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 2012

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 2012 (the "**Reporting Period**").

CHAIRMAN'S STATEMENT

I would like to express my heartfelt gratitude to the shareholders and the community for your great support and encouragement to Sinopharm Group over time. 2012 was an important year for Sinopharm, a year in which sustained and stable progress was achieved on the hand of business development and transformation and improvement. The Board, the senior management and all the staff once again satisfied the investors by outstanding performance.

In 2012, the pharmaceutical industry faced complex and volatile domestic and international situations and withstood the test of China's tightening implementation of the policies of the reform of pharmaceutical and healthcare system (the "**Healthcare Reform**"). Under the wise leadership of the Board, Sinopharm was able to focus on its strategic plan of "Business Innovation", "Service Transformation", "Extension of Upstream and Downstream Industry Chain" and "Diversified Development in the Big Health Industry", so as to create the leading pharmaceutical distribution logistics network in the world by establishing county-level markets and strengthening its network layout. Transformation in service model was achieved through platforms for innovative business. Management standards were enhanced through establishment of a strong headquarter. Operation efficiency was improved through the development of most profitable business in each business segment.

Sustained and Stable Growth in Results

During the Reporting Period, the revenue of the Group amounted to RMB135,786.84 million, representing an increase of RMB33,562.03 million or 32.83% as compared with last year.

During the Reporting Period, net profit of the Group amounted to RMB3,080.14 million, representing an increase of RMB677.59 million or 28.20% as compared with last year. Profit attributable to equity holders of the Company amounted to RMB1,973.82 million, representing an increase of RMB413.21 million or 26.48% as compared with last year.

During the Reporting Period, earnings per share of the Company amounted to RMB0.82, representing a 24.24% increase over the corresponding period of last year.

Compared to 2011, total assets of the Group increased from RMB67,627.85 million to RMB79,847.11 million, net assets increased from RMB20,388.09 million to RMB22,743.20 million, and gearing ratio increased from 69.85% to 71.52%.

For the year 2012, total capital expenditure of the Group amounted to RMB2,682.02 million, which was primarily used for the expansion and development of distribution channels, and the enhancement of logistic delivery network and the level of informatization, so to increase the Group's market share and improve delivery efficiency.

Co-existence of Complex Industry Environment and All Kinds of Opportunities

2012 was a key stage for deepening the sustained reform of pharmaceutical and healthcare system in China. Various policies in relation to the reform were frequently introduced, such as the continuously advancing of the new Good Manufacturing Practice for Pharmaceutical Products (the "**GMP**"), further development of county-level public hospitals and pilot projects for reforming public hospitals in Beijing, Shenzhen and other places, and the promotion of the reform of payment method of the medical insurance. These new policies are either innovative or system-related, or focus on hot issues or have far-reaching implications, but all reflect the government's confidence and determination to tackle the matter.

The reform of the pharmaceutical and healthcare system is a social system engineering that has wide implications and complex in nature. For developing countries such as China, which has a large population, low income per capita and widening gap between urban and rural areas and between regions, the deepening of the Healthcare Reform is an extremely difficult and complex task. With the deepening of the reform, the pattern of interest distribution was adjusted profoundly and deep-seated institutional and structural contradictions exposed intensively, which significantly increased the difficulty of the reform. The Healthcare Reform has reached a deep area. As stated in the keynote report delivered during the 18th Congress of the Communist Party of China (the "**18th CPC National Congress**"), "Basically Realization of Universal Medical Insurance Coverage and Preliminary Establishment of Basic Medical and Healthcare System for Urban and Rural Areas" was the most important new achievement in social development since the convening of the 17th CPC National Congress. The 18th CPC National Congress also made clear plans for the realization of "Basic Medical and Healthcare Service Covering the Whole Population", which was determined as an important goal in the process of building a well-off society by 2020, and explained clearly the country's goal, mission and policies in intensifying the Healthcare Reform and developing the pharmaceutical and healthcare industry, hence started a new chapter in the reform and development of the pharmaceutical and healthcare industry.

For the pharmaceutical distribution industry, the sustained deepening of the new Healthcare Reform has further accelerated the pace of the industry's consolidation and unification. Industry guidelines such as the "Pharmaceutical Wholesale Enterprise Logistics Service Capability Assessment Indicators" and "Good Supply Practices for Pharmaceutical Products" (the "**GSP**") introduced in 2012 both conveyed a clear message of China's intent to further raise the threshold for entry into the pharmaceutical trading industry and reduce low-level duplications by supervision of the implementation of various industry guidelines and specifications; to raise the overall quality of the enterprises by improving the enterprise quality control system; and to accelerate industrial restructuring and enhance market concentration, so as to create favourable external environment for the strengthening of supervision of drug safety.

As a leader in the pharmaceutical industry, Sinopharm is always firmly grasping new opportunities emerged in the pharmaceutical and healthcare field, particularly in the pharmaceutical distribution industry and actively adapting to new models emerging from industrial restructuring, as well as innovating its business model proactively. We truly believe that the implementation of the new Healthcare Reform has brought the change of way of thinking and behaviour patterns to various parties in the medical industry chain, and pushed pharmaceutical distribution enterprises to change their original business model and upgrade their principal business. To continuously search for new profit model is the inevitable strategic choice for realization of the Group's service transformation.

Prospects

In 2013, China's economic growth will enter into a new stage of adjustment and transformation. However, the domestic pharmaceutical market, driven by rigid demand, is still expected to sustain its relatively rapid growth rate. The pharmaceutical policies to be introduced by the government soon, together with the existing policies like public hospital reform, zero-difference pricing, public bidding for national essential drugs and controlled use of antibiotics, etc. will bring synergy effect on the pharmaceutical industry. The Group will still uphold its strategy of early investigation of and active response to the new changes and directions emerged in the industry.

2013 is the first year of comprehensive implementation of the principles as established by the 18th CPC National Congress, as well as a year to strive to realize the industrial upgrading. Sinopharm will utilise the golden opportunity created by the Healthcare Reform to enhance its strategic goal, while at the same time, adhering to its three core strategies of operation-driven, capital-driven and innovation-driven, and will create a new Sinopharm by the end of the Twelfth Five-Year Plan period and become an integrated pharmaceutical and healthcare service provider with international competitive edge.

