SINOPHARM GROUP CO. LTD.*

國藥控股股份有限公司

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

(Stock Code: 01099)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

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 2014 (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 over time. The year of 2014 was an important year of bold development and positive transformation for Sinopharm. The Board, the management and all the staff reattribute to the shareholders with sustained and stable growth in results again for their support and caring for the growth of the Company.

Sustained and Stable Growth in Results

During the Reporting Period, the Group recorded a revenue of RMB200,131.26 million, representing an increase of RMB33,265.11 million or 19.94% as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded a net profit of RMB4,551.57 million, representing an increase of RMB971.86 million or 27.15% as compared with the corresponding period of last year. Profit attributable to shareholders of the Company amounted to RMB2,874.82 million, representing an increase of RMB624.82 million or 27.77% as compared with the corresponding period of last year.

During the Reporting Period, earnings per share of the Company amounted to RMB1.11, representing an increase of 24.72% as compared with the corresponding period of last year.

Compared to 2013, total assets of the Group increased from RMB105,453.11 million to RMB128,655.74 million, net assets increased from RMB28,611.35 million to RMB36,289.63 million, and gearing ratio decreased from 72.87% to 71.79%.

For the year of 2014, total capital expenditure of the Group amounted to RMB2,904.17 million, which was primarily used for the expansion and development of distribution channels, upgrading the logistic delivery system and improving the level of informatization, so as to increase the Group's market share and improve delivery efficiency.

Entering into New Normal Economy and Continuous Deepening of Healthcare Reform

In 2014, with the slowdown of the growth rate of Chinese economy, fading of industry policy dividend and deepening of new healthcare reform, the development of China's pharmaceutical industry has obviously "shifted gear" into a period of medium-high growth. The adjustment of economic structure and the change of development model also promoted the traditional pharmaceutical industry to transform and upgrade itself to the more extensive "healthcare service industry". Meanwhile, China's pharmaceutical and healthcare system reform was continuously deepened by adhering to the basic principle of "maintaining basic coverage of medical insurance and healthcare services, enhancing primary healthcare services and establishing strong healthcare institutions", towards the direction of "better insurance, innovative services and regulated drugs".

In 2014, the pharmaceutical distribution industry saw a sustained rigid demand and recorded a stable yet slower growth rate in sales and profit. The industry competition structure showed little change while the industry concentration ratio continued to increase. However, the whole industry is still facing challenges from policies, payment collection and working capital, etc.

Prospects

2015 will be a crucial year for China to comprehensively deepen reforms and make major adjustments, and will also see that China's new normal economy enters into a crucial stage in all respects.

In 2015, the pharmaceutical and healthcare industry will maintain a slower yet stable growth rate. The whole industry will not only benefit from the country's aging population and urbanization as well as the continuous deepening of healthcare reform, but will also enjoy business opportunities brought by innovative business models, which will drive the future growth in pharmaceutical and healthcare industry.

As the largest and most powerful pharmaceutical distributor, Sinopharm will move forward in keeping with the "new normal" development of the pharmaceutical and healthcare industry. In addition to focusing on hospital end market and retail end market, it will make bold investment into and conduct exploration of innovative business models arising from the pharmaceutical and healthcare industry while leveraging existing advantages in its pharmaceutical network, so as to develop business models which will be fit for China's pharmaceutical and healthcare industry and characteristics of the Company.

In 2015, Sinopharm will continue to explore the integration of the internet thinking with traditional business, so as to establish a new resource-flow, connective and communicated service model for its internal traditional businesses. By taking various approaches including further consolidating its industry chain and industry resources, enhancing supply chain service value, establishing a unified marketing and service platform, accelerating marketing innovations toward internet, as well as setting up a professional big data center, the Company will be able to gradually transform itself from a traditional distributor into an innovative service provider.

In July 2014, the State-owned Assets Supervision and Administration Commission officially launched its mixed ownership pilot reform and appointed the Company and eight of its subsidiaries as the first batch of pilot enterprises of the reform, which attracted much attention. In 2015, the Company will continue to capitalize on the opportunity of this reform to fully leverage its existing advantages in terms of management, talents and business strength, further improve corporate governance, continuously stimulate corporate vitality and enhance core competitiveness, with a view to achieving a long-term healthy development as well as enhancing corporate value.

Finally, I would like to express heartfelt gratitude to all the shareholders, directors, strategic partners, members of management of the Company and all my fellow colleagues. Let us make great efforts hand in hand to help Sinopharm leap from outstanding to excellent and transform from a traditional pharmaceutical distribution company to an innovative service provider.

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2014	2013
Revenue	*4*	**200,131,261**	166,866,146
Cost of sales and other operating costs	*7*	**(183,803,043)**	(153,487,630)
Gross profit		**16,328,218**	13,378,516
Other income	*5*	**204,021**	288,941
Distribution and selling expenses	*7*	**(5,122,849)**	(4,473,773)
General and administrative expenses	*7*	**(3,547,468)**	(3,091,764)
Operating profit		**7,861,922**	6,101,920
Other gains – net	*6*	**38,730**	40,196
Finance income		**187,911**	174,387
Finance costs		**(2,316,602)**	(1,834,756)
Finance costs – net	*9*	**(2,128,691)**	(1,660,369)
Share of profit of investments accounted for using the equity method		**162,642**	138,758
Profit before income tax		**5,934,603**	4,620,505
Income tax expense	*10*	**(1,383,030)**	(1,040,793)
Profit for the year		**4,551,573**	3,579,712
Attributable to:			
Shareholders of the Company		**2,874,823**	2,250,002
Non-controlling interests		**1,676,750**	1,329,710
		4,551,573	3,579,712
Earnings per share for profit attributable to the shareholders of the Company during the year (expressed in RMB per share)			
– Basic and diluted	*11*	**1.11**	0.89
Dividends	*14*	**857,799**	667,756

