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 and 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 2011

The board of Directors (the "**Board**") of Sinopharm Group Co. Ltd. (the "**Company**" or "**Sinopharm**") 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 2011 (the "**Reporting Period**").

CHAIRMAN'S STATEMENT

I would like to express my heartfelt gratitude to the shareholders and the community for your consistent support to the Group over the past year. 2011 was a year full of challenges and opportunities for the pharmaceutical industry, and it was also a year of reforms.

As the largest national pharmaceutical distribution network in the PRC, we are facing a complicated and ever-changing external environment. We are in the crucial period of deepening the medical system reform. Over the year we have been working towards the strategic targets of "Sinopharm Twelfth Five-Year Plan" and by uniting as one and working hard together, we continued our glorious performance during our "Eleventh Five-Year Plan" and maintained a speedy and healthy growth of the Group. Our Group achieved a tremendous sales revenue of over RMB100 billion and we became the first national pharmaceutical distribution network in the PRC that achieved over RMB100 billion in sales and established an important milestone for the pharmaceutical distribution industry. This achievement has further fortified our leading position in the industry.

Corporate Sales Revenue Exceeded RMB100 Billion

During the Reporting Period, the revenue of the Group amounted to RMB102,224.81 million, representing an increase of RMB32,991.14 million or 47.65% as compared with the corresponding period of last year.

During the Reporting Period, the profit for the year of the Group amounted to RMB2,402.55 million, representing an increase of RMB572.19 million or 31.26% as compared with the corresponding period of last year. Profit attributable to shareholders amounted to RMB1,560.61 million, which increased by RMB351.86 million or 29.11% as compared with the corresponding period of last year.

During the Reporting Period, the earnings per share of the Group amounted to RMB0.66, representing a 24.53% increase over the corresponding period of last year.

Compared with 2010, total assets of the Group increased from RMB42,014.48 million to RMB67,627.85 million in the Reporting Period, net assets increased from RMB14,719.08 million to RMB20,388.09 million in the Reporting Period, and gearing ratio increased from 64.97% to 69.85% in the Reporting Period.

In 2011, capital expenditure of the Group amounted to RMB4,962.70 million which was primarily used in acquisitions and purchases of land use rights, property, plant and equipment, investment properties and intangible assets.

2011 was a fruitful year of completion of the first stage of the 3-year medical system reform. The PRC government implemented a series of policies to deepen the reform of medical system. Significant improvement over the key aspects of the medical system reform was seen since the announcement of the "Opinion on Deepening of Medical System Reform by State Council" and "The Outline for the Development of Pharmaceutical and Healthcare System Reform (2009-2011)" by the State Council in March 2009. Through the measures implemented in the first stage of medical reform, the preliminary framework of basic medical insurance system covering all residents in urban and rural areas has been completed; the coverage of urban employee basic medical insurance, basic medical insurance for urban residents, and new rural cooperative medical service with modern villages has been extended to 95% of the urban and rural population; the national essential drug system has been set up; and a basic medical service system covering urban and rural areas has been completed. From 2009 to 2011, the PRC government has invested a total amount of RMB1,130 billion in medical and healthcare reform, which was much higher than its original plan of RMB850 billion.

The above measures demonstrated the confidence and determination of the PRC government in deepening the medical system reform.

As the largest pharmaceutical distribution enterprise in the PRC, the Group is experiencing a crucial period which targets to deepen the medical system reform. It is also the vital stage of the pharmaceutical distribution industry reform and readjustments on directions of development.

In May 2011, the Ministry of Commerce announced "The Outline for the Development of Pharmaceutical Distribution Industry in 2011-2015" as the foundation of the pharmaceutical industry development in the coming few years. In view of the PRC pharmaceutical distribution market development in 2011, it is obvious that under the guidance of the "Twelfth Five-year Plan", the pharmaceutical distribution industry maintained a strong growth and the industry was in midst of a faster structural readjustments. The pharmaceutical distribution industry is heading towards a large scale intensified development.

Our Group took an active role in expanding our distribution network and to provide professional distributing services. Until now, our network expansion is almost complete and the value of our network has greatly increased. As the leader in the pharmaceutical distribution industry, we will be benefited by the "Twelfth Five-Year Plan" from its measures to promote the rapid development and structural readjustments of pharmaceutical distribution industry.

Prospects

The achievement of over RMB100 billions of sales marked a milestone as well as a new start for the Group. We will seize the opportunity of the rapid development of the pharmaceutical industry to achieve the creative integrations and explore the operating models, and we aim to maintain our leading position in the industry while developing intensively with the focus on integration. We will create our differentiation competitive advantage through establishing the intelligent supply chain, and will maximize the value of our distribution channels through the innovation of business model and management model. By extending our value chain system we will be able to generate more profits and become the benchmark of the industry in management excellence.

Looking forward to 2012, Sinopharm will begin at a new starting point of RMB100 billions of sales and adhere to the strategic "Twelfth Five Year Plan". We will strengthen our core competitiveness by improving our business structures, operating quality, management efficiency and risk management. At the same time, we will, targeting to integrate and leverage market resources, strengthen our performance-oriented management system and promote full integration of operations and management. We will also improve our monitoring system construction and corporate culture construction, raise our self-awareness and motivations on the changes of our development mode and nurture new internal growth drivers to maintain our leading position in the industry.

I would like to express my gratitude to all shareholders, directors, members of senior management of the Company and all my fellow colleagues for their efforts during the past year. With concerted efforts, we have achieved the hundred-billion sales target and established a glorious milestone for the Company. The Group will definitely have an even more glorious future.

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2011	2010
Revenue	4	**102,224,807**	69,233,669
Cost of sales	7	**(93,870,110)**	(63,397,799)
Gross profit		**8,354,697**	5,835,870
Other income	5	**168,941**	77,370
Distribution and selling expenses	7	**(2,922,793)**	(1,960,018)
General and administrative expenses	7	**(1,964,629)**	(1,544,407)
Operating profit		**3,636,216**	2,408,815
Other gains – net	6	**201,987**	171,381
Finance income		**115,493**	76,388
Finance costs		**(933,498)**	(348,640)
Finance costs – net	9	**(818,005)**	(272,252)
Share of results of associates		**107,402**	90,008
Profit before income tax		**3,127,600**	2,397,952
Income tax expense	10	**(725,050)**	(567,595)
Profit for the year		**2,402,550**	1,830,357
Attributable to:			
Shareholders of the Company		**1,560,606**	1,208,751
Non-controlling interests		**841,944**	621,606
		2,402,550	1,830,357
Earnings per share for profit attributable to the shareholders of the Company during the year (expressed in RMB per share)			
– Basic and diluted	11	**0.66**	0.53
Dividends	14	**456,499**	363,082

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	Note	**Year ended 31 December** **2011**	2010
Profit for the year		**2,402,550**	1,830,357
Other comprehensive income:			
Change in value of available-for-sale financial assets	*10*	**(14,971)**	1,029
Remeasurement on post-employment benefit obligation	*10*	**(24,196)**	–
Currency translation differences		**(1,213)**	(1,199)
Other comprehensive income for the year, net of tax		**(40,380)**	(170)
Total comprehensive income for the year		**2,362,170**	1,830,187
Attributable to:			
– Shareholders of the Company		**1,534,209**	1,208,005
– Non-controlling interests		**827,961**	622,182
		2,362,170	1,830,187