Finally, I would like to express heartfelt gratitude to all the shareholders, directors, strategic partners, members of senior management of the Company and all my fellow colleagues for their great support and hard work during the past year, which have enabled the Group to continuously achieve the milestone of hundred-billion sales, maintain a sustained, stable and rapid growth, and stride forward towards our goal to be a first-tier integrated pharmaceutical and healthcare service provider in the world.

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	**2012**	2011
		Year ended 31 December	
Revenue	*4*	**135,786,836**	102,224,807
Cost of sales	*7*	**(124,844,238)**	(93,870,110)
Gross profit		**10,942,598**	8,354,697
Other income	*5*	**218,899**	168,941
Distribution and selling expenses	*7*	**(3,729,715)**	(2,922,793)
General and administrative expenses	*7*	**(2,568,435)**	(1,964,629)
Operating profit		**4,863,347**	3,636,216
Other gains – net	*6*	**286,802**	201,987
Finance income		**148,760**	115,493
Finance costs		**(1,420,374)**	(933,498)
Finance costs – net	*9*	**(1,271,614)**	(818,005)
Share of results of associates		**135,718**	107,402
Profit before income tax		**4,014,253**	3,127,600
Income tax expense	*10*	**(934,117)**	(725,050)
Profit for the year		**3,080,136**	2,402,550
Attributable to:			
Shareholders of the Company		**1,973,823**	1,560,606
Non-controlling interests		**1,106,313**	841,944
		3,080,136	2,402,550
Earnings per share for profit attributable to the shareholders of the Company during the year (expressed in RMB per share)			
– Basic and diluted	*11*	**0.82**	0.66
Dividends	*14*	**600,656**	456,499

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(All amounts in Renminbi thousands unless otherwise stated)

	Note	**Year ended 31 December 2012**	2011
Profit for the year		**3,080,136**	2,402,550
Other comprehensive income/(losses):			
Share of other comprehensive income in associates	*10*	**1,543**	–
Change in value of available-for-sale financial assets	*10*	**(314)**	(14,971)
Remeasurement losses of post-employment benefit obligation	*10*	**(16,214)**	(24,196)
Currency translation differences	*10*	**41**	(1,213)
Other comprehensive losses for the year, net of tax		**(14,944)**	(40,380)
Total comprehensive income for the year		**3,065,192**	2,362,170
Attributable to:			
– Shareholders of the Company		**1,964,286**	1,534,209
– Non-controlling interests		**1,100,906**	827,961
		3,065,192	2,362,170

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2012	2011
ASSETS			
Non-current assets			
Land use rights		**1,017,029**	932,511
Investment properties		**175,588**	154,069
Property, plant and equipment		**5,382,461**	4,430,655
Intangible assets		**5,549,494**	4,642,436
Investments in associates		**689,324**	670,829
Available-for-sale financial assets		**205,408**	58,036
Deferred income tax assets		**339,713**	283,977
Other non-current assets		**471,772**	222,278
		13,830,789	11,394,791
Current assets			
Inventories		**13,618,051**	12,214,060
Trade receivables	*12*	**37,400,918**	26,591,821
Prepayments and other receivables		**3,683,426**	3,136,486
Available-for-sale financial assets		**1,559**	1,163
Bank deposits and restricted cash		**1,590,374**	1,198,519
Cash and cash equivalents		**9,721,992**	13,091,012
		66,016,320	56,233,061
Total assets		**79,847,109**	67,627,852
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		**2,402,625**	2,402,625
Reserves		**14,675,666**	13,271,224
		17,078,291	15,673,849
Non-controlling interests		**5,664,910**	4,714,237
Total equity		**22,743,201**	20,388,086

	Note	As at 31 December **2012**	2011
LIABILITIES			
Non-current liabilities			
Borrowings		**5,191,580**	5,182,353
Deferred income tax liabilities		**591,899**	517,551
Post-employment benefit obligations		**449,933**	435,451
Other non-current liabilities		**765,026**	812,851
		6,998,438	6,948,206
Current liabilities			
Trade payables	*13*	**34,685,397**	27,053,995
Accruals and other payables		**4,180,880**	4,269,641
Dividends payable		**15,655**	12,106
Current income tax liabilities		**335,335**	289,033
Borrowings		**10,888,203**	8,666,785
		50,105,470	40,291,560
Total liabilities		**57,103,908**	47,239,766
Total equity and liabilities		**79,847,109**	67,627,852
Net current assets		**15,910,850**	15,941,501
Total assets less current liabilities		**29,741,639**	27,336,292

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 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 2013.

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 standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- Amendment to HKAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

- 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, which are largely aligned between HKFRSs and US GAAP, 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 or US GAAP.

- 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 HKFRS 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 no later than the accounting period beginning on or after 1 January 2015. The Group will also consider the impact of the remaining phases of HKFRS 9 when completed by the Board.

- 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 assessed that adoption of HKFRS 10 will not result in any change in the consolidation status of its subsidiaries 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 has assessed HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

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 – operation of medicine chain stores; and

(iii) Other business – 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, deferred income tax liabilities 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 2012 and 2011

	Pharmaceutical distribution	Retail pharmacy	Other business	Elimination	Group
Year ended 31 December 2012					
Segment results					
External segment revenue	127,559,199	3,982,561	4,245,076	–	135,786,836
Inter-segment revenue	760,524	–	184,323	(944,847)	–
Revenue	128,319,723	3,982,561	4,429,399	(944,847)	135,786,836
Operating profit	4,370,951	123,838	389,919	(21,361)	4,863,347
Other gains	220,600	9,395	56,807	–	286,802
Share of results of associates	2,795	1,583	131,340	–	135,718
	4,594,346	134,816	578,066	(21,361)	5,285,867
Finance costs – net					(1,271,614)
Profit before income tax					4,014,253
Income tax expense					(934,117)
Profit for the year					3,080,136
Other segment items included in the income statement					
Provision for impairment of trade and other receivables, net	89,248	965	966		91,179
Provision for impairment of inventories	28,491	242	419		29,152
Amortisation of land use rights	20,343	48	3,973		24,364
Depreciation of property, plant and equipment	326,444	38,795	22,299		387,538
Depreciation of investment properties	–	–	12,713		12,713
Amortisation of intangible assets	137,995	1,378	1,622		140,995
Capital expenditures	2,404,295	127,459	150,270		2,682,024

	Pharmaceutical distribution	Retail pharmacy	Other business	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