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2014	2013
Profit for the year		**4,551,573**	3,579,712
Other comprehensive (losses)/income:			
Item that will not be reclassified subsequently to profit or loss			
Remeasurements of post-employment benefit obligations	*10*	**(17,301)**	15,843
Items that may be reclassified to profit or loss			
Fair value gains on available-for-sale financial assets, net of tax	*10*	**10,745**	5,094
Currency translation differences	*10*	**235**	(2,273)
Share of other comprehensive income of investments accounted for using the equity method	*10*	**195**	232
Total items that may be reclassified subsequently to profit or loss		**11,175**	3,053
Other comprehensive (losses)/income for the year, net of tax		**(6,126)**	18,896
Total comprehensive income for the year		**4,545,447**	3,598,608
Attributable to:			
– Shareholders of the Company		**2,865,708**	2,262,489
– Non-controlling interests		**1,679,739**	1,336,119
		4,545,447	3,598,608

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December **2014**	2013
ASSETS			
Non-current assets			
Land use rights		**1,445,698**	1,277,436
Investment properties		**361,354**	159,509
Property, plant and equipment		**7,102,276**	6,310,547
Intangible assets		**6,348,010**	5,603,289
Investments accounted for using the equity method		**930,179**	730,739
Available-for-sale financial assets		**348,396**	274,701
Deferred income tax assets		**565,472**	455,519
Other non-current assets		**1,281,890**	927,994
		18,383,275	15,739,734
Current assets			
Inventories		**20,308,570**	16,702,338
Trade receivables	*12*	**66,098,233**	51,824,730
Prepayments and other receivables		**4,481,383**	4,141,332
Available-for-sale financial assets		**728**	1,122
Bank deposits and restricted cash		**4,151,194**	3,041,892
Cash and cash equivalents		**15,232,356**	14,001,962
		110,272,464	89,713,376
Total assets		**128,655,739**	105,453,110
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		**2,767,095**	2,568,293
Reserves		**24,614,772**	19,247,253
		27,381,867	21,815,546
Non-controlling interests		**8,907,762**	6,795,804
Total equity		**36,289,629**	28,611,350

	Note	As at 31 December 2014	2013
LIABILITIES			
Non-current liabilities			
Borrowings		**4,222,597**	4,134,067
Deferred income tax liabilities		**632,801**	596,282
Post-employment benefit obligations		**516,272**	498,749
Other non-current liabilities		**974,615**	771,483
		6,346,285	6,000,581
Current liabilities			
Trade payables	*13*	**54,723,653**	44,188,111
Accruals and other payables		**5,419,051**	5,183,535
Dividends payable		**86,462**	36,613
Current income tax liabilities		**557,805**	425,644
Borrowings		**25,232,854**	21,007,276
		86,019,825	70,841,179
Total liabilities		**92,366,110**	76,841,760
Total equity and liabilities		**128,655,739**	105,453,110
Net current assets		**24,252,639**	18,872,197
Total assets less current liabilities		**42,635,914**	34,611,931

NOTES:

(All amounts in Renminbi thousands unless otherwise stated)

1 GENERAL INFORMATION

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 (the "**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 on 20 March 2015.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, which are carried at fair value.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

(i) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014:

- Amendment to HKAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group financial statements.

- Amendments to HKAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in HKAS 36 by the issue of HKFRS 13. It also enhanced the disclosures of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

- Amendment to HKAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under HKAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Group has applied the amendment and there has been no significant impact on the Group financial statements as a result.

- HK (IFRIC) 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of HKAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to the payment a levy and when a liability should be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

(ii) 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 2014, and have not been applied in preparing these consolidated financial statement. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

  Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess HKFRS 9.

- HKFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 'Revenue' and HKAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the impact of HKFRS 15.

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

(iii) New Hong Kong Companies Ordinance (Cap.622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

3 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the operating committee (comprising the CEO and the executives at the CEO 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 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 2014 and 2013

	Pharmaceutical distribution	Retail pharmacy	Other business	Elimination	Group
Year ended 31 December 2014					
Segment results					
External segment revenue	190,133,058	5,901,875	4,096,328	–	200,131,261
Inter-segment revenue	1,334,846	2,284	355,294	(1,692,424)	–
Revenue	191,467,904	5,904,159	4,451,622	(1,692,424)	200,131,261
Operating profit	7,175,868	219,007	481,558	(14,511)	7,861,922
Other gains/(losses)	26,962	(206)	11,974	–	38,730
Share of profit of investments accounted for using the equity method	3,528	2,037	157,077	–	162,642
	7,206,358	220,838	650,609	(14,511)	8,063,294
Finance costs – net					(2,128,691)
Profit before income tax					5,934,603
Income tax expense					(1,383,030)
Profit for the year					4,551,573
Other segment items included in the income statement					
Provision for impairment of trade and other receivables, net	187,501	266	1,206		188,973
Provision for impairment of inventories	2,862	62	21,174		24,098
Provision for impairment of property, plant and equipment	–	–	20,645		20,645
Provision for impairment of intangible assets	–	–	4,233		4,233
Provision for impairment of goodwill	–	–	5,850		5,850
Amortisation of land use rights	29,839	51	6,775		36,665
Depreciation of property, plant and equipment	412,254	59,107	115,574		586,935
Depreciation of investment properties	–	–	14,900		14,900
Amortisation of intangible assets	188,514	5,129	3,103		196,746
Capital expenditures	2,468,206	107,197	328,768		2,904,171

