital expenditures	**132,276**	**9,522**	**139,641**	**—**	**281,439**

(ii) As at 31 December 2009 and 2008

	Pharmaceutical distribution *RMB'000*	Retail pharmacy operations *RMB'000*	Other business operations *RMB'000*	Elimination *RMB'000*	Group *RMB'000*
As at 31 December 2009					
Segment assets and liabilities					
Segment assets	25,826,528	619,293	2,006,658	(320,357)	28,132,122
Segment assets include:					
Investments in associates	306,254	—	24,591	—	330,845
Unallocated assets					143,128
Total assets					28,275,250
Segment liabilities	13,154,735	425,204	1,077,117	(317,835)	14,339,221
Unallocated liabilities					1,431,574
Total liabilities					15,770,795
As at 31 December 2008					
Segment assets and liabilities					
Segment assets	14,527,096	422,576	1,379,137	(346,509)	15,982,300
Segment assets include:					
Investments in associates	282,246	—	24,282	—	306,528
Unallocated assets					143,035
Total assets					16,125,335
Segment liabilities	10,318,922	299,396	715,667	(324,259)	11,009,726
Unallocated liabilities					1,702,211
Total liabilities					12,711,937

All of the Group's assets are located in the PRC.

4 Trade receivables

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Accounts receivable	**9,814,925**	7,455,442
Notes receivable	**809,819**	606,475
	10,624,744	8,061,917
Less: Provision for impairment	**(161,084)**	(148,334)
Trade receivables — net	**10,463,660**	7,913,583

The fair values of trade receivables approximate their carrying amounts.

Retail sales at the Group's medicine chain stores are usually made in cash or by debit or credit cards. For medicine distribution and medicine manufacture businesses, sales are made on credit terms ranging from 30 to 180 days. The ageing analysis of trade receivables (accounts receivable and notes receivable) is as follows:

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Below 3 months	**8,950,040**	6,806,815
3 to 6 months	**1,449,211**	886,811
6 months to 1 year	**188,174**	316,861
1 to 2 years	**9,205**	8,875
Over 2 years	**28,114**	42,555
	10,624,744	8,061,917

Certain trade receivables that are past due are not considered impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
3 to 6 months	**1,340,595**	799,660
6 months to 1 year	**167,317**	297,519
1 to 2 years	**5,494**	6,387
Over 2 years	**214**	3,202
	1,513,620	1,106,768

As of 31 December 2009, trade receivables of approximately RMB161,084,000 (2008: RMB148,334,000), were impaired, and had been fully provided for. These receivables mainly relate to wholesalers in unexpected difficult financial situations. The ageing of these receivables is as follows:

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
3 to 6 months	**108,616**	87,151
6 months to 1 year	**20,857**	19,342
1 to 2 years	**3,711**	2,488
Over 2 years	**27,900**	39,353
	161,084	148,334

Movements of provision for impairment of trade receivables are as follows:

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
At the beginning of year	**148,334**	149,019
Provision for impairment (Note 9)	**29,079**	10,883
Receivables written off as uncollectible	**(16,329)**	(11,568)
At the end of year	**161,084**	148,334

The creation and release of provision for impairment of trade and other receivables have been included in general and administrative expenses. Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

The trade receivables are denominated in RMB.

As at 31 December 2009, notes receivable of RMB468,262,000 (2008: RMB234,166,000) and accounts receivable of RMB195,664,000 (2008: RMB44,298,000) were pledged as collaterals of the Group's bank borrowings.

As at 31 December 2009, accounts receivable of RMB900,756,000 (2008: RMB390,839,000) were derecognised in the accounts receivable factoring programs without recourse. The ageing of these derecognised accounts receivable is within one year. The collection of such accounts receivable on behalf of banks amounted to RMB263,605,000 (2008: RMB14,190,000) was recorded in other payables.

There is no concentration of credit risk with respect to trade receivable as the Group has a large number of customers.

5 Trade payables

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Trade payables	**8,143,977**	6,380,442
Notes payable	**3,991,025**	2,672,632
	12,135,002	9,053,074

Purchases are made on credit terms ranging from 45 to 180 days.

The ageing analysis of trade payables is as follows:

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Below 3 months	**11,152,293**	8,266,668
3 to 6 months	**470,378**	293,825
6 months to 1 year	**318,503**	254,107
1 to 2 years	**67,582**	76,589
Over 2 years	**126,246**	161,885
	12,135,002	9,053,074

The Group's trade payables are denominated in the following currencies:

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
RMB	**11,742,991**	8,809,570
USD	**392,011**	243,504
	12,135,002	9,053,074

6 Revenue

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Sales of goods	**46,960,869**	38,110,586
Rental income	**42,723**	35,718
Franchise fees from medicine chain stores	**11,189**	15,255
Consulting income	**14,965**	13,126
Import agency income	**16,107**	15,204
Others	**—**	2,020
	47,045,853	38,191,909

7 Other income

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Government grants (i)	**52,487**	69,919
Dividend income from available-for-sale financial assets	**377**	4
	52,864	69,923

Note:

(i) Government grants mainly represented subsidy income received from various government organisations as incentives to certain Group companies.