(ii) As at 31 December 2012 and 2011

	Pharmaceutical distribution	Retail pharmacy	Other business	Elimination	Group
As at 31 December 2012					
Segment assets and liabilities					
Segment assets	**74,489,882**	**1,575,065**	**5,454,114**	**(2,011,665)**	**79,507,396**
Segment assets include:					
Investments in associates	**3,624**	**10,533**	**675,167**	**–**	**689,324**
Unallocated assets – Deferred income tax assets					**339,713**
Total assets					**79,847,109**
Segment liabilities	**38,941,962**	**885,886**	**1,745,159**	**(1,140,781)**	**40,432,226**
Unallocated liabilities – Deferred income tax liabilities and borrowings					**16,671,682**
Total liabilities					**57,103,908**
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

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

4 REVENUE

	Year ended 31 December 2012	2011
Sales of goods	**135,443,832**	101,973,667
Rental income	**117,944**	81,706
Franchise fees and other service fee from medicine chain stores	**47,525**	48,259
Consulting income	**125,656**	83,701
Import agency income	**35,317**	37,474
Others	**16,562**	–
	135,786,836	102,224,807

5 OTHER INCOME

	Year ended 31 December 2012	2011
Government grants *(i)*	**218,899**	168,941

note:

(i) Government grants mainly represented subsidy income received from various government authorities as incentives to certain members of the Group.

6 OTHER GAINS – NET

	Year ended 31 December 2012	2011
Write-back of certain liabilities *(i)*	**6,131**	32,608
Gain on disposal of subsidiaries	**4,446**	123,557
(Loss)/gain on disposal of available-for-sale financial assets	**(2,285)**	4,133
Gain on re-measuring of existing interest in connection with acquisitions *(ii)*	**35,259**	393
Gain on disposal of land use rights and property, plant and equipment	**223,428**	57,039
Foreign exchange gain/(loss) – net	**10,156**	(13,692)
Others – net	**9,667**	(2,051)
	286,802	201,987

notes:

(i) In 2012, the Group reviewed all the trade and other payables with aging over 5 years and wrote-back these unpayable long aging liabilities of RMB6,131 thousands.

(ii) In 2012, the Group acquired additional equity interests in certain associates and they became the subsidiaries of the Group after the acquisitions. The Group remeasured the existing interests of these associates before the acquisitions and recognized a gain of RMB35,259 thousands.

7 EXPENSES BY NATURE

	Year ended 31 December	
	2012	2011
Raw materials and trading merchandise consumed	**124,511,558**	93,607,765
Changes in inventories of finished goods and work in progress	**(4,841)**	116,851
Employee benefit expenses *(Note 8)*	**2,808,089**	2,259,559
Provision for impairment of trade receivables *(Note 12)*	**81,892**	30,095
Provision for impairment of other receivables	**9,287**	7,101
Provision for impairment of inventories	**29,152**	24,479
Provision for impairment of intangible assets	**–**	3,000
Operating lease rental in respect of land and buildings	**360,006**	278,849
Depreciation of property, plant and equipment	**387,538**	309,245
Depreciation of investment properties	**12,713**	14,012
Amortisation of intangible assets	**140,995**	114,644
Amortisation of land use rights	**24,364**	22,244
Auditors' remuneration		
– statutory audit service	**17,830**	16,850
– non-statutory audit service	**1,744**	1,313
– non-audit service	**504**	–
Advisory and consulting fees	**60,962**	42,035
Transportation expenses	**569,496**	428,623
Travel expenses	**196,515**	165,036
Market development and business promotion expenses	**971,150**	728,412
Utilities	**102,979**	57,377
Others	**860,455**	530,042
Total cost of sales, distribution and selling expenses and general and administrative expenses	**131,142,388**	98,757,532

8 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2012	2011
Salaries, wages, allowances and bonuses	**2,058,845**	1,632,346
Contributions to pension plans *(i)*	**249,789**	207,224
Post-employment benefits	**42,010**	46,869
Housing benefits *(ii)*	**104,074**	83,105
Other benefits *(iii)*	**353,371**	290,015
	2,808,089	2,259,559

notes:

(i) As stipulated by the related regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its employees in Mainland China. The Group also contributes to another retirement scheme managed by an individual assurance company from 2011 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 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	
	2012	2011
Interest expense:		
– Borrowings	**910,384**	523,839
– Discount of notes receivable	**235,830**	209,865
– Discount of accounts receivable	**205,230**	147,805
Gross interest expense	**1,351,444**	881,509
Bank charges	**102,988**	86,626
Less: capitalised interest expense	**(34,058)**	(34,637)
Finance costs	**1,420,374**	933,498
Finance income:		
– Interest income on deposits in bank or other financial institution	**(148,760)**	(115,493)
Net finance costs	**1,271,614**	818,005

10 TAXATION

Income tax expense

	Year ended 31 December	
	2012	2011
Current PRC income tax	**1,013,000**	770,934
Deferred taxation	**(78,883)**	(45,884)
	934,117	725,050

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	
	2012	2011
Profit before income tax	**4,014,253**	3,127,600
Less: Share of results of associates	**(135,718)**	(107,402)
	3,878,535	3,020,198
Tax calculated at weighted average tax rate applicable	**905,279**	715,181
Expenses not deductible for tax purposes	**36,099**	35,723
Income not subject to tax	**(22,646)**	(21,332)
Unrealised intra-group profit	**15,962**	–
Tax losses for which no deferred income tax asset was recognised, net	**10,290**	6,136
Tax losses utilised for which no deferred income tax asset recognised in prior years	**(5,581)**	(6,781)
Impact of change in applicable income tax rate on deferred tax	**(5,286)**	(3,877)
Income tax expense	**934,117**	725,050
Weighted average applicable tax rate *(i)*	**23%**	24%

note:

(i) During 2012, enterprises incorporated in the PRC are normally subject to enterprise income tax ("EIT") at the rate of 25%, while certain subsidiaries enjoy preferential EIT at a rate of 15% as approved by the relevant tax authorities or due to their operation in designated areas with preferential EIT policies.

One of the Group's subsidiaries is subject to Hong Kong profit tax at the rate of 16.5% on the estimated assessable profit arising in or derived from Hong Kong.