	Pharmaceutical distribution	Retail pharmacy	Other business	Elimination	Group
Year ended 31 December 2013					
Segment results					
External segment revenue	157,864,297	4,833,148	4,168,701	–	166,866,146
Inter-segment revenue	1,108,220	–	326,805	(1,435,025)	–
Revenue	158,972,517	4,833,148	4,495,506	(1,435,025)	166,866,146
Operating profit	5,548,406	174,546	420,023	(41,055)	6,101,920
Other gains/(losses)	58,554	2,204	(20,562)	–	40,196
Share of profit of investments accounted for using the equity method	581	1,817	136,360	–	138,758
	5,607,541	178,567	535,821	(41,055)	6,280,874
Finance costs – net					(1,660,369)
Profit before income tax					4,620,505
Income tax expense					(1,040,793)
Profit for the year					3,579,712
Other segment items included in the income statement					
Provision for impairment of trade and other receivables, net	135,118	398	916		136,432
Provision for impairment of inventories	49,665	287	3,436		53,388
Provision for impairment of property, plant and equipment	–	–	5,340		5,340
Provision for impairment of goodwill	–	–	63,200		63,200
Amortisation of land use rights	32,255	51	6,751		39,057
Depreciation of property, plant and equipment	339,253	44,150	93,326		476,729
Depreciation of investment properties	–	–	11,338		11,338
Amortisation of intangible assets	144,825	1,932	3,045		149,802
Capital expenditures	1,477,167	97,666	438,334		2,013,167

(ii) As at 31 December 2014 and 2013

	Pharmaceutical distribution	Retail pharmacy	Other business	Elimination	Group
As at 31 December 2014					
Segment assets and liabilities					
Segment assets	**120,166,345**	**3,206,254**	**6,435,604**	**(1,717,936)**	**128,090,267**
Segment assets include:					
Investments accounted for using the equity method	**84,355**	**14,283**	**831,541**	**–**	**930,179**
Unallocated assets – Deferred income tax assets					**565,472**
Total assets					**128,655,739**
Segment liabilities	**59,995,952**	**1,949,107**	**2,029,590**	**(1,696,791)**	**62,277,858**
Unallocated liabilities – Deferred income tax liabilities and borrowings					**30,088,252**
Total liabilities					**92,366,110**
As at 31 December 2013					
Segment assets and liabilities					
Segment assets	98,208,962	2,498,393	6,437,415	(2,147,179)	104,997,591
Segment assets include:					
Investments accounted for using the equity method	4,206	13,865	712,668	–	730,739
Unallocated assets – Deferred income tax assets					455,519
Total assets					105,453,110
Segment liabilities	49,747,602	1,417,916	2,072,464	(2,133,847)	51,104,135
Unallocated liabilities – Deferred income tax liabilities and borrowings					25,737,625
Total liabilities					76,841,760

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

4 REVENUE

	Year ended 31 December	
	2014	2013
Sales of goods	**199,652,863**	166,454,416
Consulting income	**194,925**	145,927
Franchise fees and other service fee from medicine chain stores	**119,848**	112,016
Rental income	**111,414**	107,769
Import agency income	**25,948**	24,528
Others	**26,263**	21,490
	200,131,261	166,866,146

5 OTHER INCOME

	Year ended 31 December	
	2014	2013
Government grants *(i)*	**204,021**	288,941

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	
	2014	2013
Write-back of certain liabilities *(i)*	**26,870**	27,204
Gain on fair value re-measurement of existing stake in connection with disposal of a subsidiary	**7,602**	–
Gain on disposal of subsidiaries	**2,659**	2,702
Gain on disposal of investment accounted for equity method	**2,265**	–
Gain on disposal of land use right, property, plant and equipment and intangible assets	**5,840**	15,828
Foreign exchange loss – net	**(17,853)**	(4,461)
Loss on disposal of available-for-sale financial assets	**(394)**	(56)
Dividend from a subsidiary prior to acquisition	**–**	15,878
Compensation write-back/(charge) *(ii)*	**11,020**	(22,040)
Donation	**(11,054)**	(9,261)
Others – net	**11,775**	14,402
	38,730	40,196

notes:

(i) In 2014, the Group reviewed all the trade and other payables with aging over 5 years and wrote-back these unpayable long aging liabilities of RMB26,870 thousands.

(ii) In March 2010, one subsidiary of the Group signed a "Real estate transfer and corporation agreement" with a Real Estate Development Company (the "**counterparty**"). In June 2012, the subsidiary determined to terminate the agreement due to its long-term development plan, and made compensation provision amounting to RMB17,600 thousands accordingly. The subsidiary paid compensation of RMB4,980 thousands in 2012 and didn't pay the remaining part. In April 2013, the counterparty sued the subsidiary for the remaining compensation of RMB11,020 thousands, additional compensation of RMB11,020 thousands and overdue penalty of RMB11,020 thousands. In May 2013, the court went in the counterparty's favour at the first instance and the subsidiary made additional provision amounting to RMB22,040 thousands. In the first half of the year 2014, the higher court dismissed the counterparty's claim of overdue penalty and only supported the remaining compensation and additional compensation at the second instance. The subsidiary wrote back the overdue penalty of RMB11,020 thousands in 2014.