8 Other gains — net

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Gain on disposal of partial interests in subsidiaries (i)	**136,547**	75,965
Loss on disposal of subsidiaries	**—**	(11,118)
Gain on disposal of plant and equipment	**5,080**	3,644
Foreign exchange (loss)/gain — net	**(3,813)**	26,139
Write-back of certain liabilities (ii)	**51,570**	—
Loss on disposal of an associate (iii)	**(3,858)**	—
Donations	**(7,104)**	(3,855)
Others — net	**(7,227)**	2,542
	171,195	93,317

Notes:

(i) Gain on disposal of partial interests in subsidiaries

In 2009, the Group disposed of a 1.02% (2008: 0.99%) equity interest in China National Medicine Co., Ltd., and recognised a gain of approximately RMB63,980,000 (2008: RMB75,965,000). The Group's equity interest decreased from 45.03% to 44.01%.

In 2009, the Group disposed of a 0.81% (2008: nil) equity interest in Shenzhen Accord Pharmaceutical Co., Ltd., and recognised a gain of approximately RMB37,568,000 (2008: nil). The Group's equity interest decreased from 39.14% to 38.33%.

In 2009, the Group disposed of a 9% (2008: nil) equity interest in Sinopharm Holding Beijing Huahong Co., Ltd. and recognised a gain of approximately RMB32,700,000 (2008: nil). The Group's equity interest decreased from 60% to 51%.

In 2009, the Group disposed of a 4% (2008: nil) equity interest in Sinopharm Holding Beijing Co., Ltd. and recognised a gain of approximately RMB2,299,000 (2008: nil). The Group's equity interest decreased from 100% to 96%.

(ii) Write-back of certain liabilities

In 2009, the Group liquidated a few dormant subsidiaries and a subsidiary's branch, namely, Shanxi Yiyue Hotel, China National Pharmaceutical Group Shanxi New & Special Medicine Co., Ltd. and Shanxi Pharmaceutical Corporation Da Min Branch. In this connection, liabilities no longer payable of RMB45,277,000 was written-back, which is included as other gains. In addition, the Group also wrote-back other liabilities no longer payable of RMB6,293,000.

(iii) Loss on disposal of an associate

In 2009, the Group disposed of its 35% equity interest in Sinopharm Holding Hubei Xinlong Co., Ltd. and recognised a loss of approximately RMB3,858,000.

9 Expenses by nature

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Raw materials and trading merchandise consumed	**43,079,333**	35,107,079
Changes in inventories of finished goods and work in progress	**72,749**	(30,546)
Employee benefit expenses (note 10)	**1,145,591**	894,555
Provision for impairment of trade receivables (note 4)	**29,079**	10,883
Write-back of impairment of other receivables	**(11,947)**	(14,452)
Provision for impairment of inventories	**15,313**	4,486
Provision for impairment of available-for-sale financial assets	**18,503**	—
Operating leases in respect of leasehold land and buildings	**147,930**	127,736
Depreciation of property, plant and equipment	**133,175**	119,461
Depreciation of investment properties	**9,561**	6,915
Amortisation of intangible assets	**49,317**	36,376
Amortisation of land use rights	**9,504**	11,218
Auditors' remuneration	**10,750**	20,251
Advisory and consulting fees	**18,669**	25,948
Transportation expenses	**266,200**	220,393
Travel expenses	**78,594**	85,561
Promotion and advertising expenses	**264,698**	214,188
Utilities	**27,826**	23,269
Others	**183,593**	225,001
Total cost of sales, distribution and selling expenses and general and administrative expenses	**45,548,438**	37,088,322

10 Employee benefit expenses

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Salaries, wages, allowances and bonuses	**854,183**	633,751
Contributions to pension plans [(i)]	**92,154**	68,672
Post-employment benefits	**320**	80,585
Housing benefits [(ii)]	**39,533**	27,346
Other benefits [(iii)]	**159,401**	84,201
	1,145,591	894,555

Notes:

(i) As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its employees in Mainland China. The Group's employees make monthly contributions to the schemes at approximately 7% to 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 20% to 23% of such relevant income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.

(ii) Housing benefits represent contribution to the government-supervised housing funds, in Mainland China (at rates ranging from 5% to 12% of the employees' basic salary).

(iii) Other benefits mainly represent expenses incurred for medical insurance, employee welfare, employee education and training, and for union activities.

11 Finance income and costs

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Interest expenses:		
— Borrowings	**106,648**	121,640
— Discount of notes receivable	**76,361**	108,074
— Discount of accounts receivable	**29,824**	14,125
Gross interest expenses	**212,833**	243,839
Bank charges	**29,999**	25,359
Less: capitalised interest expenses	**(3,067)**	(3,202)
Finance costs	**239,765**	265,996
Finance income:		
— Interest income on bank deposits	**(23,758)**	(24,312)
Finance costs — net	**216,007**	241,684

12 Taxation

(a) Income tax expense

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
PRC current income tax	**393,135**	270,959
Deferred income tax	**(6,901)**	(11,673)
	386,234	259,286

The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities, as follows:

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Profit before income tax	**1,572,372**	1,079,329
Less: Share of results of associates	**(66,905)**	(54,186)
	1,505,467	1,025,143
Tax calculated at weighted average domestic tax rate applicable	**366,064**	241,671
Unrealised intra-group profit	**5,228**	—
Expenses not deductible for tax purposes	**14,663**	11,663
Tax losses for which no deferred income tax asset was recognised, net	**501**	6,335
Change of income tax rate	**(222)**	(383)
Income tax expense	**386,234**	259,286
Weighted average applicable domestic tax rate [(i)]	**24%**	24%

Notes:

(i) The Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong.