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

	2012			2011		
	Before tax	**Tax (charge)/ credit**	**After tax**	Before tax	Tax (charge)/ credit	After tax
Fair value losses on available-for-sale financial assets	**(611)**	**297**	**(314)**	(19,961)	4,990	(14,971)
Remeasurement losses of post-employment benefit obligations	**(21,601)**	**5,387**	**(16,214)**	(32,210)	8,014	(24,196)
Share of other comprehensive income in associates	**1,543**	**–**	**1,543**	–	–	–
Currency translation differences	**41**	**–**	**41**	(1,213)	–	(1,213)
Other comprehensive losses	**(20,628)**	**5,684**	**(14,944)**	(53,384)	13,004	(40,380)

11 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue during the year:

	Year ended 31 December	
	2012	2011
Profit attributable to shareholders of the Company *(RMB'000)*	**1,973,823**	1,560,606
Weighted average number of ordinary shares in issue *('000)*	**2,402,625**	2,356,102
Basic earnings per share *(RMB per share)*	**0.82**	0.66

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

12 TRADE RECEIVABLES

	As at 31 December	
	2012	2011
Accounts receivable	**34,597,266**	24,463,832
Notes receivable	**3,173,295**	2,417,433
	37,770,561	26,881,265
Less: Provision for impairment	**(369,643)**	(289,444)
Trade receivables – net	**37,400,918**	26,591,821

The fair value of trade receivables approximates 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 normally ranging from 30 to 210 days. The ageing analysis of trade receivables (accounts receivable and notes receivable) is as follows:

	As at 31 December	
	2012	2011
Below 3 months	**28,760,171**	20,482,995
3 to 6 months	**5,751,788**	4,094,860
6 months to 1 year	**3,093,816**	2,206,129
1 to 2 years	**118,412**	64,512
Over 2 years	**46,374**	32,769
	37,770,561	26,881,265

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

	As at 31 December	
	2012	2011
3 to 6 months	**5,472,199**	3,896,363
6 months to 1 year	**3,064,437**	2,168,920
1 to 2 years	**97,464**	38,455
Over 2 years	**6,647**	5,088
	8,640,747	6,108,826

As of 31 December 2012, trade receivables of approximately RMB369,643 thousands (2011: RMB289,444 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	
	2012	2011
3 to 6 months	**279,589**	198,497
6 months to 1 year	**29,379**	37,209
1 to 2 years	**20,948**	26,057
Over 2 years	**39,727**	27,681
	369,643	289,444

Movement of provision for impairment of trade receivables is as follows:

	Year ended 31 December	
	2012	2011
At 1 January	**289,444**	280,156
Provision for impairment *(Note 7)*	**81,892**	30,095
Receivables written off as uncollectible	**(1,693)**	(20,807)
At 31 December	**369,643**	289,444

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 2012, notes receivable of RMB452,683 thousands (2011: RMB59,051 thousands) and accounts receivable of RMB1,706,037 thousands (2011: RMB3,437,124 thousands) were pledged as collaterals for the Group's bank borrowings.

As at 31 December 2012, outstanding accounts receivable of RMB2,620,273 thousands (2011: RMB2,402,512 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 2012, the collection of such accounts receivable on behalf of banks amounted to RMB452,092 thousands (2011: RMB457,440 thousands) was recorded in other payables and as cash generated from financing activities.

The maximum exposure to credit risk as at 31 December 2012 is the carrying value of each category of receivable mentioned above and other receivables.

13 TRADE PAYABLES

	As at 31 December	
	2012	2011
Accounts payable	**25,989,925**	20,224,416
Notes payable	**8,695,472**	6,829,579
	34,685,397	27,053,995

The fair value of trade payables approximates their carrying amounts.

The ageing analysis of trade payables is as follows:

	As at 31 December	
	2012	2011
Below 3 months	**29,755,370**	23,076,124
3 to 6 months	**1,973,194**	1,886,778
6 months to 1 year	**2,394,025**	1,656,735
1 to 2 years	**344,453**	230,915
Over 2 years	**218,355**	203,443
	34,685,397	27,053,995

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

	As at 31 December	
	2012	2011
RMB	**33,543,656**	26,120,652
USD	**1,119,373**	687,195
HKD	**–**	235,697
EUR	**22,368**	10,451
	34,685,397	27,053,995

The Group has accounts payable financing program with certain banks when the bank repaid accounts payable on behalf of the Group with an equivalent sum drawn as borrowings.

During 2012, accounts payable of RMB4,961,533 thousands were repaid by the banks under this program with the equivalent amount drawn as borrowings. As at 31 December 2012, all bank borrowings related to this program were repaid.

14 DIVIDENDS

The dividends paid by the Company in 2012 were RMB456,499 thousands (RMB0.19 (tax inclusive) per ordinary share). A final dividend for the year ended 31 December 2012 of RMB0.25 (tax inclusive) per ordinary share, amounting to a total amount of RMB600,656 thousands is to be proposed at the upcoming annual general meeting according to the resolution passed at the Board meeting held on 22 March 2013. These financial statements have not reflected this proposed dividend.

	Year ended 31 December	
	2012	2011
Proposed final dividend	**600,656**	456,499

15 BUSINESS COMBINATIONS

Acquisitions during the year comprise:

The Group acquired equity interests from third parties in certain subsidiaries which are mainly engaged in distribution of medicines and pharmaceutical products and operations of pharmaceutical chain stores to extend the market share of the Group, during the year as follows:

Subsidiaries acquired	**Acquisition date**	**Acquired interests %**
Jiangmeng Guoda Jiyuantang Pharmacy Chain Store Co., Ltd.	June, 2012	65
Jiangmeng Renren Medical Co., Ltd.	May, 2012	100
Shanghai Merro Pharmaceutical Co., Ltd.	August, 2012	100
Sinopharm Holding Health Development(Shanghai) Co., Ltd.	August, 2012	70
Sinopharm Group Med-Tech Co., Ltd.	January, 2012	70
Sinopharm Holding Jining Co., Ltd.	January, 2012	70
Sinopharm Holding Lu'an Co., Ltd.	May, 2012	60
Sinopharm Holding Nantong Co., Ltd.	January, 2012	80
Sinopharm Holding Pu'er Co., Ltd.	November, 2012	60
Sinopharm Holding Shaoguan Co., Ltd.	August, 2012	70
Sinopharm Holding Weihai Co., Ltd.	January, 2012	90
Sinopharm Holding Wuhu Co., Ltd.	January, 2012	70
Sinopharm Jiankun (Beijing) Medical Co., Ltd.	January, 2012	51
Sinopharm Lerentang Cangzhou Medical Co., Ltd.	October, 2012	70
Sinopharm Holding Zhaoqing Co., Ltd.	January, 2012	100
Sinopharm Holding Medical Instrument (Beijing) Co., Ltd.	January, 2012	70

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

In May 2012, the Group acquired an additional 45% equity interests in Shanghai Donghong Medical Co., Ltd. ("Shanghai Donghong"), a then existing 35% owned associate, from a third party. After the acquisition, the Group holds 80% equity interests in Shanghai Donghong.