7 EXPENSES BY NATURE

	Year ended 31 December	
	2014	2013
Raw materials and trading merchandise consumed	**183,280,631**	153,045,878
Changes in inventories of finished goods and work in progress	**(93,898)**	(3,681)
Employee benefit expenses *(Note 8)*	**4,326,711**	3,618,164
Provision for impairment of trade receivables *(Note 12)*	**167,884**	134,134
Provision for impairment of other receivables	**21,089**	2,298
Provision for impairment of inventories	**24,098**	53,388
Provision for impairment of intangible assets	**4,233**	–
Provision for impairment of property, plant and equipment	**20,645**	5,340
Provision for impairment of goodwill	**5,850**	63,200
Operating lease rental in respect of land and buildings	**587,830**	425,411
Depreciation of property, plant and equipment	**586,935**	476,729
Depreciation of investment properties	**14,900**	11,338
Amortisation of intangible assets	**196,746**	149,802
Amortisation of land use rights	**36,665**	39,057
Auditors' remuneration		
– statutory audit service	**21,292**	19,980
– non-statutory audit service	**330**	2,275
– non-audit service	**938**	820
Advisory and consulting fees	**82,796**	60,422
Transportation expenses	**835,286**	686,714
Travel expenses	**242,806**	216,386
Market development and business promotion expenses	**936,324**	987,116
Utilities	**143,562**	128,969
Others	**1,029,707**	929,427
Total cost of sales and other operating costs, distribution and selling expenses and general and administrative expenses	**192,473,360**	161,053,167

8 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2014	2013
Salaries, wages, allowances and bonuses	**3,352,661**	2,774,007
Contributions to pension plans *(i)*	**336,978**	293,185
Post-employment benefits	**27,158**	21,873
Housing benefits *(ii)*	**133,255**	112,666
Other benefits *(iii)*	**476,659**	416,433
	4,326,711	3,618,164

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	
	2014	2013
Interest expense:		
– Borrowings	**1,380,030**	1,101,196
– Discount of notes receivable	**452,675**	321,006
– Discount of accounts receivable	**369,430**	310,937
– Net interest on net defined benefit liability	**10,723**	20,126
Gross interest expense	**2,212,858**	1,753,265
Bank charges	**125,382**	104,129
Less: capitalised interest expense	**(21,638)**	(22,638)
Finance costs	**2,316,602**	1,834,756
Finance income:		
– Interest income on deposits in bank or other financial institution	**(148,797)**	(131,857)
– Interest income on long-term deposits	**(39,114)**	(42,530)
Net finance costs	**2,128,691**	1,660,369

10 TAXATION

Income tax expense

	Year ended 31 December	
	2014	2013
Current income tax	**1,525,313**	1,169,588
Deferred taxation	**(142,283)**	(128,795)
	1,383,030	1,040,793

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	
	2014	2013
Profit before income tax	**5,934,603**	4,620,505
Less: Share of profit of investments accounted for using the equity method	**(162,642)**	(138,758)
	5,771,961	4,481,747
Tax calculated at applicable tax rate	**1,358,210**	1,008,081
Expenses not deductible for tax purposes	**67,273**	64,014
Income not subject to tax	**(11,752)**	(9,516)
Tax losses for which no deferred income tax asset was recognised, net	**3,493**	4,129
Tax losses utilised for which no deferred income tax asset recognised in prior years	**(4,333)**	(10,057)
Impact of change in applicable income tax rate on deferred tax	**(4,635)**	751
Income tax refund	**(25,226)**	(16,609)
Income tax expense	**1,383,030**	1,040,793
Weighted average applicable tax rate *(i)*	**23.30%**	22.53%

note:

(i) During 2014, 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.

Two subsidiaries of the Group are 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 credit/(charge) relating to components of other comprehensive income is as follows:

	2014			2013		
	Before tax	**Tax (charge)/ credit**	**After tax**	Before tax	Tax (charge)/ credit	After tax
Fair value gains on available-for-sale financial assets	**14,326**	**(3,581)**	**10,745**	6,792	(1,698)	5,094
Remeasurement (losses)/gains of post-employment benefit obligations	**(22,477)**	**5,176**	**(17,301)**	20,834	(4,991)	15,843
Share of other comprehensive income of investments accounted for using the equity method	**195**	**–**	**195**	232	–	232
Currency translation differences	**235**	**–**	**235**	(2,273)	–	(2,273)
Other comprehensive (losses)/gains	**(7,721)**	**1,595**	**(6,126)**	25,585	(6,689)	18,896

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	
	2014	2013
Profit attributable to shareholders of the Company *(RMB'000)*	**2,874,823**	2,250,002
Weighted average number of ordinary shares in issue *('000)*	**2,585,178**	2,523,359
Basic earnings per share *(RMB per share)*	**1.11**	0.89

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	
	2014	2013
Accounts receivable	**62,566,132**	47,481,041
Notes receivable	**4,199,915**	4,868,152
	66,766,047	52,349,193
Less: Provision for impairment	**(667,814)**	(524,463)
Trade receivables – net	**66,098,233**	51,824,730

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	
	2014	2013
Below 3 months	**44,040,688**	36,426,895
3 to 6 months	**14,907,673**	11,536,284
6 months to 1 year	**7,379,806**	4,025,438
1 to 2 years	**342,139**	262,888
Over 2 years	**95,741**	97,688
	66,766,047	52,349,193

Certain trade receivables that are past due are considered not impaired, which 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	
	2014	2013
3 to 6 months	**14,428,712**	11,164,074
6 months to 1 year	**7,297,419**	3,977,514
1 to 2 years	**303,334**	222,186
Over 2 years	**28,080**	34,061
	22,057,545	15,397,835

As of 31 December 2014, trade receivables of approximately RMB667,814 thousands (2013: RMB524,463 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	
	2014	2013
3 to 6 months	**478,961**	372,210
6 months to 1 year	**82,387**	47,924
1 to 2 years	**38,805**	40,702
Over 2 years	**67,661**	63,627
	667,814	524,463

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

	Year ended 31 December	
	2014	2013
At 1 January	**524,463**	398,823
Provision for impairment *(Note 7)*	**167,884**	134,134
Receivables written off as uncollectible	**(23,609)**	(8,334)
Disposal of subsidiaries	**(924)**	(160)
At 31 December	**667,814**	524,463

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 2014, notes receivable of RMB632,686 thousands (2013: RMB377,627 thousands) and accounts receivable of RMB1,891,877 thousands (2013: RMB2,295,985 thousands) were pledged as collaterals for the Group's bank borrowings.