Effective from 1 January 2008, income tax rates for all PRC enterprises have been unified at 25%. For enterprises which were established before the publication of the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law") on 16 March 2007 and were entitled to preferential treatments of reduced tax rates granted by relevant tax authorities, the new CIT rate will be gradually increased to 25% within 5 years. For enterprises that enjoy a reduced income tax rate of 15%, the tax rate was 18% for 2008, 20% for 2009 and will be 22% for 2010, 24% for 2011 and 25% for 2012. For enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

Details of the preferential Enterprise Income Tax ("EIT") arrangements are listed as follows:

Shanghai Tongyu Information Technology Co., Ltd. and Shanghai Sinopharm Waigaoqiao Co., Ltd. are domestic enterprises established in Pudong New Area, Shanghai, the PRC. In accordance with the "Circular of the State Administration of Taxation on the Applicable EIT Rate of Domestic Enterprise Established in Pudong New Area, Shanghai" (Guo Shui Fa 1992 No.114) and "Implementation on Tax Policies for Domestic Enterprises Established in Pudong New Area, Shanghai" (Hu Cai Pu 1992 No.2), they enjoyed a preferential EIT rate of 15% prior to 1 January 2008. In accordance with the "Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies" released by State Council, their EIT rate was 18% for 2008 and 20% for 2009.

Guangxi Accord Pharmacy Chainstore Co., Ltd. enjoyed preferential EIT rate of 15% from 2006 to 2010 in accordance with the "Circular of Preferential Policies on Taxation on Development of the Western Region" released by Ministry of Finance, State Administration of Taxation and General Administration of Customs, "Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies" released by State Council and approval notification (Gui Di Shui Han 2007 No.302) released by Guangxi local tax authorities.

Shenzhen Accord Pharmaceutical Co., Ltd., Guangdong Accord Drugstore Co., Ltd., Shenzhen Zhijun Pharmaceutical Co., Ltd., Shenzhen Zhijun Pharmaceutical Trade Co., Ltd., Shenzhen Accord Pharmacy Chainstore Co., Ltd., Shenzhen Jianmin Pharmaceutical Co., Ltd., Shenzhen Accord Pharmaceutical Logistics Co., Ltd. and Shenzhen Accord Traditional & Herbal Medicine Co., Ltd. enjoyed a preferential EIT rate of 15% prior to 1 January 2008. In accordance with the "Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies", their EIT rate was 18% for 2008 and 20% for 2009, except for Shenzhen Zhijun Pharmaceutical Co., Ltd., which was awarded a certificate as a national high-tech enterprise. In accordance with the Corporate Income Tax Law of the People's Republic of China, Shenzhen Zhijun Pharmaceutical Co., Ltd. is entitled to a preferential EIT rate of 15% for three years starting from 2008.

China National Pharmaceutical Logistics Corp., Ltd. is a foreign investment production enterprise established in the National Economy and Technology Development Zone. In accordance with the "Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies", its EIT rate was 18% for 2008 and 20% for 2009.

Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd. ("Suzhou Zhijun Wanqing") was awarded a certificate as a national high-tech enterprise. In accordance with the Corporate Income Tax Law of the People's Republic of China, it was entitled to a preferential EIT rate of 15% in 2009.

Sinopharm Holding Yunnan Co., Ltd. enjoyed preferential EIT rate of 15% from 2002 to 2010 in accordance with the "Circular of Preferential Policies on Taxation on Development of the Western Region" released by Ministry of Finance, State Administration of Taxation and General Administration of Customs, "Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies" released by State Council and approval notification (Yun Di Shui 2003 No.6) released by Yunnan local tax authorities.

(b) Business tax ("BT") and related taxes

Certain of the Group's revenues (including service fee income) are subject to BT at rates ranging from 3% to 5% of the amount of revenue. In addition, the Group is subject to city construction tax ("CCT") and educational surcharge ("ES") based on 1% to 7% and 1% to 3% of the amount of BT payable.

(c) Value-added tax ("VAT") and related taxes

Certain of the Group's revenues (including sales revenue) are subject to output VAT generally calculated at 0%, 13% or 17% of the selling prices. Input credit relating to input VAT paid on purchases can be used to offset the output VAT. The Group is also subject to CCT and ES based on 1% to 7% and 1% to 3% of the net VAT payable.

13 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year. The 1,637,037,451 shares raised in 6 October 2008 upon conversion of the company into a joint stock limited liability company are considered as outstanding throughout 2008.

	Year ended 31 December	
	2009	2008
Profit attributable to shareholders of the Company *(RMB'000)*	**845,819**	587,613
Weighted average number of ordinary shares in issue *('000)*	**1,808,964**	1,637,037
Basic earnings per share *(RMB per share)*	**0.47**	0.36

No diluted earnings per share is presented as there was no dilutive potential shares existed during the years.

14 Dividends

The Board recommend the payment of a final dividend of RMB0.01 per ordinary share, amounting to RMB22,879,250. Such dividend is to be approved by the shareholders of the Company at the Annual General Meeting to be held in May 2010. These financial statements have not reflected the payable of this dividend.

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Interim dividend declared	**604,417**	—
Proposed final dividend	**22,879**	105,699
	627,296	105,699

15 Business combinations

(a) Business combination under common control

In May 2009, the Group acquired a 100% equity interest in Guangxi Guoda Pharmacy Chainstore Co., Ltd. from a subsidiary of CNPGC.