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2011	2010
ASSETS			
Non-current assets			
Land use rights		**932,511**	665,499
Investment properties		**154,069**	149,545
Property, plant and equipment		**4,430,655**	3,330,750
Intangible assets		**4,642,436**	1,591,588
Investments in associates		**670,829**	486,412
Available-for-sale financial assets		**58,036**	55,576
Deferred income tax assets		**283,977**	234,084
Other non-current assets		**222,278**	637,726
		11,394,791	7,151,180
Current assets			
Inventories		**12,214,060**	7,530,376
Trade receivables	12	**26,591,821**	17,751,877
Prepayments and other receivables		**3,136,486**	1,373,261
Available-for-sale financial assets		**1,163**	990
Bank deposits and restricted cash		**1,198,519**	732,098
Cash and cash equivalents		**13,091,012**	7,474,698
		56,233,061	34,863,300
Total assets		**67,627,852**	42,014,480
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		**2,402,625**	2,264,568
Reserves		**13,271,224**	9,446,570
		15,673,849	11,711,138
Non-controlling interests		**4,714,237**	3,007,942
Total equity		**20,388,086**	14,719,080

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

		As at 31 December	
	Note	**2011**	2010
LIABILITIES			
Non-current liabilities			
Borrowings		**5,182,353**	90,900
Deferred income tax liabilities		**517,551**	265,651
Post-employment benefit obligations		**435,451**	368,712
Other non-current liabilities		**812,851**	816,061
		6,948,206	1,541,324
Current liabilities			
Trade payables	13	**27,053,995**	19,831,205
Accruals and other payables		**4,269,641**	2,332,509
Dividends payable		**12,106**	13,575
Current income tax liabilities		**289,033**	232,605
Borrowings		**8,666,785**	3,344,182
		40,291,560	25,754,076
Total liabilities		**47,239,766**	27,295,400
Total equity and liabilities		**67,627,852**	42,014,480
Net current assets		**15,941,501**	9,109,224
Total assets less current liabilities		**27,336,292**	16,260,404

NOTES:

(All amounts in Renminbi thousands unless otherwise stated)

1 GENERAL INFORMATION

Sinopharm Group Co. Ltd. (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 Stock Exchange of Hong Kong Limited ("Stock Exchange") on 23 September 2009.

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

The Company and its subsidiaries (together, the "Group") is mainly engaged in: (1) distribution of medicines, medical device and pharmaceutical products to 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, production and sale of pharmaceutical products.

The ultimate holding company of the Company is China National Pharmaceutical Group Corporation ("CNPGC"), which was incorporated in the PRC.

These financial statements are presented in Renminbi ("RMB") thousands, unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 22 March 2012.

2 BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

(i) New and amended standards adopted by the Group

- HKAS 24 (Revised) 'Related party disclosures' is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. It also clarifies and simplifies the definition of a related party. Earlier application, for either the entire standard or the government-related entity, is permitted. The Group adopted the entire standard from 1 January 2011 except government-related entity exemption which had been early adopted from 1 January 2009. Upon the adoption of HKAS 24 (Revised), transactions between the Group and the subsidiaries of the entities, which have significant influence over the Company, are identified as related party transactions.

- Amendment to HKAS 19 'Employee benefit' makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The amendment is effective for periods beginning on or after 1 January 2013. Earlier application is permitted. The amendment should be applied retrospectively except for changes to the carrying value of assets that include employee benefit costs in the carrying amount.

  The Group has early adopted this amendment from 1 January 2011. Upon the early adoption, 'Actuarial gains and losses' are renamed 'remeasurements' and are recognized in other comprehensive income amount to RMB32,210 thousands instead of income statements and will not be recycled through profit or loss in subsequent periods. The Group didn't raise retrospective adjustments due to the immaterial impact based on assessment.

(ii) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted.

- HKFRS 9, 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2015.

- HKFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

- HKAS 1 (Amendment) "Presentation of financial statements" required to group items presented in 'other comprehensive income' on the basis of whether they are potentially reclassifiable to profit or loss subsequently. The Group is yet to assess the amendment's fully impact and intends to adopt HKAS 1 (Amendment) no later than the accounting period beginning on or after 1 July 2012.

There are no other HKAS, HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

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, medicine device and pharmaceutical products to 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, manufacture and distribution of chemical reagents, production and sale of pharmaceutical products.

Although the retail pharmacy operations segment does not meet the quantitative thresholds required by HKFRS 8, 'Operating segments', management has concluded that this segment should be reported, as it is closely monitored by the operating committee as a potential growth segment and is expected to materially contribute to group revenue in the future.

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, investment in associates, 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.

Inter-segment revenues are conducted at prices and terms mutually agreed upon amongst those business segments. The revenue from external parties reported to the operating committee is measured in a manner consistent with that in the consolidated income statement.

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

(i) For the Year ended 31 December 2011 and 2010

	Pharmaceutical distribution	Retail pharmacy operations	Other business operations	Elimination	Group
Year ended 31 December 2011					
Segment results					
External segment revenue	95,489,133	3,044,869	3,690,805	–	102,224,807
Inter-segment revenue	878,105	–	207,303	(1,085,408)	–
Revenue	96,367,238	3,044,869	3,898,108	(1,085,408)	102,224,807
Operating profit	3,282,097	69,224	311,156	(26,261)	3,636,216
Other gains	181,069	21	20,897	–	201,987
Share of results of associates	6,020	1,625	99,757	–	107,402
	3,469,186	70,870	431,810	(26,261)	3,945,605
Finance costs – net					(818,005)
Profit before income tax					3,127,600
Income tax expense					(725,050)
Profit for the year					2,402,550
Other segment items included in the income statement					
Provision/(write-back) for impairment of trade and other receivables, net	36,561	641	(6)		37,196
Provision for impairment of inventories	23,966	357	156		24,479
Amortisation of land use rights	18,669	135	3,440		22,244
Depreciation of property, plant and equipment	262,703	31,587	14,955		309,245
Depreciation of investment properties	–	–	14,012		14,012
Amortisation of intangible assets	113,343	535	766		114,644
Capital expenditures	4,394,303	414,117	154,282		4,962,702

	Pharmaceutical distribution	Retail pharmacy operations	Other business operations	Elimination	Group
Year ended 31 December 2010					
Segment results					
External segment revenue	64,800,811	1,714,955	2,717,903	–	69,233,669
Inter-segment revenue	562,075	–	142,302	(704,377)	–
Revenue	65,362,886	1,714,955	2,860,205	(704,377)	69,233,669
Operating profit	2,131,194	41,462	237,612	(1,453)	2,408,815
Other gains	156,554	1,411	13,416	–	171,381
Share of results of associates	35,545	1,093	53,370	–	90,008
	2,323,293	43,966	304,398	(1,453)	2,670,204
Finance costs – net					(272,252)
Profit before income tax					2,397,952
Income tax expense					(567,595)
Profit for the year					1,830,357
Other segment items included in the income statement					
Provision/(write-back) for impairment of trade and other receivables, net	42,978	(162)	(306)		42,510
(Write-back)/provision for impairment of inventories	(3,294)	251	11		(3,032)
Amortisation of land use rights	10,345	–	3,244		13,589
Depreciation of property, plant and equipment	143,738	19,077	51,747		214,562
Depreciation of investment properties	–	–	16,365		16,365
Amortisation of intangible assets	32,803	295	22,901		55,999
Capital expenditures	2,708,252	199,083	337,651		3,244,986