As at 31 December 2014, outstanding accounts receivable of RMB4,018,632 thousands (2013: RMB3,989,172 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 2014, the collection of such accounts receivable on behalf of banks as financing activities, amounted to RMB608,497 thousands (2013: RMB830,733 thousands) was recorded in other payables.

The maximum exposure to credit risk as at 31 December 2014 is the carrying value of each category of receivable mentioned above and other receivables.

13 TRADE PAYABLES

	As at 31 December	
	2014	2013
Accounts payable	**40,690,701**	33,863,118
Notes payable	**14,032,952**	10,324,993
	54,723,653	44,188,111

The fair value of trade payables approximates their carrying amounts.

The ageing analysis of trade payables is as follows:

	As at 31 December	
	2014	2013
Below 3 months	**45,562,575**	37,867,067
3 to 6 months	**6,240,695**	4,279,395
6 months to 1 year	**1,920,892**	1,378,044
1 to 2 years	**590,099**	401,810
Over 2 years	**409,392**	261,795
	54,723,653	44,188,111

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

	As at 31 December	
	2014	2013
RMB	**54,063,645**	42,380,197
USD	**653,645**	1,776,278
EUR	**6,363**	31,636
	54,723,653	44,188,111

The Group has accounts payable financing program with certain banks whereby the bank repaid accounts payables on behalf of the Group with an equivalent sum drawn as borrowings. Such draw down of borrowings is a non-cash transaction while repayment of the borrowings in cash is accounted for as financing cash outflows.

During the year ended 2014, accounts payable of RMB4,605,291 thousands (2013: RMB5,425,982 thousands) were repaid by the banks under this program with the equivalent amount drawn as borrowings. As at 31 December 2014 and 31 December 2013, all bank borrowings related to this program were repaid.

14 DIVIDENDS

The dividends paid by the Company in 2014 were approximately RMB667,756 thousands (RMB0.26 (tax inclusive) per ordinary share). A final dividend for the year ended 31 December 2014 of RMB0.31 (tax inclusive) per ordinary share, amounting to a total amount of approximately RMB857,799 thousands is to be proposed at the upcoming annual general meeting according to the resolution passed at the Board meeting held on 20 March 2015. This proposed dividend has not been reflected as liability on the consolidated balance sheet of the Group.

	Year ended 31 December	
	2014	2013
Proposed final dividend	**857,799**	667,756

15 BUSINESS COMBINATIONS

(a) Business combinations not under common control

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 %
Sinopharm Group Qiandongnan Pharmaceutical Co., Ltd.	January, 2014	70%
Sinopharm Holding Shantou Co., Ltd.	January, 2014	70%
Sinopharm Holding Chongqing Taimin Pharmaceutical Co., Ltd.	January, 2014	60%
Sinopharm Holding Rizhao Co., Ltd.	February, 2014	80%
Tianjin Bookcom Shengjia Drugstore Co., Ltd.	March, 2014	100%
Sinopharm Holding Biopharmaceutical (Tianjin) Co., Ltd.	March, 2014	70%
Sinopharm Bio-pharmaceutical Co., Ltd.	August, 2014	70%
Sichuan Pharmaceutical Group Co., Ltd. of CNPGC	September, 2014	66%

The effect of the above acquisitions is summarised as follows:

Purchase consideration	
– Contingent consideration *(ii)*	1,200
– Cash paid	615,270
Total purchase consideration	616,470

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	309,406	309,406
Property, plant and equipment	108,651	98,746
Intangible assets		
– sales network	275,590	–
– software and trademarks	602	602
Land use rights	80,790	44,249
Investment properties	169,809	10,096
Deferred income tax assets	5,439	5,439
Inventories	292,948	292,948
Investments accounted for using the equity method	19,522	19,522
Other non-current assets	23,878	23,878
Trade and other receivables *(i)*	1,788,999	1,788,999
Trade and other payables	(1,439,001)	(1,439,001)
Deferred income tax liabilities	(75,883)	–
Other non-current liabilities	(47,776)	(47,776)
Borrowings	(559,650)	(559,650)
Net assets	953,324	547,458
Non-controlling interests *(iii)*	(606,565)	
Goodwill	269,711	
	616,470	
Total purchase consideration	616,470	
Contingent consideration *(ii)*	(1,200)	
Consideration for acquisitions settled in cash	615,270	
Prepayments for the acquisition in 2013	(2,247)	
Cash consideration paid in 2014	613,023	
Cash and cash equivalents in subsidiaries acquired	(309,406)	
Cash outflow on acquisition	303,617	

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) Trade and other receivables

The fair value of trade and other receivables is RMB1,788,999 thousands and includes trade receivables with a fair value of RMB1,653,890 thousands. The gross contractual amount for trade receivables due is RMB1,671,582 thousands, of which RMB17,692 thousands is expected to be uncollectible.

(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 the profit targets of the acquirees. The maximum undiscounted contingent consideration payable is RMB1,200 thousands.

Based on the projected profit performance of the acquirees, the fair value of the contingent consideration arrangement was estimated to be RMB1,200 thousands. As at 31 December 2014, there was no adjustment to the contingent consideration arrangement.

(iii) Non-controlling interests

The Group has elected to recognise non-controlling interests measured at the non-controlling interests 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 2014 are summarised as follows:

	From acquisition date to 31 December 2014
Revenue	**2,552,687**
Net profit	**56,359**

(v) The revenue and net profit of these newly acquired subsidiaries from 1 January 2014 to 31 December 2014 are summarised as follows:

	From 1 January 2014 to 31 December 2014
Revenue	**5,845,313**
Net profit	**147,855**

(vi) The related acquisition cost is immaterial.