In October 2012, the Group acquired an additional 12% equity interests in Sinopharm Prospect Dentech (Beijing) Co., Ltd. ("Sinopharm Prospect"), a then existing 39% owned associate, from a third party. After the acquisition, the Group holds 51% equity interests in Sinopharm Prospect.

The acquisition date is also the date on which the Group effectively obtained the rights to control these entities.

In addition, the Group also effectively obtained the rights to control Sinopharm Xinyu Co, Ltd. ("Sinopharm Xinyu") in January 2012, a then 70% equity interests owned entity without control or significant influence, and Dongtou Pharmaceutical Co. Ltd. ("Dongtou Pharmaceutical") in January 2012, a then 61% equity interests owned entity without control or significant influence. After the obtaining of control rights, Sinopharm Xinyu and Dongtou Pharmaceutical became subsidiaries of the Group.

The effect of the above acquisitions is summarised as follows:

Purchase consideration	
– Cash consideration	640,175
– Contingent consideration *(i)*	319,855
Total purchase consideration	960,030
Fair value of previous equity interests at the dates of acquisitions	83,585
	1,043,615

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

	Fair value at acquisition date	**Acquirees' carrying amounts at acquisition date**
Cash and cash equivalents	220,987	220,987
Property, plant and equipment	50,927	50,779
Intangible assets		
– sales network	430,124	–
– software and trademarks	167	167
Land use rights	16,052	16,052
Investment properties	18,641	18,641
Deferred income tax assets	4,389	4,389
Inventories	370,239	370,239
Available-for-sale financial assets	394	394
Other non-current assets	1,053	1,053
Trade and other receivables	1,298,608	1,298,608
Trade and other payables	(1,405,215)	(1,405,215)
Deferred income tax liabilities	(107,568)	–
Borrowings	(162,078)	(162,078)
Net assets	736,720	414,016
Non-controlling interests *(ii)*	(211,442)	
Goodwill	518,337	
	1,043,615	
Consideration for acquisitions settled in cash	640,175	
Prepayments for the acquisition in 2011	(91,000)	
Cash consideration paid in 2012	549,175	
Cash and cash equivalents in subsidiaries acquired	(220,987)	
Cash outflow on acquisition	328,188	

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

notes:

(i) Contingent consideration

Based on certain conditions stipulated by the agreements on acquisition, the Group is required to pay contingent consideration based on achievement of the profit targets of the acquirees. The maximum undiscounted contingent consideration payable is RMB319,855 thousands.

Based on the projected profit performance of the acquirees, the fair value of the contingent consideration arrangement was estimated to be RMB319,855 thousands. As at 31 December 2012, there was no adjustment to the contingent consideration arrangement.

(ii) 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.

(iii) The revenue and net profit of these newly acquired subsidiaries from the respective acquisition dates to 31 December 2012 are summarised as follows:

	From acquisition date to 31 December 2012
Revenue	**3,888,866**
Net profit	**87,016**

(iv) The related acquisition cost is immaterial.

16 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 31 December 2012, the Group acquired 5 subsidiaries from third parties and total considerations for these acquisitions amounted to RMB12,714 thousands.

On 15 March 2013, the Company completed the issuance of the first tranche of the corporate bonds with an aggregate nominal value of RMB4,000,000 thousands (the "**Corporate Bonds**"), and Sinopharm Industrial Investment Co., Ltd. provided an unconditional and irrevocable guarantee with joint and several liability to the aggregate amount of the Corporate Bonds. The Corporate Bonds will expire on 13 March 2018, for a period of five years commencing from the issue date of 13 March 2013. The creditors enjoyed the right of early redemption at the end of the third year subsequent to the issue date, i.e. 13 March 2016. Through a comprehensive assessment, China Chengxin Securities Appraisal Co., Ltd. (中誠信證券評估有限公司) has assigned a first-time AAA issuer rating to the Company, and also assigned AAA rating to the Corporate Bonds. Both the outlook of the Company and the Corporate Bonds are stable. The annual interest rate of the Corporate Bonds for the first three years was fixed at 4.54%. The Company has the option to raise the interest rate at the end of the third year.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

2012 was a crucial year for the deepening of the reform of Chinese Pharmaceutical and healthcare system. It was also the first year for comprehensive implementation of the detailed plans and measures in respect of the deepening of the Healthcare Reform in the Twelfth-Five Year Plan Period. From 2009 to 2011, which were the first three years and the preliminary stage of the Healthcare Reform, the framework of universal basic medical insurance system was initially built, the national essential drug system was basically established, the medical service system at the basic level was gradually improved, the standard of equal treatment in the basic public health service system was significantly enhanced, and pilot projects for reforming the public hospitals was advanced actively. In the beginning of 2012, the State successively published "The Scheme for Deepening the Healthcare Reform during the Twelfth-Five Year Plan Period" with its Implementation Measures and "The Major Work Arrangements in 2012 for Deepening of the Healthcare Reform". After comprehensive reviewing of the practices of Healthcare Reform in the past three years, it was expressly stated by the government that the pace to improve universal basic medical insurance system, consolidate and enhance national essential drug system and new functional mechanisms at the basic level, and promote the reform of public hospitals should be expedited to obtain major breakthrough during the Twelfth-Five Year Plan period. At the same time, reforms in other fields should be advanced under overall planning. In August, the State promulgated "The Guidance Opinions regarding the Development of Critical Illness Insurance for Urban and Rural Residents", and in September, "The Notice on Promoting Drug Prices Reform in Hospitals at the County Level" was also published, both of which set out more detailed requirements of the government for the implementation of the Healthcare Reform.

As the Healthcare Reform entered into the key stage, there were transitions between the old and new systems, as well as conflicts of interests among various stakeholders. In 2012, as being driven by the relevant policies of the State, each province (or autonomous region or municipality) conducted bold reform according to the framework of the Healthcare Reform as laid down by the State, and combing their own experience, and achieved certain breakthrough. For example, pilot projects for integrated reforms of public hospitals at the county level had been launched at 311 counties on trial basis. Pilot projects for reforming urban public hospitals, represented by those in Beijing and Shenzhen had acheived material progress in terms of separation of medical service and pharmaceutical sales and that of management and execution.