In December 2009, the Group acquired a 100% equity interest in Guangxi Huiqing Investment Co., Ltd. from CNPGC.

The following is a reconciliation of the effect arising from the common control combination in respect of the acquisition of Guangxi Huiqing Investment Co., Ltd. and Guangxi Guoda Pharmacy Chainstore Co., Ltd. on the consolidated balance sheets.

The consolidated balance sheet as at 31 December 2008:

	The Group, excluding Guangxi Huiqing Investment Co., Ltd. and Guangxi Guoda Pharmacy Chainstore Co., Ltd.	**Guangxi Huiqing Investment Co., Ltd.**	**Guangxi Guoda Pharmacy Chainstore Co., Ltd.**	**Adjustments**	**Consolidated**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Investment in Guangxi Huiqing Investment Co., Ltd. and Guangxi Guoda Pharmacy Chainstore Co., Ltd.	—	—	—	—	—
Other assets/(liabilities) — net	3,411,260	2,816	(678)	—	3,413,398
Net assets	3,411,260	2,816	(678)	—	3,413,398
Share capital	1,637,037	7,101	3,000	(10,101)	1,637,037
Capital premium	256,089	—	—		256,089
Statutory reserves	11,744	—	—	—	11,744
Available-for-sale financial assets change	7,111	—	—	—	7,111
Capital reserves	(11,175)	—	—	2,816	(8,359)
Retained earnings	364,102	(4,285)	(3,678)	7,285	363,424
Minority interests	1,146,352	—	—	—	1,146,352
	3,411,260	2,816	(678)	—	3,413,398

The consolidated balance sheet as at 31 December 2009:

	The Group, excluding Guangxi Huiqing Investment Co., Ltd. and Guangxi Guoda Pharmacy Chainstore Co., Ltd.	**Guangxi Huiqing Investment Co., Ltd.**	**Guangxi Guoda Pharmacy Chainstore Co., Ltd.**	**Adjustments**	**Consolidated**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Investment in Guangxi Huiqing Investment Co., Ltd. and Guangxi Guoda Pharmacy Chainstore Co., Ltd.	8,151	—	—	(8,151)	—
Other assets/(liabilities) — net	12,497,537	7,651	(733)	—	12,504,455
Net assets	12,505,688	7,651	(733)	(8,151)	12,504,455
Share capital	2,264,568	7,101	3,000	(10,101)	2,264,568
Capital premium	8,131,102	—	—	—	8,131,102
Statutory reserves	92,768	55	—	(55)	92,768
Available-for-sale financial assets change	15,990	—	—	—	15,990
Capital reserves	(8,359)	—	—	(3,316)	(11,675)
Retained earnings	416,020	495	(3,733)	5,321	418,103
Minority interests	1,593,599	—	—	—	1,593,599
	12,505,688	7,651	(733)	(8,151)	12,504,455

No significant accounting adjustments were made to the net assets and net profit or loss of any entities or businesses as a result of the business combination under common control to achieve consistency of accounting policies.

(b) Business combinations not under common control

Other than the acquisition of Guangxi Guoda Pharmacy Chainstore Co., Ltd. and Guangxi Huiqing Investment Co., Ltd. from CNPGC, which was accounted for under merger accounting, the Group also acquired equity interests in certain subsidiaries from third parties, during the year as follows:

In January 2009, the Group acquired a 100% equity interest in Dongguan Accord Pharmaceutical Co., Ltd. (東莞一致醫藥有限公司) from an independent third party.

In February 2009, the Group acquired a 80% equity interest in Sinopharm Holding Hebei Co., Ltd. (國藥控股河北有限公司) from an independent third party.

In March 2009, the Group acquired a 75% equity interest in Suzhou Zhijun Wanqing (蘇州致君萬慶藥業有限公司) from an independent third party.

In April 2009, the Group acquired a 67% equity interest in Sinopharm Holding Anhui Co., Ltd. (國藥控股安徽有限公司) ("Sinopharm Anhui") from an independent third party.

In September 2009, the Group acquired a 95% equity interest in Shanghai Guoda Dongxin Pharmacy Chain Store Co., Ltd. (上海國大東信藥房連鎖有限公司) from an independent third party.

In November 2009, the Group acquired a 67% equity interest in Sinopharm Holding Shandong Co., Ltd. (國藥控股山東有限公司) ("Sinopharm Shandong") from an independent third party.

In November 2009, the Group acquired a 70% equity interest in Sinopharm Holding Fuzhou Co., Ltd. (國藥控股福州有限公司) ("Sinopharm Fuzhou") from an independent third party.

In November 2009, the Group acquired a 60% equity interest in Sinopharm Holding Yunnan Co., Ltd. (國藥控股雲南有限公司) ("Sinopharm Yunnan") from an independent third party.

In December 2009, the Group acquired a 100% equity interest in Zhanjiang Tianfeng Pharmaceutical Co., Ltd. (湛江天豐醫藥有限公司) from an independent third party.

In December 2009, the Group acquired a 80% equity interest in Sinopharm Holding Hainan Co., Ltd. (國藥控股海南有限公司) ("Sinopharm Hainan") from an independent third party.

The effect of the above acquisitions is summarised as follows:

	2009
	RMB'000
Acquisition consideration — Cash	**281,963**
Fair value of the acquired net assets	**(222,791)**
Goodwill — Pharmaceutical distribution and manufacturing (2008: pharmaceutical retail)	**59,172**

The goodwill is attributable to the acquired human resources and economies of scale expected from combining the operations of the Group and Suzhou Zhijun Wanqing, Sinopharm Anhui, Sinopharm Shandong, Sinopharm Fuzhou, Sinopharm Yunnan and Sinopharm Hainan.