16 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 31 December 2014, the Group acquired 3 subsidiaries from Shanghai Fosun Pharmaceutical (Group) Co., Ltd., a non-controlling shareholder with significant influence to the Group, and the total considerations for these acquisitions amounted to RMB414,356 thousands. Subsequent to 31 December 2014, the Group acquired 1 subsidiary from a third party and the total consideration for the acquisition amounted to RMB141,418 thousands.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

In 2014, the China's economic development has entered into the new normal. Through comprehensive deepening of reforms and continuous adjustment of industry structure, China's economic growth changed from a high rate into a medium-high rate, and "enhancing quality and benefit of economic development" became the new developing idea. Facing the complex and rigorous economic environment both in China and abroad, the macro economy growth slowed down with the annual GDP growth rate dropping to 7.4% compared with the corresponding period of last year. The economy was still under a great downward pressure due to various interweaving contradictions arising from economic operation.

With the slowdown of the growth rate of China's economy, fading of industry policy dividend and deepening of new healthcare reforms, China's pharmaceutical industry has obviously "shifted gear" into a period of medium-high growth. However, for the long run, the adjustment of economic structure and the change of development model have promoted the traditional pharmaceutical industry to transform and upgrade itself to the more extensive "healthcare service industry", which is experiencing continuous expansion into a new economic growth point of the state in line with urbanization and aging process.

In 2014, China's healthcare system reform was continuously deepened by adhering to the basic principle of "maintaining basic coverage of medical insurance and healthcare services, enhancing primary healthcare services and establishing strong healthcare institutions", towards the direction of "better insurance, innovative services and regulated drugs" in respect of "medical insurance, medical services and medicine systems". New reform policies and consultation papers on more in-depth conflicts and mechanisms in the industry were introduced, guiding the "market" to play a more important role in rationalizing operation mechanisms, standardizing industry practices and strengthening the safeguarding of people's livelihood.

- In respect of medical insurance, the primary medical insurance system construction has proved highly effective with its scope and depth greatly improved and its primary target of "low cost, wide coverage" has been basically met. Nevertheless, a wider coverage means a wide payment pressure on insurance funds across the country, and therefore reforms of insurance payment systems were gradually placed on the agenda. Furthermore, the commercial health insurance will speed up its development in order to connect and complement primary medical insurance.

- In respect of medical services, the reform of public hospital was deepening. Focusing on supply and demand contradiction in the medical service industry, the government on one hand encouraged multi-site practice for doctors and transform themselves from "the institutional people" to "the social people", with a view to unlock core resources of medical services; and on the other hand facilitated participation of social capital to increase supply and improve efficiency of medical services. It also accelerated the reform of public hospitals at county level to improve primary healthcare services and classified treatment system.

- In respect of medicine systems, "marketization" has become the main direction of the drug price reform. While suppressing unreasonable high prices, the government ensured the supply of lower price drugs, deregulated prices, and made in-depth adjustment of insurance payment methods and tender policies, so as to facilitate the development of a normal market competition mechanism that is able to guide the market to rationalize drug prices.

In 2014, the pharmaceutical distribution industry saw a sustained rigid demand and recorded a stable yet slower growth rate in sales and profit. The benefits of industry structure adjustment have gradually surfaced with improved industry concentration ratio and distribution efficiency. However, the whole industry was still facing pressures and challenges from policies, payment collection and working capital.

China's pharmaceutical industry faces a complex policy environment and fierce competition structure at the moment. Deep level tensions and future uncertainties, ranging from drug tendering, medical insurance fee control, medical investment, medical e-commerce activities and anti-commercial bribery, manifest themselves in not only tough challenges but also transformative opportunities for upstream and downstream businesses. Meanwhile, a homogeneous market competition structure will force the pharmaceutical distribution industry into an era for comprehensive upgrading of comprehensive competitiveness. Innovation in business models based on modern pharmaceutical logistics and internet technology will further optimize the development mode of pharmaceutical distribution industry, and even lead to fundamental industry transformation. These external dynamics are constantly pushing the Group to strengthen research and analysis of industry trends, policy movements, our competitors and our own capacities, and to continuously explore new frontiers in strategic planning and execution. We believe that, only by further excavating corporate intrinsic value according to market development trends and constantly improving our talent strength, management level and technical capacity with innovative thinking, can we adapt to the future development trend.

Business Review

In 2014, faced with the complex market environment, the Group remained steadfast with the development theme of "Mixed ownership fuels growth, Efficiency creates value, Innovation wins the future" and recorded a milestone sales volume of over RMB200 billion. At the same time, the Group's development model initially shifted from a "scale-oriented" model to an "efficiency-oriented" model, which improved development quality, deepened platform and resources integration and unleashed the effects of economic scale, resulting in a substantially faster growth rate in profit than in sales. The Group also proactively pursued new development opportunities and pushed forward business innovations, and led the industry development, so as to enhance its corporate value.

In respect of pharmaceuticals distribution, the Group has established an integrated pharmaceutical supply chain with an advanced supply chain management model, adjusted its product structure steadily, continuously optimized its customer structure as well as expanded and consolidated its nation-wide distribution networks, further focused on penetration at lower tier cities, with a view to deeply excavating value of network at lower tier levels. As at 31 December 2014, the distribution network under the Group has covered 31 provinces, municipalities and autonomous regions across China. The Group's direct customers includes 12,264 hospitals (only referring to nationally-ranked hospitals, including 1,718 largest class-three hospitals with the highest rankings), 94,616 primary healthcare institutions, 61,761 retail pharmacies and 7,796 other customers (such as pharmaceutical distributors).