(ii) As at 31 December 2011 and 2010

	Pharmaceutical distribution *RMB'000*	Retail pharmacy operations *RMB'000*	Other business operations *RMB'000*	Elimination *RMB'000*	Group *RMB'000*
As at 31 December 2011					
Segment assets and liabilities					
Segment assets	**64,025,103**	**1,044,854**	**4,408,535**	**(2,134,617)**	**67,343,875**
Segment assets include:					
Investments in associates	**28,926**	**8,930**	**632,973**	**–**	**670,829**
Unallocated assets – Deferred income tax assets					**283,977**
Total assets					**67,627,852**
Segment liabilities	**31,902,135**	**808,773**	**1,506,441**	**(1,344,272)**	**32,873,077**
Unallocated liabilities – Deferred income tax liabilities and borrowings					**14,366,689**
Total liabilities					**47,239,766**

	Pharmaceutical distribution *RMB'000*	Retail pharmacy operations *RMB'000*	Other business operations *RMB'000*	Elimination *RMB'000*	Group *RMB'000*
As at 31 December 2010					
Segment assets and liabilities					
Segment assets	38,721,332	946,633	3,371,812	(1,259,381)	41,780,396
Segment assets include:					
Investments in associates	23,267	4,606	458,539	–	486,412
Unallocated assets – Deferred income tax assets					234,084
Total assets					42,014,480
Segment liabilities	22,241,817	611,573	1,373,587	(632,310)	23,594,667
Unallocated liabilities – Deferred income tax liabilities and borrowings					3,700,733
Total liabilities					27,295,400

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

4 REVENUE

	Year ended 31 December	
	2011	2010
Sales of goods	**101,973,667**	69,053,448
Rental income	**81,706**	53,347
Franchise fees from medicine chain stores	**48,259**	40,593
Consulting income	**83,701**	42,758
Import agency income	**37,474**	43,523
	102,224,807	69,233,669

5 OTHER INCOME

	Year ended 31 December	
	2011	2010
Government grants *(i)*	**168,941**	77,370

Note:

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

6 OTHER GAINS – NET

	Year ended 31 December	
	2011	2010
Write-back of certain liabilities *(i)*	**32,608**	47,949
Gain on fair value re-measurement of retained interest in connection with disposal of controlling interest in a subsidiary	**–**	41,687
Gain on disposal of subsidiaries *(ii)*	**123,557**	3,879
Gain on disposal of available-for-sale financial assets	**4,133**	38,356
Gain on fair value re-measurement of existing stake in connection with acquisitions	**393**	29,341
Gain on disposal of land use right and property, plant and equipment	**57,039**	24,124
Foreign exchange loss – net	**(13,692)**	(5,827)
Loss on disposal of an associate	**–**	(207)
Others – net	**(2,051)**	(7,921)
	201,987	171,381

Notes

(i) In 2011, the Group reviewed all the trade and other payables with aging over 5 years and wrote-back these unpayable long aging liabilities of RMB32,608 thousands.

(ii) In 2011, the Group disposed following subsidiaries to third parties:

Entities	**Disposed equity interests**
Sinopharm Holding Shijiazhuang Co., Ltd.	80%
Aksu Region Qiuci Medicines Co., Ltd.	100%
Urumqi Chinese Medicine Material Processing Plant	100%
Urumqi Pharmaceutical Holding Co., Ltd.	100%
Xinjiang Pharmaceutical Co., Ltd.	100%
Xinjiang Traditional&Herbal Medicines Co., Ltd.	100%
Xinjiang Chemical Reagent & Glassware Co., Ltd.	100%
Xinjiang Pharmaceutical Affiliated Company	100%
Xinjiang Uygur Autonomous Region Traditional &Ethnic Medicines Research Institute	100%

Gain on disposal of above subsidiaries is summarized as follows:

Carrying amount of equity interests disposed	(114,517)
Consideration received	9,040
Gain on disposal of subsidiaries	123,557

7 EXPENSES BY NATURE

	Year ended 31 December	
	2011	2010
Raw materials and trading merchandise consumed	**93,607,765**	63,198,707
Changes in inventories of finished goods and work in progress	**116,851**	97,253
Employee benefit expenses *(Note 8)*	**2,259,559**	1,653,086
Provision for impairment of trade receivables *(Note 12)*	**30,095**	39,111
Provision for impairment of other receivables	**7,101**	3,399
Provision/(write-back of provision) for impairment of inventories	**24,479**	(3,032)
Provision for impairment of intangible assets	**3,000**	–
Operating lease rental in respect of land and buildings	**278,849**	195,484
Depreciation of property, plant and equipment	**309,245**	214,562
Depreciation of investment properties	**14,012**	16,365
Amortisation of intangible assets	**114,644**	55,999
Amortisation of land use rights	**22,244**	13,589
Auditors' remuneration	**18,163**	12,987
Advisory and consulting fees	**42,035**	28,128
Transportation expenses	**428,623**	279,951
Travel expenses	**165,036**	117,406
Market development and business promotion expenses	**728,412**	489,859
Utilities	**57,377**	38,631
Others	**530,042**	450,739
Total cost of sales, distribution and selling expenses and general and administrative expenses	**98,757,532**	66,902,224

8 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2011	2010
Salaries, wages, allowances and bonuses	**1,632,346**	1,252,121
Contributions to pension plans *(i)*	**207,224**	133,187
Post-employment benefits	**46,869**	31,862
Housing benefits *(ii)*	**83,105**	56,555
Other benefits *(iii)*	**290,015**	179,361
	2,259,559	1,653,086

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 also begins to contribute to another retirement scheme managed by an individual assurance company from current year for its employees of the Company and certain subsidiaries. The Group's employees make monthly contributions to the schemes at approximately 7% to 10% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 20% to 28% of such relevant income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. These 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.