The details of the assets and liabilities acquired and cash flow relating to these acquisitions are summarised as follows:

	Fair values at acquisition date *RMB'000*	**Acquirees' carrying amounts at acquisition date** *RMB'000*
Cash and cash equivalents	**139,692**	139,692
Property, plant and equipment	**73,178**	73,178
Intangible assets		
— sales network	**99,701**	—
— trademarks and patent	**32,895**	3,835
— software	**435**	435
Land use rights	**15,708**	3,519
Deferred income tax assets	**628**	628
Inventories	**154,907**	154,907
Other non-current assets	**1,466**	1,466
Trade and other receivables	**557,736**	557,736
Trade and other payables	**(650,516)**	(650,516)
Deferred income tax liabilities	**(29,830)**	—
Other non-current liabilites	**(1,700)**	(1,700)
Borrowings	**(70,800)**	(70,800)
Net assets	**323,500**	212,380
Minority interests	**(100,709)**	
Net assets acquired	**222,791**	
Purchase consideration settled in cash	**218,722**	
Cash and cash equivalents in subsidiaries acquired	**(139,692)**	
Cash outflow on acquisition	**79,030**	

The revenue, net profit and cash flow of these newly acquired subsidiaries from the respective acquisition dates to 31 December 2009 are summarised as follows:

	From acquisition date to 31 December 2009 ***RMB'000***
Revenue	**918,369**
Net profit	**7,066**
Cash outflows from operating activities:	**(32,233)**
Net cash outflow	**(28,747)**

16 Events after the balance sheet date

After 31 December 2009, the Company made the following acquisitions:

(a) In January 2010, the Company acquired a 70% equity interest in Sinopharm Holding Fujian Co., Ltd (國藥控股福建有限公司) from an independent third party.

(b) In January 2010, the Company acquired a 70% equity interest in Sinopharm Holding Gansu Co., Ltd (國藥控股甘肅有限公司) from an independent third party.

(c) In February 2010, the Company acquired a 17.7% equity interest in Sinopharm Holding Ningxia Co., Ltd. (國藥控股寧夏有限公司) from an independent third party. After the acquisition, the Group holds a 66.7% equity interest in Sinopharm Holding Ningxia Co., Ltd., and Sinopharm Holding Ningxia Co., Ltd. became the Company's subsidiary.

(d) In March 2010, the Company acquired a 100% equity interest in Hebei Traditional & Herbal Medicine Co., Ltd. (河北省醫藥藥材公司) and Guangdong Oriental New & Special Drugs Corporation (廣東東方新特藥公司) from a subsidiary of CNPGC.

(e) In March 2010, the Company acquired a 67% equity interest in Sinopharm Holding Jiangxi Co., Ltd. (國藥控股江西有限公司) from an independent third party.

The total consideration for the above acquisition amounted to RMB278,270,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

During the year under review, coupled with the launch of a series of medical related policies such as the implementation of a new healthcare reform, the introduction of State Basic Medical Catalog and Retail Price Guideline, as well as the State Basic Medical Insurance Catalog, the pharmaceutical industry in China started a new journey. In terms of the development trends of the pharmaceutical industry, under the stimulation of factors such as the investment of RMB850 billion by the PRC government from 2009 to 2011, the greater coverage of medical insurance, the gradual increase in medical expenses per capita as well as the growing demand of medicines from the rural areas and the low-income population, the sale of pharmaceutical products through the Group's distribution network has accelerated. The quarterly increase in revenue and profits of the pharmaceutical industry has fast tracked the development of the pharmaceutical industry in China.

Coupled with the launch of a new healthcare reform, the express intention of each level of governmental departments is to promote the consolidation of the pharmaceutical industry, the strengthening in the regulation of medicine distribution business, the frequent mergers and acquisitions conducted by major pharmaceutical companies and the exploration of cooperation by small pharmaceutical companies, a new trend for consolidation in the industry has emerged.

In 2010, the further consolidation and growth of the pharmaceutical industry in China will be supported by the introduction of a pilot scheme of public hospitals reform, the expansion of basic medicine catalog, the improvement of the coverage of basic medicines by general medical institutions and the adoption of tender system for medicine procurement in each province and city. From a global pharmaceutical production chain perspective, the pharmaceutical industry is now characterized by the rise of new medical markets and the outsourcing of medical research and production to developing countries. Structural reform of the pharmaceutical industry is inevitable when the pharmaceutical industry further evolves. Major medicine distributors may continue to expand through merger and acquisition.

Business Review

During the Reporting Period, the Group was well positioned to take advantage of the healthcare reform and the trend of the pharmaceutical industry in China. The Group maintained and strengthened its leading positions as a medicine and healthcare product distributor and pharmaceutical supply chain service provider. The Group has the largest medicine distribution network in China and has integrated operations in the following business segments:

- ***Pharmaceutical distribution:*** The Group provides pharmaceutical supply chain management for the distribution of domestic and imported prescription and over-the-counter medicines from manufacturers and suppliers to hospitals, other distributors, retail drug stores and other customers. During the Reporting Period, the Group operated an extensive distribution network covering 23 provinces, municipals and autonomous regions in China. The network was expanded to Anhui, Shandong, Yunnan, Fujian and Hainan, etc. in 2009 through mergers and acquisitions to provide products and services to customers in a timely and cost-effective manner. The Group's direct customers included approximately 42.23% of all hospitals in China (encompassing 64.18% of the class-three hospitals which are the largest and most highly-ranked hospitals) and over 31,992 other customers, such as 3,639 pharmaceutical distributors, 16,420 retail pharmacies and 11,933 other healthcare institutions. During the Reporting Period, revenue of the pharmaceutical distribution business accounted for 93.34% of total revenue.