The Group continued its endeavors to establish a centralized procurement system at both state and provincial levels, as well as further promoted integrated operation. Meanwhile, the Group continued to strengthen the establishment of the integrated logistic platform in China. It has established a nation-wide pharmaceutical distribution network containing 4 logistic hubs, 42 provincial logistic centers, 149 municipal level logistic stations, 21 pharmaceutical retail logistic stations with a sum of 216 logistic stations. The Group accelerated the establishment of cloud-based servicing platform of smart supply chain, aiming to provide safe, accessible, visible, and efficient logistic services. It also promoted the network operation on multiple-warehouses and temperature-controlled transportation. It strived to establish a professional distribution logistic network and delivery logistic network based on a two-and-a-half tiers network comprised of logistic centers, delivery centers and delivery stations, enabling in-depth coverage of the pharmaceutical logistic network across China. In order to promote the national establishment of standardized systems in four dimensions namely logistic technology, management, service and operation, the Group has established the Sinopharm Logistic Standard and Technology Management Committee, which has published more than 50 logistic standards in total to build a regulated, centralized and standardized logistic service brand of Sinopharm.

In respect of retail pharmacy, aiming to establish an integrated wholesale-retail pharmaceutical distribution format, the Group has positively promoted retail development and reinforced its leading position. The Group has set up a network of retail chain pharmacies that are either directly operated by the Group or through franchises in major cities throughout China. As at 31 December 2014, Sinopharm Holding Guoda Drugstores Co., Ltd. ("**Guoda Drugstores**") owned 2,096 retail pharmacies, among which 1,747 were directly operated by the Group and 349 were operated by franchisees, and ranked No. 1 in the industry by sales. Other subsidiaries of the Group in the distribution business owned 264 retail pharmacies. Under the strategy to focus on the development of retail business, Guoda Drugstores further expanded the Company's retail network by entering into an agreement in respect of acquiring Shanghai For Me Yixing Pharmacy Chain-Store Company Limited and Beijing Golden Elephant Pharmacy Medicine Chain Company Limited in December 2014, which owned 634 pharmacies as at 31 December 2014.

In 2014, upholding the development strategy of "focusing on core business and innovation while diversifying related business", the Group vigorously promoted marketing transformation by leveraging the advantages of its distribution platforms, and further explored innovative marketing service models through Betaloc pilot projects. The Group promoted the integration of its traditional business with internet thinking to keep up with the internet trend through consolidating For Me Pharmacy's daoyao.com and setting up a connection and communication platform. The Group developed supply chain finance service and financing lease business to incorporate the new thinking of "industry-finance integration" into the Company's new transformation ideal, so as to strengthen its supply chain competitiveness. Furthermore, the Company sought to steadily develop O2O pharmaceutical business, apply the Internet of Things in its supply chain outsourcing service solutions for hospitals and gradually develop innovative business such as PBM. Besides, the Group further enhanced the profitability of its pharmaceutical manufacturing segment and expanded the network of its medical equipment business through platforms of the Company, as well as made the first step in investing in the healthcare service sector.

Future Plan

Throughout changes in the policy environment and competition pattern of the pharmaceutical market in China, and given that mergers and acquisitions are accelerating and the industry concentration ratio is rising, the theme for competitive development of the pharmaceutical distributors in the future will be concentrated on, among others, scale, platforms, efficiency, services, innovation and brand.

Against this environment, the Group will continuously adhere to its guiding principle of "System Innovation, Efficiency Enhancement and Steady Development", strengthen its major business of distribution, and vigorously develop its retail business and a diverse business format. The Group will improve management efficiency, network value excavation and operational quality, develop innovative business models and internationalized strategies, strengthen market value management, promote comprehensive innovation with a focus on internet development, as well as enhance compliance operation, so as to achieve a healthy and sustainable development. The Group will accelerate the transformation from traditional distribution to modern service through intensive operation and integrated service. It will provide a more comprehensive product variety, wider business coverage and more professional services so as to provide a solid foundation for the establishment of the largest pharmaceutical healthcare service platform.

Looking forward, the management has confidence in grasping the opportunity of in-depth promotion of the mixed ownership reform and leading the Group to evolve into a pharmaceutical and healthcare service provider with international competitiveness by enhancing efficiency and effectiveness, promoting "innovative transformation and value creation" as to keep abreast of the new normal, create new value and leap from outstanding to excellent.

Financial Summary

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

During the Reporting Period, the Group recorded a revenue of RMB200,131.26 million, representing an increase of RMB33,265.11 million or 19.94% as compared with the corresponding period of last year, of which revenue from the distribution business was RMB191,467.90 million, representing an increase of RMB32,495.38 million or 20.44% as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded a net profit of RMB4,551.57 million, representing an increase of RMB971.86 million or 27.15% as compared with the corresponding period of last year. Profit attributable to equity holders of the Company was RMB2,874.82 million, representing an increase of RMB624.82 million or 27.77% as compared with the corresponding period of last year.

During the Reporting Period, earnings per share of the Company was RMB1.11, representing an increase of 24.72% as compared with the corresponding period of last year.

Revenue

During the Reporting Period, the Group recorded a revenue of RMB200,131.26 million, representing an increase of 19.94% as compared with RMB166,866.15 million for the twelve months ended 31 December 2013, which was primarily due to the increase in revenue from the Group's pharmaceutical distribution and retail pharmacy business. The Group's revenue grows faster than the average level of development of pharmaceutical market in China.