9 FINANCE INCOME AND COSTS

	Year ended 31 December	
	2011	2010
Interest expense:		
– Borrowings	**523,839**	88,135
– Discount of notes receivable	**209,865**	167,305
– Discount of accounts receivable	**147,805**	63,494
Gross interest expense	**881,509**	318,934
Bank charges	**86,626**	36,831
Less: capitalised interest expense	**(34,637)**	(7,125)
Finance costs	**933,498**	348,640
Finance income:		
– Interest income on bank deposits	**(115,493)**	(76,388)
Net finance costs	**818,005**	272,252

10 TAXATION

(a) Income tax expense

	Year ended 31 December	
	2011	2010
Current PRC income tax	**770,934**	613,392
Deferred taxation	**(45,884)**	(45,797)
	725,050	567,595

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	
	2011	2010
Profit before income tax	**3,127,600**	2,397,952
Less: Share of results of associates	**(107,402)**	(90,008)
	3,020,198	2,307,944
Tax calculated at weighted average domestic tax rate applicable	**715,181**	533,086
Unrealised intra-group profit	**–**	13,823
Expenses not deductible for tax purposes	**35,723**	14,975
Income not subject to tax	**(21,332)**	–
Tax losses for which no deferred income tax asset was recognised, net	**6,136**	5,711
Tax losses utilised for which no deferred income tax recognised in prior years	**(6,781)**	–
Impact of change of applicable income tax rate on deferred tax	**(3,877)**	–
Income tax expense	**725,050**	567,595
Weighted average applicable domestic tax rate (i)	**24%**	24%

(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 Peoples 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, 22% for 2010, 24% for 2011 and will be 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.

The tax (charge)/credit relating to components of other comprehensive income is as follows:

	2011			2010		
	Before tax	**Tax (charge)/ credit**	**After tax**	Before tax	Tax (charge)/ credit	After tax
Fair value (losses)/ gains on available-for-sale financial assets	**(19,961)**	**4,990**	**(14,971)**	1,426	(397)	1,029
Remeasurement retirement benefit obligations	**(32,210)**	**8,014**	**(24,196)**	–	–	–
Currency translation differences	**(1,213)**	**–**	**(1,213)**	(1,199)	–	(1,199)
Other comprehensive income	**(53,384)**	**13,004**	**(40,380)**	227	(397)	(170)

11 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.

	Year ended 31 December	
	2011	2010
Profit attributable to shareholders of the Company *(RMB'000)*	**1,560,606**	1,208,751
Weighted average number of ordinary shares in issue *('000)*	**2,356,102**	2,264,568
Basic earnings per share *(RMB per share)*	**0.66**	0.53

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

12 TRADE RECEIVABLES

	As at 31 December	
	2011	2010
Accounts receivable	**24,463,832**	16,520,718
Notes receivable	**2,417,433**	1,511,315
	26,881,265	18,032,033
Less: Provision for impairment	**(289,444)**	(280,156)
Trade receivables – net	**26,591,821**	17,751,877

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 210 days. The ageing analysis of trade receivables (accounts receivable and notes receivable) is as follows:

	As at 31 December	
	2011	2010
Below 3 months	**20,482,995**	14,597,296
3 to 6 months	**4,094,860**	2,945,861
6 months to 1 year	**2,206,129**	399,612
1 to 2 years	**64,512**	47,303
Over 2 years	**32,769**	41,961
	26,881,265	18,032,033

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	
	2011	2010
3 to 6 months	**3,896,363**	2,777,357
6 months to 1 year	**2,168,920**	355,305
1 to 2 years	**38,455**	19,846
Over 2 years	**5,088**	2,073
	6,108,826	3,154,581

As of 31 December 2011, trade receivables of approximately RMB289,444 thousands (2010: RMB280,156 thousands), 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	
	2011	2010
3 to 6 months	**198,497**	168,504
6 months to 1 year	**37,209**	44,307
1 to 2 years	**26,057**	27,457
Over 2 years	**27,681**	39,888
	289,444	280,156

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

	Year ended 31 December	
	2011	2010
At 1 January	**280,156**	243,737
Provision for impairment *(Note 7)*	**30,095**	39,111
Receivables written off as uncollectible	**(20,807)**	(2,692)
At 31 December	**289,444**	280,156

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 2011, notes receivable of RMB59,051 thousands (2010: RMB110,276 thousands) and accounts receivable of RMB3,437,124 thousands (2010: RMB615,446 thousands) were pledged as collaterals of the Group's bank borrowings.

As at 31 December 2011, outstanding accounts receivable of RMB4,081,990 thousands (2010: RMB3,283,765 thousands) were derecognized under the accounts receivable factoring programs without recourse. The ageing of these derecognised accounts receivable was within one year. As at 31 December 2011, the collection of such accounts receivable on behalf of banks amounted to RMB457,440 thousands (2010: RMB277,264 thousands) 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.

13 TRADE PAYABLES

	As at 31 December	
	2011	2010
Accounts payable	**20,224,416**	13,725,945
Notes payable	**6,829,579**	6,105,260
	27,053,995	19,831,205

The fair values of trade payables approximate their carrying amounts.

Purchases are made on credit terms ranging from 45 to 210 days.

The ageing analysis of trade payables is as follows:

	As at 31 December	
	2011	2010
Below 3 months	**23,076,124**	17,862,983
3 to 6 months	**1,886,778**	965,105
6 months to 1 year	**1,656,735**	569,968
1 to 2 years	**230,915**	174,166
Over 2 years	**203,443**	258,983
	27,053,995	19,831,205

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

	As at 31 December	
	2011	2010
RMB	**26,120,652**	19,211,979
USD	**687,195**	619,226
HKD	**235,697**	–
EUR	**10,451**	–
	27,053,995	19,831,205

14 DIVIDENDS

The dividends paid in 2011 were RMB363,082 thousands (RMB0.16 per ordinary share). A dividend in respect of the year ended 31 December 2011 of RMB0.19 per ordinary share, amounting to a total dividend of RMB456,499 thousands is to be proposed at the upcoming Annual General Meeting according to the resolution of the Board of Directors on 22 March 2012. These financial statements have not reflected the payable of this dividend.

	Year ended 31 December	
	2011	2010
Proposed final dividend	**456,499**	363,082

15 BUSINESS COMBINATIONS

Acquisitions during the year comprises:

The Group acquired equity interests in certain subsidiaries from third parties, during the year as follows:

Subsidiaries acquired	**Acquired interests %**
Foshan City Nanhai Pharmaceutical Group Co., Ltd.	100%
Sinopharm Holding Sanming Co.,Ltd.	60%
Sinopharm Holding Anshun Co., Ltd.	70%
Henan Guoda Pharmacy Chain Store Co., Ltd.	51%
Hunan Guoda Minshengtang Pharmacy Chain Store Co., Ltd.	51%
Sinopharm Nutraceuticals(Shanghai)Co.,Ltd.	70%
Shanxi Wanmin Pharmacy Chain Store Co., Ltd.	51%
Sinopharm Holding Wuxi Co., Ltd.	70%
Sinopharm Holding Lingyun Biological Medicine Co., Ltd.	55%
Sinopharm Holding Changzhou Co., Ltd.	65%
Sinopharm Holding Heilongjiang Co., Ltd.	65%
Sinopharm Holding Le Ren Tang Pharmaceutical Co., Ltd.	60%
Sinopharm Holding Tangshan(Xintiandi) Co., Ltd.	70%
Sinopharm Holding Pingdingshan Co., Ltd.	60%
Sinopharm Holding Lishui Co., Ltd.	89%
Sinopharm Holding Taizhou Co., Ltd.	75%
Sinopharm Holding Jinhua Co., Ltd	90%
Sinopharm Suzhou Boai Pharmaceutical Co., Ltd.	70%
Sinopharm Holding Tianjin North Pharmaceutical Co., Ltd.	51%
Sinopharm Holding Handan Co., Ltd.	70%
Sinopharm Holding Putian Co., Ltd.	60%
Sinopharm Holding Longyan Co., Ltd.	60%
Sinopharm Holding Zhangzhou Co., Ltd.	60%
Sinopharm Holding Qingdao Co., Ltd.	100%
Sinopharm Holding Zaozhuang Co., Ltd.	70%
Sinopharm Holding Hainan Hongyi Co.,Ltd.	100%
Sinopharm Holding Nanping Co.,Ltd.	60%
Sinopharm Holding Linyi Co.,Ltd.	60%
Sinopharm Holding Qinghai Co., Ltd.	70%
Sinopharm Holding Hunan Deyuan Pharmceutical Co., Ltd.	70%
Sinopharm Holding Jinzhou Co., Ltd.	70%
Lerentang Shijiazhuang Pharmacy Chain Store Co., Ltd.	60%
Liyang Guoda People Pharmacy Store Co., Ltd.	80%
Quanzhou Guoda Pharmacy Chain Store Co., Ltd.	51%
Neimenggu Guoda Jiuling Pharmacy Chain Store Co., Ltd.	70%