- ***Retail pharmacy:*** The Group has a network of retail drug stores that it directly operates or franchises in major cities throughout China. Its retail pharmacy operations accounted for 2.58% of its total revenue during the Reporting Period.

- ***Other business operations:*** The Group's other business operations are the production or sale of pharmaceutical products, chemical reagents and laboratory supplies. Its other business operations accounted for 4.08% of its total revenue during the Reporting Period.

Financial Review

Financial Results Summary

The financial results summary set out below is extracted from the audited annual results of the Company and its subsidiaries prepared in accordance with the HKFRS during the Reporting Period:

During the Reporting Period, the Group recorded turnover of RMB47,046 million, representing an increase of RMB8,854 million, or 23.18%, as compared with the corresponding period of last year. Of which, revenue from the distribution business was RMB43,909 million, representing an increase of RMB8,164 million, or 22.84%, as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded net profit of RMB1,186 million, representing an increase of RMB366 million, or 44.63%, as compared with the corresponding period of last year. Profit attributable to the shareholders of the Company was RMB846 million, representing an increase of RMB258 million, or 43.88%, as compared with the corresponding period of last year.

During the Reporting Period, the earnings per share of the Group was RMB0.47, representing an increase of 30.56% as compared with the corresponding period of last year.

Revenue

The Group recorded revenue of RMB47,046 million during the Reporting Period, representing an increase of 23.18% as compared with RMB38,192 million for the twelve months ended 31 December 2008. There was a general increase in operating income from pharmaceutical distribution business, retail pharmacy business and other business operations of the Group. The increase in revenue of the Group was primarily due to the growth in both the market share of the Company and the development of the pharmaceutical market of China.

- ***Pharmaceutical Distribution:*** The revenue from pharmaceutical distribution of the Group was RMB43,909 million during the Reporting Period, representing an increase of 22.84% as compared with RMB35,745 million for the twelve months ended 31 December 2008, which accounted for 93.34% of the total revenue of the Group. The increase in revenue was primarily due to the increase in the types and quantities of products sold to existing hospital customers and an increase in the number of new hospital customers. In addition, the penetration of the Group's distribution network into community clinics and other healthcare institutes also contributed to the increase in its revenue.

- ***Retail Pharmacy:*** The revenue from retail pharmacy of the Group was RMB1,216 million during the Reporting Period, representing an increase of 27.73% as compared with RMB952 million for the twelve months ended 31 December 2008. The increase was primarily due to the acquisition of 93 self-operated drug stores from Ningxia State-owned Assets Supervision and Administration Commission, the increase in the number of self-operated drug stores resulted from the new opening of self-operated drug stores as well as the increase in revenue from the existing self-operated drug stores.

- ***Other Business Operations:*** The revenue from other business operations of the Group was RMB1,922 million during the Reporting Period, representing an increase of 28.56% as compared with RMB1,495 million for the twelve months ended 31 December 2008. The increase was primarily due to the acquisition of Suzhou Zhijun Wanqing and the growth of the Company's existing pharmaceutical manufacturing business and chemical reagent business during the Reporting Period.

Cost of Sales

During the Reporting Period, the cost of sales of the Group was RMB43,261 million, representing an increase of 23.06% as compared with RMB35,153 million for the twelve months ended 31 December 2008. The increase was primarily due to an increase in the costs of purchasing merchandise following the increase in the revenue from sales, and the rate of increase in cost of sales was lower than that of sales for the same period.

Gross Profit

As a result of the above-mentioned factors, the gross profit of the Group increased by 24.55% from RMB3,039 million for the year ended 31 December 2008 to RMB3,785 million during the Reporting Period. The gross profit margins of the Group for the years ended 31 December 2008 and 2009 were 7.96% and 8.05% respectively.

Other Income

During the Reporting Period, other income of the Group was RMB53 million, representing a decrease of 24.29% as compared with RMB70 million for the twelve months ended 31 December 2008.

Distribution and Selling Expenses

During the Reporting Period, the distribution and selling expenses of the Group was RMB1,250 million, representing an increase of 29.40% as compared with RMB966 million for the twelve months ended 31 December 2008. The increase was primarily due to the expansion of the scale of the Group's operation and exploration of new business.

General and Administrative Expenses

During the Reporting Period, the general and administrative expenses of the Group was RMB1,037 million, representing an increase of 6.91% as compared with RMB970 million for the twelve months ended 31 December 2008. The increase was primarily due to the expansion of the scale of operation of the Group. The proportion of the Group's general and administrative expenses to the total revenue of the Group decreased from 2.54% for the twelve months ended 31 December 2008 to 2.20% for the same period in 2009. The decrease was primarily due to the improvement in operation efficiency and the expansion of the scale of operation as well as the success of the Group's cost control measures, a decrease in post-employment benefit expenses due to actuarial gains resulting from changes in interest rates and recovery of certain other receivables, which had previously made provisions.