The stable progresses achieved in separation of medical service and pharmaceutical sales as well as the abolishment of the policy of mark-up on medicine promoted the outsourcing of pharmaceutical department of the hospital and improved the logistics operation efficiency of pharmaceuticals within the hospitals on one hand, which provided opportunities to pharmaceutical distributors in providing value-added services and is beneficial to acquire the market share by those large scale pharmaceutical distributors cooperating with hospitals. On the other hand, there would be a mild increase in the market share in respect of retail pharmacy. There were signs that most of the pharmaceutical distributors began to extend their logistics services to pharmacies in the hospitals, so as to be involved in the reform of separation of medical service and pharmaceutical sales. Strong retail enterprises were also actively trying to seize opportunities in the market. It can be summed up that the two essential factors affecting the competitiveness of such retail enterprises will be the capabilities in the management of supply chain and professionalism in retail services.

Looking back into the achievements and experience derived from the new Healthcare Reform in the past three years, it is obviously indicated that public welfare is underlying in the new Healthcare Reform. The separation of medical service and pharmaceutical sales is critical to the reform of public hospitals. The coordination between "medical insurance, medical service and medicines" is the trend of the reform. Policies in relation to Chinese pharmaceutical and healthcare reform are gradually formulated. There are many policies driving the reallocation of medical resources. The advancing of provision of different levels of medical service is imperative. With the deepening of the reform of public hospitals will bring uncertainties to the upstream sectors in the pharmaceutical industry chain. In the short term, there may be more pressure on the operation of pharmaceutical enterprises. Despite the challenges arising from various uncertainties, the management is still deeply confident that relying on the advantages of its existing network, brand reputation, integration, customers and logistics systems, Sinopharm, as a leading company in the pharmaceutical distribution industry, will have more advantages in grasping various opportunities emerged in the process of the deepening of the new Healthcare Reform, and will achieve more remarkable results.

The changes brought by the Healthcare Reform were impetus to the systematic transformation of the pharmaceutical industry. Corresponding to the development in the society, the advance in urbanization, the continuous increase in the level of income per capita and more and more concerns over health and life of quality, the pharmaceutical industry will maintain sustained growth. In the meanwhile, the organic growth in population and its aging trend are also long-term beneficial factors and would continue to support the development of the pharmaceutical economy.

In accordance with the findings provided by the South Institution for Pharmaceutical Economy Research of the State Food and Drug Administration, in 2012, Chinese pharmaceutical industry also faced challenges in respect of market demand under the impact brought by the slowdown in macro economy in China, yet the overall growth remained relatively stable at around 20%. There was slowdown in the growth of the pharmaceutical manufacturing sector at the beginning of the year, but return to a steadier pace in the second half of the year; the growth in the end-user terminal market which mainly comprises hospitals at county level or above experienced a mild drop, but still occupying the most important position in the market by over 70% market share; and growth in retail end-user terminal market was expected as relatively steady.

Following the continuous increase in the concentration in the industry, the pace of restructuring in the industry has been accelerated as well. Economy of scale began to emerge and competition became more intensive. Transformation will become the dominant trend in the development of the industry.

Business Review

In 2012, the Group continued to tightly capture the dynamics in the development of the pharmaceutical market, and consistently accomplished the development missions of "Maintaining Growth" and "Improving Efficiency". Despite the ongoing increase of pressures in the market, the Group sought for development opportunities by integrating market elements, improving operations, enhancing business capabilities and innovations, so as to strengthen the capability of sustainable development, and achieved good results.

- ***Pharmaceutical distribution segment:***

  The Group provides pharmaceutical supply chain management services for the distribution of domestic and imported prescription drugs and over-the-counter medicines from manufacturers and suppliers to hospitals, other wholesalers, retail drug stores and other customers. During the Reporting Period, based on the distribution platform already established at the provincial level and closely adhering to the strategic deployment of "One Province, One Region, One Subsidiary", the Group continued to expand its distribution network downstream. Such strategy deployment is in line with the direction of the new Healthcare Reform which is to give preference to the county-level hospitals in the government policies, as well as the objective of the reform which is to further enhance the capability of medical services at basic level, and has achieve desired effects. As at 31 December 2012, the Group enlarged its distribution network to 51 distribution centers (secondary distribution center) covering 30 provinces, municipalities and autonomous regions in China through acquisitions and establishments. In addition to continuously secure its leading position in first-tier cities, the Group had expanded its business in second and third-tier cities and achieved a total coverage of 180 cities. The distribution network of Sinopharm entirely covered all top 100 counties in China, which can provide products and services to customers throughout China in a timely and efficient manner.

  The Group's direct customers included 10,351 hospitals (only referring to hospitals with ranking) (including 1,321 of the class-three hospitals which are the largest and most highly-ranked hospitals) or approximately 76.66% of all hospitals (only referring to hospitals with ranking) in China (and approximately 94.42% of all the class-three hospitals). There were 78,238 primary health services institutions (small end-customers) and 54,452 retail pharmacies. There were also more than 6,581 other customers, such as pharmaceutical wholesale enterprises.

- ***Retail pharmacy segment:***

  The Group has a network of retail pharmacies that are either directly operated by the Group or through franchises in major cities throughout China. As at 31 December 2012, the number of retail pharmacies was 1,795 (only referring to those owned by Sinopharm Holding Guoda Drug Store Co., Ltd.), among which 1,554 were directly operated by the Group.

- ***Other business segment:***

  The Group's other business includes the production and sales of pharmaceuticals, chemical reagents and laboratory supplies.

- ***Strengthening the management of centralized procurement:***

  During the Reporting Period, the Group focused on the development of a global and centralized procurement platform, advanced the establishment of centralized procurement system at both State and provincial level. On the basis of consolidation of procurement experience of different regions, the process flow of centralized procurement was further upgraded, the reviewing and optimization of procurement catalogs and specifications was speed up, and the administration measures on the tendering procedures were also improved.

- ***Further amelioration of the logistics systems:***

  In 2012, the Group strengthened the construction of an integrated logistics platform, and achieved significant progresses in the construction of an integrated logistics delivery network covering the whole country. Official qualifications for logistics services by third party operator in pharmaceutical distribution had been obtained from the competent pharmaceutical regulatory authority. A chill chain network of Sinopharm logistics covering the country as a whole had been developed, which will capitalize on the resources of the chill chain and the unified operation standard.