The Group also acquired additional equity interests in certain entities, which became the subsidiaries of the Group afterwards, during the year, as follows:

In February 2011, the Group acquired an additional 68.7% equity interests in Sinopharm Holding Xinjiang Xinte Shenrong Pharmaceutical Co., Ltd. ("Xinjiang Shenrong"), a then existing 31.3% owned associate, from a third party. After the acquisition, the Group holds 100% equity interests in Xinjiang Shenrong which became a subsidiary of the Group.

In September 2011, the Group acquired 68.6% equity interests in Sinopharm Holding Huzhou Co., Ltd. from the Group's related party Shanghai Fosun Pharmaceuticals Investment Co., Ltd. The total consideration of the acquisition is RMB36,666 thousands.

The effect of the above acquisitions is summarised as follow:

Purchase consideration	
– Cash paid for acquisition *(note (i))*	2,755,561
– Consideration payable	8,000
– Contingent consideration *(note (ii))*	517,954
Total purchase consideration	3,281,515
Fair value of previous stake at the dates of acquisitions	5,728
	3,287,243

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

	Fair values at acquisition date	**Acquirees' carrying amounts at acquisition date**
Cash and cash equivalents	1,073,365	1,073,365
Property, plant and equipment	477,458	400,712
Intangible assets		
– sales network	948,496	–
– software and trademarks	485	485
Land use rights	193,455	101,978
Investment properties	4,574	4,574
Deferred income tax assets	22,450	22,450
Inventories	1,723,710	1,723,710
Other non-current assets	7,200	7,200
Trade and other receivables	3,857,545	3,857,545
Trade and other payables	(5,074,187)	(5,074,549)
Deferred income tax liabilities	(283,345)	(269)
Post-employment benefit obligations	(18,806)	(18,806)
Other non-current liabilities	(5,176)	(5,176)
Borrowings	(1,154,411)	(1,154,411)
Net assets	938,808	938,808
Non-controlling interests *(note (iii))*	(677,041)	
Goodwill	2,191,471	
	3,287,243	

The goodwill is attributable to the acquired human resources and economies of scale expected from combining the operations of the Group and above subsidiaries acquired not under common control combination.

Notes:

(i) Cash paid for acquisition

Cash paid for acquisition comprises the cash payment for these acquired entities in both 2010 and 2011.

(ii) Contingent consideration

Based on certain conditions stipulated by the agreements on acquisition, the Group is required to pay contingent consideration based on achievement of profit target of the acquirees. The maximum undiscounted contingent consideration payable is RMB517,954 thousands.

Based on the projected profit performance of the acquires, the fair value of the contingent consideration arrangement was estimated to be RMB517,954 thousands. As at 31 December 2011, there was no adjustment to the contingent consideration arrangement.

(iii) Non-controlling interest

The Group has elected to recognise non-controlling interest measured at the non-controlling interest in the acquiree's net assets excluding goodwill.

(iv) The revenue and net profit of these newly acquired subsidiaries from the respective acquisition dates to 31 December 2011 are summarised as follows:

	From acquisition date to 31 December 2011
Revenue	15,572,311
Net profit	370,725

16 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 31 December 2012, the Company acquired 8 subsidiaries and total considerations for these acquisitions amounted to RMB512,060 thousands.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

2011 was a special year for the development of pharmaceutical industry in China. It was a fruitful year of the 3-year national medical system reform and also the beginning year of the "Twelfth Five-Year Plan". The PRC government has put forward the economic development targets of the coming five years and has released the "Outline for the Twelfth Five-Year Plan on Pharmaceutical Distribution Industry" which contained the policies to promote and facilitate the continued rapid development of pharmaceutical industry.

While the abovementioned measures are being released and implemented, the PRC government is also devoted in facilitating and deepening the medical system reform. The Ministry of Health, Food and Drug Administration Bureau, National Development and Reform Commission, the Ministry of Industry and the Ministry of Commerce have introduced a series of measures. Though the two price cuts of pharmaceutical products, the drug tender policies, medical payment methods and the multi-layered management of antibiotics put forward in 2011 all posed uncertainties to the pharmaceutical industry, we strongly believe that the pharmaceutical company will maintain rapid development in the long run. On the one hand the PRC government has made large investments in innovative studies and encouraged upgrade of the industry. On the other hand, there were structural changes on medical expenditure. The PRC government will continue to increase its investment and the natural population growth, change of demography such as the aging of population, improvement in living standards and the change of disease spectrums will increase the demand for pharmaceuticals.

The aggregate health expenditure is an effective indicator of the balance between healthcare development and the national economy. From 2005 to 2010, the aggregate health expenditure increased from approximately RMB870 billion to RMB1,800 billion, representing an increase of 102.6% and a CAGR of 19.3% which was higher than the GDP growth rate. However, despite the heavy investment in the pharmaceutical industry by the government, the aggregate health expenditure in China only accounted for 5.1% of its GDP which is low among the 193 World Health Organization (WHO) member countries and lags far behind the western countries. Therefore, the PRC government will continue to invest in the pharmaceutical and health industry to boost the rapid development of the industry in the future.

The driving forces of the rapid growth of the industry also include: urbanization, natural growth of population, the aging of population, improvement of living standards and the change in disease spectrums.

Based on the population census conducted in 2010, 13.26% of the population aged 60 or above, 2.93 percent-points higher than that of the census conducted in 2000, and 8.87% of the population aged 65 or above, representing an 1.91% increase compared with the 2000 population census, indicating that the Chinese community is transforming into an aging society. The aging population will bring about higher morbidity rate and lead to rising demand for drugs in the overall pharmaceutical industry.

Income level for residents is rising in China. The average annual consumption of residents has reached RMB9,968 per capita, increasing by 270% from that in 2000. With the improvement in the living standards, people will have higher requirements on quality of living and healthcare, and they are also more capable to pay for medical treatments.

With the improvement of the medical standard in our country, the change in the disease spectrum in China and the rest of the world, and the rising number of endocrinology, oncology, cardiovascular and cerebrovascular diseases, chronic drugs have replaced drugs for infectious diseases and has become one the largest markets in the industry. Along with the change in disease spectrum, the main drugs in our country have shifted from anti-transfected and anti-infective drugs to drugs for chronic diseases.