Operating Profit

As a result of the above-mentioned factors, the operating profit of the Group during the Reporting Period was RMB1,550 million, representing an increase of 32.03% from RMB1,174 million for the twelve months ended 31 December 2008. The operating profit margin increased from 3.07% for the twelve months ended 31 December 2008 to 3.29% at the end of the Reporting Period.

Other Gains — Net

The other gains of the Group less other losses increased by 83.87% from RMB93 million for the twelve months ended 31 December 2008 to RMB171 million during the Reporting Period. The increase was primarily due to an increase in the Group's gains from the sale of shares in China National Medicines Co., Ltd. and the disposal of tradable shares of Shenzhen Accord Pharmaceutical Co., Ltd. during the Reporting Period as compared with the corresponding period in 2008 and the proceeds from the sale of part of the equity interests in Sinopharm Holding Beijing Huahong Co, Ltd.

Finance Costs — Net

During the Reporting Period, the finance costs of the Group was RMB216 million, representing a decrease of 10.74% as compared with RMB242 million for the twelve months ended 31 December 2008. The decrease was primarily due to lower interest rates as compared with that in 2008.

Share of Results from Associates

During the Reporting Period, the Group's share of results from associates was RMB67 million, representing an increase of 24.07% as compared with RMB54 million for the twelve months ended 31 December 2008.

Income Tax Expenses

The Group's income tax expenses increased by 49.03%, from RMB259 million for the twelve months ended 31 December 2008 to RMB386 million during the Reporting Period. The increase was primarily due to (i) increase in profit; (ii) the gradual increases in applicable income tax rates of certain of the Group's subsidiaries whose preferential tax treatments expired after the implementation of the new Enterprise Income Tax Law of the People's Republic of China; (iii) increases in expenses not deductible for tax purposes; and (iv) the income tax payment arising from the internal transfer of equity interest for the business integration of the Group. As a result, the Group's effective income tax rate increased from 24.00% for the twelve months ended 31 December 2008 to 24.55% during the Reporting Period.

Profits for the Reporting Period

As a result of the above-mentioned factors, the profit of the Group during the Reporting Period was RMB1,186 million, representing an increase of 44.63% from RMB820 million for the twelve months ended 31 December 2008. The annual profit margins of the Group for the twelve months ended 31 December 2008 and 2009 were 2.15% and 2.52% respectively.

Profit Attributable to the shareholders of the Company

During the Reporting Period, profit or net profit attributable to the shareholders of the Company was RMB846 million, representing an increase of RMB258 million, or 43.88%, from RMB588 million for the twelve months ended 31 December 2008. The annual profit margins of the Group during the Reporting Period and the corresponding period in 2008 were 1.80% and 1.54% respectively.

Minority Interests

Minority interests during the Reporting Period was RMB340 million, representing an increase of 46.55% from RMB232 million for the twelve months ended 31 December 2008.

Liquidity and Capital Resources

Working capital

Prior to its listing on the Hong Kong Stock Exchange, the Group's principal sources of funds were cash generated from its operations and various short-term and long-term bank borrowings and lines of credit, as well as equity contributions from shareholders.

During the Reporting Period, the Group had commercial bank credit facilities of RMB18,715 million, of which approximately RMB12,545 million were not utilized. Cash and cash equivalents of RMB6,617 million were primarily comprised of income generated from operating and financing activities.

Cash flow

The cash of the Group is primarily used to meet the demand of financing working capital, repay interest and principal due on its indebtedness, finance acquisitions and provide the fund for capital expenditures and growth and expansion of the Group's facilities and operations. The table below sets out the cash flow of the Group from operation, investment and financing activities for each year ended 31 December 2008 and 2009:

	2009	2008
	RMB million	*RMB million*
Net cash generated from operating activities	**1,012**	654
Net cash used in investing activities	**(3,116)**	(148)
Net cash generated/(used in) from financing activities	**7,009**	(749)
Net increase/(decrease) in cash and cash equivalents	**4,905**	(243)
Cash and cash equivalents at the beginning of year	**1,712**	1,956
Cash and cash equivalents at the end of year	**6,617**	1,712

Net cash generated from operating activities

The Group primarily derives its cash inflow from operations from payments for the sale of its products and services in its pharmaceutical distribution, retail pharmacy and other business operations segments. The net cash generated from operating activities of the Group during the Reporting Period was RMB1,012 million, representing an increase of 54.74% as compared with RMB654 million for the twelve months ended 31 December 2008. The increase was primarily due to the continued growth in the Group's results.

Net cash used in investing activities

During the Reporting Period, the net cash used in investment activities of the Group was RMB3,116 million, representing an increase of RMB2,968 million as compared with RMB148 million for the twelve months ended 31 December 2008. The significant increase was primarily due to purchase of short-term financial assets to hedge the foreign exchange risk of the net proceeds from the global offering during the Reporting Period.

Net cash used in/generated from financing activities

During the Reporting Period, the net cash generated from financing activities of the Group was RMB7,009 million, representing an increase of RMB7,758 million as compared with the net cash used in financing activities of RMB(749) million for the twelve months ended 31 December 2008. The significant increase was primarily due to the cash raised from the issue of shares during the Reporting Period.

Capital Expenditure

The Group's capital expenditure primarily include purchases of property, plant and equipment, the cost of leasing land and obtaining land use rights and purchases of intangible assets primarily through business combinations or acquisition activities. The Group's capital expenditure amounted to RMB281 million and RMB349 million for the year ended 31 December 2008 and during the Reporting Period respectively.