- ***Accelerating the informatization construction and enhancing business management efficiency:***

  During the Reporting Period, the Group implemented the second phase of the ERP internally, which realized central management and control over the general ledger, fixed assets and cash; and continued to promote the integrated supply chain solution developed by the company itself to secondary and third-level subsidiaries, so as to increase operation efficiency and management capacities.

- ***International cooperation:***

  In 2012, the Group continued to actively participated in the communications with the elite companies in the pharmaceutical industry all over the world and had reached broad intentions of cooperation with a number of overseas enterprises. Meanwhile, the Group also accelerated the progress of various cooperation projects with those internationally well-known pharmaceutical companies.

Financial Summary

The financial summary set out below is extracted from the audited financial statements of the Group for the Reporting Period which was prepared in accordance with the HKFRS:

During the Reporting Period, the Group recorded a revenue of RMB135,786.84 million, representing an increase of RMB33,562.03 million or 32.83% as compared with the corresponding period of last year, of which revenue from the distribution business was RMB128,319.72 million, representing an increase of RMB31,952.48 million or 33.16% as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded net profits of RMB3,080.14 million, representing an increase of RMB677.59 million or 28.20% as compared with the corresponding period of last year. Profit attributable to equity holders of the Company was RMB1,973.82 million, representing an increase of RMB413.21 million or 26.48% as compared with the corresponding period of last year.

During the Reporting Period, earnings per share of the Company was RMB0.82, representing an increase of 24.24% as compared with the corresponding period of last year.

Revenue

During the Reporting Period, the Group recorded a revenue of RMB135,786.84 million, representing an increase of 32.83% as compared with RMB102,224.81 million for the twelve months ended 31 December 2011. 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 Group's revenue grows faster than the overall development of pharmaceutical market in China.

- *Pharmaceutical Distribution:* During the Reporting Period, the revenue from pharmaceutical distribution was RMB128,319.72 million, representing an increase of 33.16% as compared with RMB96,367.24 million for the twelve months ended 31 December 2011, which accounted for approximately 93.85% of the total revenue of the Group. The increase in revenue was primarily due to a remarkable growth of the industry and the further expansion of the pharmaceutical distribution network.

- *Retail Pharmacy:* During the Reporting Period, the revenue from retail pharmacy was RMB3,982.56 million, representing an increase of 30.80% as compared with RMB3,044.87 million for the twelve months ended 31 December 2011. The increase was primarily due to the business growth of existing pharmacies and the expansion of retail pharmacy network of the Group.

- *Other Business:* During the Reporting Period, revenue from other business was RMB4,429.40 million during the Reporting Period, representing an increase of 13.63% as compared with RMB3,898.11 million for the twelve months ended 31 December 2011. The increase was primarily due to the growth of pharmaceutical manufacturing operations, chemical reagent operations as well as laboratory supplies business.

Cost of Sales

During the Reporting Period, the cost of sales of the Group was RMB124,844.24 million, representing an increase of 33.00% as compared with RMB93,870.11 million for the twelve months ended 31 December 2011. The increase was primarily due to the increase in revenue of the Group.

Gross Profit

As a result of the above-mentioned factors, the gross profit of the Group increased by 30.98% from RMB8,354.70 million for the twelve months ended 31 December 2011 to RMB10,942.60 million during the Reporting Period. The gross profit margin of the Group for the twelve months ended 31 December 2011 and 2012 were 8.17% and 8.06% respectively.

Other Income

During the Reporting Period, other income of the Group was RMB218.90 million, representing an increase of 29.57% as compared with RMB168.94 million for the twelve months ended 31 December 2011. The increase was primarily due to the increase in subsidies obtained from the central and regional governments.

Distribution and Selling Expenses

During the Reporting Period, the distribution and selling expenses of the Group were RMB3,729.72 million, representing an increase of 27.61% as compared with RMB2,922.79 million for the twelve months ended 31 December 2011. 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 were RMB2,568.44 million, representing an increase of 30.73% as compared with RMB1,964.63 million for the twelve months ended 31 December 2011. The increase in general and administrative expenses was primarily attributable to the increase in administrative costs incurred by the expansion of network scale and business growth.

The proportion of the Group's general and administrative expenses to the total revenue of the Group decreased from 1.92% for the twelve months ended 31 December 2011 to 1.89% for the corresponding period in 2012. The decrease was the reflection of the economics of scale.

Operating Profit

As a result of the above-mentioned factors, the operating profit of the Group during the Reporting Period was RMB4,863.35 million, representing an increase of 33.75% from RMB3,636.22 million for the twelve months ended 31 December 2011.

Other Gains – Net

The other net gains of the Group less other losses increased by 41.99% from RMB201.99 million for the twelve months ended 31 December 2011 to RMB286.80 million during the Reporting Period. The increase was primarily due to the disposal of land use rights and property by the Group.

Finance Costs – Net

During the Reporting Period, the finance costs of the Group was RMB1,271.61 million, representing an increase of 55.45% as compared with RMB818.01 million for the twelve months ended 31 December 2011. The increase was primarily due to the business growth and 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 RMB135.72 million, representing an increase of 26.37% as compared with RMB107.40 million for the twelve months ended 31 December 2011.

Income Tax Expenses

The Group's income tax expenses increased by RMB209.07 million, from RMB725.05 million for the twelve months ended 31 December 2011 to RMB934.12 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 increased from 23.18% for the twelve months ended 31 December 2011 to 23.27% during the Reporting Period.

Profit for the Year

As a result of the abovementioned factors, the profit for the year 2012 was RMB3,080.14 million, representing an increase of 28.20% from RMB2,402.55 million for the twelve months ended 31 December 2011. The profit margin of the Group for the twelve months ended 31 December 2011 and 2012 were 2.35% and 2.27%, respectively.

Profit Attributable to Equity Holders of the Company

During the Reporting Period, profit or net profit attributable to equity holders of the Company increased by 26.48%, or RMB413.21 million to RMB1,973.82 million, from RMB1,560.61 million for the twelve months ended 31 December 2011. The Group's net profit margins during the Reporting Period and that of the corresponding period of 2011 were 1.45% and 1.53%, respectively.