With the deepening of the national medical system in China, the industry will maintain sound development driven by strong demands. During the Reporting Period, the pharmaceutical distribution industry has presented several characteristics:

1. The pharmaceutical distribution industry has maintained the rapid growth momentum with a glorious prospect. According to the statistics of pharmaceutical distribution industry from the Ministry of Commerce, the total national sales of pharmaceutical distribution industry in 2010 amounted to RMB708.4 billion. The total sales of pharmaceutical distribution industry of 2011 is expected to grow by 18% as compared with the corresponding period of last year;

2. The concentration ratio of the industry has been rising with accelerating structural readjustments, more extensive network coverage and emerging economies of scale;

3. The medical reform has boosted the demand for pharmaceutical products while the retail drug market structure hasn't witnessed any substantial changes. Over 70% of drugs were sold in medical institutions and only approximately 20% were sold by drug retailers;

Business Review

For the twelve months ended 31 December 2011, the Group has been well positioned to take advantages of the healthcare reform and the development of the pharmaceutical industry in China in maintaining and strengthening its leading positions as a medicine and healthcare product distributor and pharmaceutical supply chain service provider, and has operations in the following business segments:

- ***Pharmaceutical distribution:*** The Group provides pharmaceutical supply chain management services for the distribution of domestic and imported prescribed medicines and over-the-counter medicines from manufacturers and suppliers to hospitals, other medical institutions, retail drug stores and other customers. As of 31 December 2011, the Group enlarged its extensive distribution network to 46 distribution centers (Secondary distribution center) covering 30 provinces, municipalities and autonomous regions in China through acquisitions and establishments. Apart from securing its leading position in first-tier cities, the Group has expanded its business in second and third-tier cities to achieve a total coverage of 174 cities in order to provide products and services to customers in a timely and efficient manner. The Group's direct customers included 9,421 hospitals (including 1,179 of the class-three hospitals which are the largest and most highly-ranked hospitals) or approximately 72.32% of all hospitals in China (and 91.82% of all the class-three hospitals). There were 57,775 small end-customers (including ungraded hospitals, community service centers (stations), healthcare centers), 45,842 retailer customers and 5,737 pharmaceutical distributing customers. During the Reporting Period, revenue of the pharmaceutical distribution business accounted for 93.28% of the total revenue of the Group.

- ***Retail pharmacy:*** The Group has a network of retail drug stores that are either directly operated by the Group or through franchises in major cities throughout China. As of 31 December 2011, the number of retail stores was 1,773, among which 1,529 were directly operated by the Group and 244 were operated through franchisees. The Group's retail drug stores operations accounted for 2.95% of its total revenue during the Reporting Period.

- ***Other business operations:*** The Group's other business operations include the production or sale of pharmaceutical products, healthcare products, chemical reagents, and laboratory supplies, accounting for 3.77% of its total revenue during the Reporting Period.

Review on Mergers, Acquisitions and Restructuring

During the Reporting Period, the coverage of the distribution network of the Group has been extended to 30 provinces, including all the provinces, autonomous regions and municipalities in China except for the Tibet Autonomous Region. Apart from our network coverage at the provincial level, we have also been centering around our strategic target of "one province, one city, one branch" and have continued the expansion of distribution networks.

As of the date of this report, pharmaceutical distribution network of the Group covered 174 cities (including municipalities, provincial capitals and other prefecture-level cities) in China, accounting for over 52% of the 333 cities (at or above prefecture-level) in China.

Our Group relied on the well-established distribution networks which covers all provinces of the PRC (with the exception of Tibet) and continued to infiltrate our network to all regional areas and prefecture level cities. The goal of expanding the coverage of the distribution networks to 41 prefecture or higher level cities was realized in 2011. The Group is accelerating its implementation of the integration plan with respect to strategic coverage of pharmaceutical distribution network across China.

During the Reporting Period, the Group has succeeded in expanding its pharmaceutical distribution network. While the Group expanded its network, it has also improved the investment strategies and uphold its investment principle of "synergy is the best strategy" in its investments. This strengthened the Group's control over its target market in the future. Through such expansion, the Group has further consolidated its unshakable leading position in the national market. The Group's extensive national network has shown incomparable significant synergy effect.

- ***Focus on Integration, Innovative Development***

  The management focused on industry integration. At the same time, we are very aware of the development of our franchise operations, through integrations in business, management and cultural aspects, these subsidiaries will integrate into the Group in no time with healthy operations.

  Focus integration is an integral need of the management of Sinopharm, we have to cultivate delicately during our expansion so as to enlarge our scale, intensify our development and to enhance our efficiency. In view of this, the management will motivate and guide all subsidiaries in enhancing their core values according to our business integration. They will fully utilize their potentials on the brand new unified platform of the Group. At the same time, the Group will further perfect its management and culture through scrutinizing its planning and implementations of business integrations so as to maximize and strengthen the results.

Our Group has successfully become the first in achieving RMB100 billions of sales in pharmaceutical distribution industry in the PRC. After this remarkable milestone, the management will make this a new starting point and explore more innovative business and management models. We will work hard to motivate the internal growth driver or the Group, improve our operation structures, quality of services, management efficiency and risk management system in order to enhance the Group's core competitiveness and realize the perfection of efficiency, business transformation, innovative operation systems, advanced corporate cultures, brand building and raise the value of Sinopharm.

International Cooperation

In 2011, under our strategy of "from the first in China to one of the top 500 in the world", the Group conducted exchanges with overseas elite companies and expressed intentions of cooperation. The Group also launched various cooperation projects with internationally well-known pharmaceutical companies.

Financial Summary

The financial summary sets out below is extracted from the audited financial statements of the Company prepared in accordance with the HKFRS during the Reporting Period:

During the Reporting Period, the Group recorded revenue of RMB102,224.81 million, representing an increase of RMB32,991.14 million or 47.65% as compared with the corresponding period of last year. Among that, revenue from the distribution business was RMB96,367.24 million, representing an increase of RMB31,004.35 million or 47.43% as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded net profits of RMB2,402.55 million, representing an increase of RMB572.19 million or 31.26% as compared with the corresponding period of last year. Profit attributable to equity holders was RMB1,560.51 million, representing an increase of RMB351.86 million or 29.11% as compared with the corresponding period of last year.

During the Reporting Period, the earnings per share of the Group was RMB0.66, representing an increase of 24.53% as compared with the corresponding period of last year.

Revenue

The Group recorded a revenue of RMB102,224.81 million during the Reporting Period, representing an increase of 47.65% as compared with RMB69,233.67 million for the twelve months ended 31 December 2010. The increase in revenue of the Group was primarily due to substantial increase in revenue from the Group's pharmaceutical distribution, retail pharmacy and other operations. The revenue growth trend of the Group was in line with the increase of the Group's market share and the overall development of pharmaceutical market in China.