The Group's current plans with respect to its capital expenditure may vary according to the progress of operation plans (including changes in market conditions, competition and other factors). As the Group continues to expand, it may incur additional capital expenditure. The Group's ability to obtain additional funding for its future capital expenditure is subject to a variety of uncertainties, including its future results of operations, financial condition and cash flows, economic, political and other conditions in the PRC and Hong Kong, and the PRC Government's policies relating to foreign currency borrowings.

Capital Structure

Indebtedness

As of 31 December 2009, the Group had aggregate banking facilities of RMB18,715 million, of which RMB12,545 million were not utilized and are available to be drawn down. These banking facilities primarily comprised short-term working capital loans. Of the Group's total borrowings as of 31 December 2009, RMB1,284 million was due within one year and RMB50 million was due after one year. During the Reporting Period, the Group did not experience any difficulties in renewing its bank loans with its lenders.

Gearing ratio

The Group's gearing ratio was 55.78% as of 31 December 2009 (31 December 2008: 78.83%), which is calculated based on the net liabilities divided by the aggregate of its total equity and net liabilities as of 31 December 2009.

Foreign exchange risks

The uncertainties of foreign currency exchange rate did not result in significant foreign currency exchange risks to the Group.

Pledge of assets

As of 31 December 2009, part of the Group's bank loans was secured by certain plant and machinery with book value of RMB112 million, land use rights with book value of RMB8 million, notes receivable with book value of RMB468 million and accounts receivables with book value of RMB196 million. The bank acceptance bills of the Group were secured by bank deposits with book value of RMB320 million.

Contingent Liabilities, Legal and Potential Proceedings

During the Reporting Period, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

Major Acquisitions and Disposals

During the Reporting Period, the Group used an aggregate of approximately RMB263 million for acquisitions, including the following major acquisitions:

In March 2009, the Group acquired a 75% equity interest in Suzhou Zhijun Wanqing, a pharmaceutical manufacturer with national operations, and the consideration of such acquisition was approximately RMB104 million. Also, in April 2009, in order to expand its distribution network to cover all provinces and autonomous regions of China, the Group acquired a 67% equity interest in Sinopharm Anhui, a local pharmaceutical distributor in Anhui, at a consideration of RMB36.6 million. Each of these acquisitions was made by the Group from independent third parties.

The consideration of the above acquisitions were determined after arms-length negotiation and conformed with the fair market value fixed by independent valuer or the audited assets value of the assets acquired.

During the Reporting Period, the Group had no material disposal.

Going Concern Basis

Based on the current financial forecasts and facilities available, the Group has sufficient financial resources for ongoing operation in the foreseeable future. Therefore, the financial report was prepared on a "going concern" basis.

Human Resources

During the Reporting Period, the Group had 12,178 staff. Staff cost (including the remuneration paid to the directors and supervisors) of the Group during the Reporting Period was RMB1,146 million. During the year under review, the Group adopted a human-oriented management concept to involve the staff in the management and development of the Group. The Group has implemented a strict selection process for hiring its employees and a number of initiatives to enhance the productivity of its employees. The Group conducts periodic performance reviews for its employees, and adjusts their salaries and bonuses accordingly. In addition, the Group has implemented training programs for employees in various positions.

Future Plan

The Group's objectives are to consolidate its position as the leading distributor of, and supply chain services provider for, pharmaceutical and healthcare products in China and continue to grow and play a significant role in the development of the pharmaceutical and healthcare industry in China.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the period from 23 September 2009 to 31 December 2009, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of its listed securities.

AUDIT COMMITTEE

The audit committee of the Group consists of five directors, namely, Mr. Xie Rong (Chairman), Mr. Wang Fanghua, Mr. Fan Banghan, Mr. Deng Jindong and Mr. Zhou Bajun. The committee is mainly responsible for inspecting, reviewing and overseeing the financial data and financial reporting procedures of the Group. The audit committee of the Group has reviewed the annual results of 2009 of the Group.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES (THE "CG CODE") SET OUT IN APPENDIX 14 TO THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "LISTING RULES")

During the period from 23 September 2009 to 31 December 2009, the Group has complied with the relevant code provisions set out in the CG Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE") SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Group has adopted the Model Code and after making specific enquiries with the directors and supervisors, all of them confirmed that they had complied with the requirements set out in the Model Code during the period from 23 September 2009 to 31 December 2009.

DISCLOSURE OF INFORMATION

The annual report of the Group for the Reporting Period will be duly dispatched to shareholders and published on the websites of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.sinopharmholding.com).

By order of the Board
Sinopharm Group Co. Ltd.
She Lulin
Chairman

Shanghai, the People's Republic of China
23 March 2010

As at the date of this announcement, the executive directors of the Company are Ms. Fu Mingzhong and Mr. Wei Yulin; the non-executive directors of the Company are Mr. She Lulin, Mr. Guo Guangchang, Mr. Wang Qunbin, Mr. Deng Jindong, Mr. Fan Banghan, Mr. Liu Hailiang and Mr. Lian Wanyong; and the independent non-executive directors of the Company are Mr. Wang Fanghua, Mr. Tao Wuping, Mr. Xie Rong and Mr. Zhou Bajun.

* *The Company is registered as a non-Hong Kong company under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) under its Chinese name and the English name "Sinopharm Group Co. Ltd."*