Profit Attributable to Non-controlling Interests

Profit attributable to non-controlling interests during the Reporting Period was RMB1,106.31 million, representing an increase of RMB264.37 million from RMB841.94 million for the twelve months ended 31 December 2011.

Liquidity and Capital Resources

Working capital

During the Reporting Period, the Group had commercial banking facilities of RMB54,491 million, of which approximately RMB33,400 million were not yet utilized. Cash and cash equivalents of RMB9,721.99 million primarily comprises 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 the year ended 31 December 2011 and 2012, respectively:

	2012	2011
	RMB million	*RMB million*
Net cash generated from operating activities	**4,017.21**	1,019.27
Net cash used in investing activities	**(2,208.62)**	(2,830.83)
Net cash (used in)/generated from financing activities	**(5,177.61)**	7,427.87
Net (decrease)/increase in cash and cash equivalents	**(3,369.02)**	5,616.31
Cash and cash equivalents at the beginning of year	**13,091.01**	7,474.70
Cash and cash equivalents at the end of year	**9,721.99**	13,091.01

Net cash generated from operating activities

The Group's cash inflow from operations primarily derives from collections from 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 RMB4,017.21 million, representing an increase of RMB2,997.94 million from RMB1,019.27 million for the twelve months ended 31 December 2011. The increase was primarily attributed to the enhancement of the management and control of collections of trade receivables and payments in the Group's business operation as well as the Group utilizing banking products such as factoring with an aim to decrease finance costs.

Net cash used in investing activities

During the Reporting Period, the net cash used in investment activities of the Group was RMB2,208.62 million, representing a decrease of RMB622.21 million as compared with RMB2,830.83 million for the twelve months ended 31 December 2011.

Net cash used in/generated from financing activities

During the Reporting Period, the net cash generated from financing activities of the Group was RMB5,177.61 million, representing an increase of RMB12,605.48 million as compared with RMB7,427.87 million for the twelve months ended 31 December 2011. The increase was primarily attributable to the expansion of the scale in sales and increase in financing so as to meet the working capital requirements.

Capital Expenditure

The Group's capital expenditures are primarily utilized for the development and expansion of distribution channels, the upgrading of its logistics systems and the increase of level of informatization. The Group's capital expenditures amounted to RMB4,962.70 million and RMB2,682.02 million for the year ended 31 December 2011 and during the Reporting Period 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 develop, 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 factors, 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 2012, the Group had aggregate banking facilities of RMB54,491 million, of which RMB33,400 million were not utilized and are available to be drawn down. These banking facilities are primarily short-term loans for working capital. Among the Group's total borrowings as of 31 December 2012, RMB10,888.20 million will be due within one year and RMB5,191.58 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 71.52% as of 31 December 2012 (31 December 2011: 69.85%), which is calculated based on the net liabilities divided by the aggregate of its total equity and net liabilities as of 31 December 2012.

Foreign Exchange Risks

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

Pledge of Assets

As of 31 December 2012, part of the Group's bank borrowings was secured by land use rights with book value of RMB74.58 million, properties, plant and equipment with book value of RMB214.18 million and trade receivables with book value of RMB2,158.72 million.

Major Acquisitions and Disposals

During the Reporting Period, the Group had no major acquisition and disposal activities.

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 and Material Litigations

As at 31 December 2012, the Group neither had any material contingent liabilities, nor had any material litigations.

Human Resources

As at 31 December 2012, the Group had a total of 40,737 employees. In order to meet the development needs and support and promote the implementation of its strategic objectives, the Group has adopted the model of reorganizing current human resources and innovating management systems in accordance with the requirements of professional operation and integrated management, optimized the management mechanism, actively advanced the organizational reform and increased its speed of nurturing and recruiting talents. The Group has established a strict selection process for recruitment of employees and adopted a number of incentive mechanisms to enhance their efficiency. The Group conducted periodic performance reviews on its employees, and adjusted their salaries and bonuses accordingly. In addition, the Group has provided training programs to employees with different functions.

Future Plan

The Group's objective is to consolidate its position as the leading distributor of, and supply chain services provider for, pharmaceutical and healthcare products in China. The Group shall assume the social responsibility of maintaining the healthy development of the pharmaceutical distribution market, ensure the accumulative and intensive effect after integration of the network, create harmonious and prosperous internal and external environment, raise the Group's competitiveness of scale through integration, create competitiveness of differentiation by changing business operation models, gain competiveness in bargaining through supply chain integration service, win competitiveness in cost from operation integrations, and fully explore the value-added development model created by the strategic synergy of logistics and distribution business. The Group will speed up the construction of the logistic hub and improve its centralized purchasing and multi-storage operation system, establish a multi-purpose logistic delivery network adapting to the full coverage of essential drugs as introduced by the Healthcare Reform, and accelerate the construction of the biological cold chain distribution network pattern.

DIVIDENDS

Relevant resolution has been passed at a meeting of the Board held on 22 March 2013, and the Board proposed to distribute a final dividend (the "**Final Dividend**") of RMB0.25 per share (inclusive of tax) for the year ended 31 December 2012, totalling approximately RMB600,656,000. The proposal in relation to the profit distribution will be submitted to the 2012 annual general meeting for shareholders' consideration and approval. The Company will separately publish the relevant arrangements in respect of the distribution of the Final Dividend including the record date and the book closure period when the date of the 2012 annual general meeting is fixed.

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 register of members of H shares of the Company 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 the individual holders of H shares, 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.

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 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 Company. The audit committee has reviewed the audited annual results of the Group for the year ended 31 December 2012.

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 2012 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 2012. 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 CORPORATE GOVERNANCE CODE (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 Company has adopted all code provisions of the Corporate Governance Code as the code of corporate governance of the Company. Save as disclosed below, during the Reporting Period, the Company has complied with the Corporate Governance Code and all code provisions as set out in the Code on Corporate Governance Practices that were effective before 1 April 2012.

In accordance with the relevant amendments in the Corporate Governance Code that became effective on 1 April 2012, the Company has purchased liability insurance for the directors in early 2013.

During the Reporting Period, some directors were not able to attend the general meetings of the Company in person due to business engagements. However, they were subsequently informed by the Company about the matters conducted in the meetings as well as the questions and recommendations raised by the shareholders in the meetings. The directors are aware of their responsibilities of attending the general meetings to develop an understanding of the views of the shareholders, and will use their best endeavours to actively participate in the future.

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 2012 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 2013

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. 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, Mr. Zhou Bajun and Ms. Li Ling.

* *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."*