- ***Pharmaceutical Distribution:*** The revenue from pharmaceutical distribution of the Group was RMB96,367.24 million during the Reporting Period, representing an increase of 47.43% as compared with RMB65,362.89 million for the twelve months ended 31 December 2010, which accounted for 93.28% of the total revenue of the Group. The increase in revenue was primarily due to the further expansion of the pharmaceutical distribution network and a remarkable growth of the industry.

- ***Retail Pharmacy:*** The revenue from retail pharmacy of the Group was RMB3,044.87 million during the Reporting Period, representing an increase of 77.55% as compared with RMB1,714.96 million for the twelve months ended 31 December 2010. The increase was primarily due to the business growth of existing pharmacies and the expansion of retail pharmacy network of the Group.

- ***Other Business Operations:*** The revenue from other business operations of the Group was RMB3,898.11 million during the Reporting Period, representing an increase of 36.29% as compared with RMB2,860.21 million for the twelve months ended 31 December 2010. The increase was primarily due to the growth of pharmaceutical manufacturing operations, chemical reagent operations, laboratory supplies business and healthcare products operations.

Cost of Sales

During the Reporting Period, the cost of sales of the Group was RMB93,870.11 million, representing an increase of 48.07% as compared with RMB63,397.80 million for the twelve months ended 31 December 2010. The increase was primarily due to the increase in revenue which led to the increase in cost of sales.

Gross Profit

As a result of the above-mentioned factors, the gross profit of the Group increased by 43.16% from RMB5,835.87 million for the twelve months ended 31 December 2010 to RMB8,354.70 million during the Reporting Period. The gross profit margin of the Group for the twelve months ended 31 December 2010 and 2011 were 8.43% and 8.17% respectively.

Other Income

During the Reporting Period, other income of the Group was RMB168.94 million, representing an increase of 118.35% as compared with RMB77.37 million for the twelve months ended 31 December 2010. The increase was primarily due to the increase in subsidies of the Group from the central and regional governments.

Distribution and Selling Expenses

During the Reporting Period, the distribution and selling expenses of the Group was RMB2,922.79 million, representing an increase of 49.12% as compared with RMB1,960.02 million for the twelve months ended 31 December 2010. The increase was primarily attributable to the enlarged scale of the Group, business development and the expansion of distribution network through new set-ups and acquisitions.

General and Administrative Expenses

During the Reporting Period, the general and administrative expenses of the Group was RMB1,964.63 million, representing an increase of 27.21% as compared with RMB1,544.41 million for the twelve months ended 31 December 2010. The increase in general and administrative expenses was primarily attributable to the administrative costs occurred from the expansion of distribution network.

The proportion of the Group's general and administrative expenses to the total revenue of the Group decreased from 2.23% for the twelve months ended 31 December 2010 to 1.92% for the corresponding period in 2011. The decrease was primarily due to the realization of the Group's economics of scale.

Operating Profit

As a result of the above-mentioned factors, the operating profit of the Group during the Reporting Period was RMB3,636.22 million, representing an increase of 50.95% from RMB2,408.82 million for the twelve months ended 31 December 2010.

Other Gains – Net

The other gains of the Group less other losses increased by 17.86% from RMB171.38 million for the twelve months ended 31 December 2010 to RMB201.99 million during the Reporting Period. The increase was primarily due to the disposal of a subsidiary of the Company.

Finance Costs – Net

During the Reporting Period, the finance costs of the Group was RMB818.01 million, representing an increase of 200.46% as compared with RMB272.25 million for the twelve months ended 31 December 2010. The increase was primarily due to the change in funding structure of the Group.

Share of Results from Associates

During the Reporting Period, the Group's share of results from associates was RMB107.40 million, representing an increase of 19.32% as compared with RMB90.01 million for the twelve months ended 31 December 2010.

Income Tax Expenses

The Group's income tax expenses increased by 27.74%, from RMB567.60 million for the twelve months ended 31 December 2010 to RMB725.05 million during the Reporting Period. The increase was primarily due to the increase in profits of the Group led to an increase in income tax. The Company's effective income tax rate decreased from 23.67% for the twelve months ended 31 December 2010 to 23.18% during the Reporting Period. The rate remained similar.

Annual Profits

As a result of the abovementioned factors, the profit for the year of the Group was RMB2,402.55 million, representing an increase of 31.26% from RMB1,830.36 million for the twelve months ended 31 December 2010. The profit margin of the Group for the twelve months ended 31 December 2010 and 2011 were 2.64% and 2.35%, respectively.

Profit Attributable to Equity Holders of the Company

As a result of the abovementioned factors, profit or net profit attributable to equity holders of the Group increased by 29.11%, or RMB351.86 million, from RMB1,208.75 million for the twelve months ended 31 December 2010 to RMB1,560.61 million during the Reporting Period. The Group's net profit margins during the Reporting Period and that of the corresponding period of 2010 were 1.53% and 1.75%, respectively.

Minority Interests

Minority interests during the Reporting Period was RMB841.94 million, representing an increase of 35.45% from RMB621.61 million for the twelve months ended 31 December 2010.

Liquidity and Capital Resources

Working capital

During the Reporting Period, the Group had commercial banking facilities of RMB34,577 million, of which approximately RMB16,593 million were not yet utilized. Cash and cash equivalents of RMB13,091.01 million were primarily comprised of cash, bank savings and income from current operating activities.

Cash flow

The cash of the Group is primarily used for financing working capital, repaying credit interest and principal due, financing acquisitions and providing funds for capital expenditures, growth and expanding the Group's facilities and operations. The table below sets out the cash flow of the Group from operating, investing and financing activities for each year ended 31 December 2010 and 2011:

	2011	2010
	RMB million	*RMB million*
Net cash generated from operating activities	**1,019.27**	1,268.33
Net cash used in investing activities	**(2,830.83)**	(1,897.27)
Net cash generated from financing activities	**7,427.87**	535.80
Net increase/(decrease) in cash and cash equivalents	**5,616.31**	(93.14)
Cash and cash equivalents at the beginning of year	**7,474.70**	7,567.84
Cash and cash equivalents at the end of year	**13,091.01**	7,474.70

Net cash generated from operating activities

The Group's cash inflow from operations primarily derives from payments for the sale of the products and services in its pharmaceutical distribution, retail pharmacy and other business operations segments. During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB1,019.27 million, representing a decrease of 19.64% from RMB1,268.33 million for the twelve months ended 31 December 2010. The decrease was primarily attributable to suppliers and customers of the Group facing cash pressures due to the tightening of macroeconomic environment, the Group has increased its proportion in direct sales, the operating cycles were also lengthened due to the increase in average collection days for account receivables.

Net cash used in investing activities

During the Reporting Period, the net cash used in investment activities of the Group was RMB2,830.83 million, representing an increase of 49.21% as compared with RMB1,879.27 million for the twelve months ended 31 December 2010.

Net cash generated from financing activities

During the Reporting Period, the net cash generated from financing activities of the Group was RMB7,427.87 million, representing an increase of RMB6,892.07 million as compared with RMB535.80 million for the twelve months ended 31 December 2010.

Capital Expenditure

The Group's capital expenditures primarily include acquisitions and purchases of land use rights, property, plant and equipment, investment properties and intangible assets. The Group's capital expenditures amounted to RMB3,244.99 million and RMB4,962.70 million as at 31 December 2010 and 31 December 2011 respectively.

The Group's current plans with respect to its capital expenditures may be modified according to the progress of its 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 operational results, financial condition and cash flows, economic, political and other conditions in China and Hong Kong, and the PRC Government's policies relating to foreign currency borrowings.

Capital Structure

Indebtedness

As of 31 December 2011, the Group had aggregate banking facilities of RMB34,577 million, of which RMB16,593 million were not utilized and are available to be drawn down. These banking facilities are primarily comprised short-term working capital loans. Among the Group's total borrowings as of 31 December 2011, bank borrowings of RMB8,666.79 million will be due within one year, RMB221.70 million will be due after one year and bonds of RMB4,960.66 million will be 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 69.85% as of 31 December 2011 (31 December 2010: 64.97%), which is calculated based on the net liabilities divided by the aggregate of its total equity and net liabilities as of 31 December 2011.

Foreign exchange risks

The uncertainties of foreign currency exchange rate will not incur significant foreign currency exchange risks to the Group.

Pledge of assets

As of 31 December 2011, part of the Group's bank borrowings was secured by land use rights with book value of RMB33.57 million, properties, plant and equipment with book value of RMB57.10 million, trade receivables with book value of RMB3,496.18 million and bank deposits with book value of RMB141.95 million.

Major Acquisitions and Disposals

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

Going concern

Based on the current financial forecast and financing facilities available, the Group has sufficient financial resources for ongoing operation in the foreseeable future. As such, the financial statements were prepared on a "going concern" basis.

Contingent Liabilities, Legal and Potential Proceedings

As of 31 December 2011, the Group neither had any guarantees or other material or contingent liabilities, nor had any legal proceedings or potential proceedings.

Human Resources

As of 31 December 2011, the Group had 35,394 employees. In order to meet the development needs and support the implementation of the strategic objectives of the Company, the Group has adopted an idea of professional management, reorganizing current human resources, creating management model, optimizing the management mechanism, and actively promoting the organizational reform. The Group has increased its speed of nurturing and recruiting talents. It has implemented a strict selection process for employees hiring and established a number of initiatives to enhance their productivity. The Group has conducted periodic performance reviews for its employees, and has adjusted their salaries and bonuses accordingly. In addition, the Group has implemented training programs for employees of 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. It will continue to grow and play a significant role in the development of the pharmaceutical and healthcare industry in China.

DIVIDENDS

Relevant resolution has been passed at a meeting of the Board held on 22 March 2012, and the Board proposed to distribute a final dividend (the "**Final Dividend**") of RMB0.19 per share for the year ended 31 December 2011, totalling RMB456,498,807. If the proposal in relation to the profit distribution is approved by the shareholders by way of an ordinary resolution at the 2011 annual general meeting to be held on Tuesday, 5 June 2012, the Final Dividend will be distributed on Friday, 20 July 2012 to holders of the H shares whose names appear on the register of members of H shares of the Company on Saturday, 16 June 2012.

Pursuant to the Corporate Income Tax Law of the PRC and its implementing regulations (hereinafter collectively referred to as the "**CIT Law**"), the tax rate of the corporate income tax applicable to the income of non-resident enterprise deriving from the PRC is 10%. For this purpose, any H shares registered under the name of non-individual enterprise, including the H shares registered under the name of HKSCC Nominees Limited, other nominees or trustees, or other organizations or entities, shall be deemed as shares held by non-resident enterprise shareholders (as defined under the CIT Law). The Company will distribute the Final Dividend to non-resident enterprise shareholders subject to a deduction of 10% corporate income tax withheld and paid by the Company on their behalf.

Any resident enterprise (as defined under the CIT Law) which has been legally incorporated in the PRC or which was established pursuant to the laws of foreign countries (regions) but has established effective administrative entities in the PRC, and whose name appears on the Company's H share register should deliver a legal opinion ascertaining its status as a resident enterprise furnished by a qualified PRC lawyer (with the official chop of the law firm issuing the opinion affixed thereon) and relevant documents to Computershare Hong Kong Investor Services Limited, if they do not wish to have the 10% corporate income tax withheld and paid on their behalf by the Company.

Pursuant to *the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of GuoShui Fa [1993] No. 045 Document* (the "**Notice**") issued by the State Administration of Tax on 28 June 2011, the dividend to be distributed by the PRC non-foreign invested enterprises which has issued shares in Hong Kong to the overseas resident individual shareholders, is subject to the individual income tax with a tax rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries of their residence and Mainland China. Thus, 10% personal income tax will be withheld from the Final Dividend payable to any individual shareholders whose names appear on the H share register of members of the Company on 16 June 2012, unless otherwise stated in the relevant taxation regulations, taxation agreements or the Notice.

The Company will not be liable for any claim arising from any delay in, or inaccurate determination of the status of the shareholders or any disputes over the mechanism of withholding.

The Board is not aware of any shareholders who have waived or agreed to waive any dividends.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Sunday, 6 May 2012 to Tuesday, 5 June 2012 (both days inclusive) during which period no transfer of H shares will be registered. To be qualified for attending and voting at the annual general meeting, all share transfer documents must be lodged with the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Friday, 4 May 2012.

The register of members of the Company will be closed from Tuesday, 12 June 2012 to Saturday, 16 June 2012 (both days inclusive) during which period no transfer of H Shares will be registered. To be qualified for receiving the proposed Final Dividend, all share transfer documents must be lodged with the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Monday, 11 June 2012.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its listed securities.

AUDIT COMMITTEE

The audit committee of the Company consists of six directors, namely, Mr. Xie Rong (Chairman), Mr. Chen Wenhao, 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 Company. The audit committee has reviewed the audited annual results of the Group for the year ended 31 December 2011.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2011 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2011. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES (THE "CORPORATE GOVERNANCE 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")

The Board passed the resolution on adopting all code provisions in the Corporate Governance Code as the corporate governance code of the Company on 31 August 2009. During the Reporting Period, the Company had complied with the code provisions set out in the Corporate Governance 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 Board passed the resolution on adopting the "Model Code" as the code of practice for directors and supervisors in respect of their tradings in the listed securities of the Company on 31 August 2009. After making specific enquires with the directors and supervisors, all of them confirmed that they had complied with the requirements set out in the Model Code during the Reporting Period.

DISCLOSURE OF INFORMATION

The 2011 annual report of the Company will be duly dispatched to the shareholders of the Company, and published on the websites of The Stock Exchange of Hong Kong Limited (http://www.hkexnews.hk) and the Company (http://www.sinopharmgroup.com.cn).

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

Shanghai, the People's Republic of China
22 March 2012

As at the date of this announcement, the executive director of the Company is Mr. Wei Yulin; the non- executive directors of the Company are Mr. She Lulin, Mr. Wang Qunbin, Mr. Chen Wenhao, Mr. Zhou Bin, Mr. Deng Jindong, Mr. Chen Qiyu, Mr. Fan Banghan, Mr. Liu Hailiang; and the independent non-executive directors of the Company are Mr. Wang Fanghua, Mr. Xie Rong, Mr. Tao Wuping 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."*