- Pharmaceutical Distribution: During the Reporting Period, the revenue from pharmaceutical distribution of the Group was RMB191,467.90 million, representing an increase of 20.44% as compared with RMB158,972.52 million for the twelve months ended 31 December 2013, which accounted for 94.87% of the total revenue of the Group. Such increase was primarily due to a remarkable growth in the pharmaceutical distribution business and the further expansion of the pharmaceutical distribution network of the Group.

- Retail Pharmacy: During the Reporting Period, the revenue from retail pharmacy of the Group was RMB5,904.16 million, representing an increase of 22.16% as compared with RMB4,833.15 million for the twelve months ended 31 December 2013. The increase was primarily due to the business growth of the Group's existing pharmacies and the expansion of retail pharmacy network.

- Other Business: During the Reporting Period, revenue from other business of the Group was RMB4,451.62 million, representing a decrease of 0.98% as compared with RMB4,495.51 million for the twelve months ended 31 December 2013.

Cost of Sales

During the Reporting Period, the cost of sales of the Group was RMB183,803.04 million, representing an increase of 19.75% as compared with RMB153,487.63 million for the twelve months ended 31 December 2013. The increase was primarily due to the increase in the sales revenue of the Group.

Gross Profit

As a result of the above-mentioned factors, the gross profit of the Group during the Reporting Period was RMB16,328.22 million, representing an increase of 22.05% as compared with RMB13,378.52 million for the twelve months ended 31 December 2013. The gross profit margin of the Group for the twelve months ended 31 December 2013 and 2014 were 8.02% and 8.16%, respectively.

Other Income

During the Reporting Period, other income of the Group was RMB204.02 million, representing a decrease of 29.39% as compared with RMB288.94 million for the twelve months ended 31 December 2013. The decrease was primarily due to the decrease in subsidies obtained by the Group from the central and local governments.

Distribution and Selling Expenses

During the Reporting Period, the distribution and selling expenses of the Group were RMB5,122.85 million, representing an increase of 14.51% as compared with RMB4,473.77 million for the twelve months ended 31 December 2013. The increase in distribution and selling expenses was primarily attributable to the enlarged operation scale of the Group, business development and the expansion of distribution network through new set-ups and acquisitions of companies and businesses, etc.

General and Administrative Expenses

During the Reporting Period, the general and administrative expenses of the Group were RMB3,547.47 million, representing an increase of 14.74% as compared with RMB3,091.76 million for the twelve months ended 31 December 2013. 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 of the Group.

In 2014, the proportion of the Group's general and administrative expenses to the total revenue of the Group decreased to 1.77% from 1.85% for the twelve months ended 31 December 2013, which reflected the implementation of cost control measures and the economies of scale of the Group.

Operating Profit

As a result of the above-mentioned factors, the operating profit of the Group during the Reporting Period was RMB7,861.92 million, representing an increase of 28.84% from RMB6,101.92 million for the twelve months ended 31 December 2013.

Other Gains – Net

The other net gains of the Group less other losses decreased from RMB40.20 million for the twelve months ended 31 December 2013 to RMB38.73 million for the Reporting Period. The decrease was primarily due to the decrease of the income from disposal of land use rights and property by the Group.

Finance Costs – Net

During the Reporting Period, the finance costs of the Group was RMB2,128.69 million, representing an increase of 28.21% as compared with RMB1,660.37 million for the twelve months ended 31 December 2013. The increase was primarily due to the increase in financing scale brought about by the business growth of the Group.

Share of Results of Associates

During the Reporting Period, the Group's share of results of associates was RMB162.64 million, representing an increase of 17.21% as compared with RMB138.76 million for the twelve months ended 31 December 2013.

Income Tax Expenses

During the Reporting Period, the Group's income tax expenses were RMB1,383.03 million, representing an increase of RMB342.24 million as compared with RMB1,040.79 million for the twelve months ended 31 December 2013. The increase was primarily due to the increase in profits of the Group, which led to a corresponding increase in income tax expenses. The Group's effective income tax rate increased to 23.30% during the Reporting Period from 22.53% for the twelve months ended 31 December 2013.

Profit for the Year

As a result of the above-mentioned factors, the profit of the Group for the year of 2014 was RMB4,551.57 million, representing an increase of 27.15% as compared with RMB3,579.71 million for the twelve months ended 31 December 2013. The profit margin of the Group for the twelve months ended 31 December 2013 and 2014 were 2.15% and 2.27%, respectively.

Profit Attributable to Shareholders of the Company

During the Reporting Period, profit or net profit attributable to shareholders of the Company was RMB2,874.82 million, representing an increase of 27.77% or RMB624.82 million from RMB2,250.00 million for the twelve months ended 31 December 2013. The Group's net profit margin for the Reporting Period and the corresponding period of 2013 were 1.44% and 1.35%, respectively.

Profit Attributable to Non-controlling Interests

Profit attributable to non-controlling interests for the Reporting Period was RMB1,676.75 million, representing an increase of RMB347.04 million from RMB1,329.71 million for the twelve months ended 31 December 2013.

Liquidity and Capital Resources

Working capital

During the Reporting Period, the Group had commercial banking facilities of RMB78,878 million, of which approximately RMB45,814 million were not yet utilized. Cash and cash equivalents of RMB15,232.36 million primarily comprise 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 expansion of 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 2013 and 2014, respectively:

	2014 ***RMB million***	2013 *RMB million*
Net cash generated from operating activities	**5,560.84**	4,941.29
Net cash used in investing activities	**(4,357.57)**	(4,066.37)
Net cash generated from financing activities	**22.03**	3,408.73
Net increase in cash and cash equivalents	**1,225.30**	4,283.65
Cash and cash equivalents at the beginning of the year	**14,001.96**	9,801.50
Exchange gains and losses	**5.10**	(83.19)
Cash and cash equivalents at the end of the year	**15,232.36**	14,001.96

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 segments. During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB5,560.84 million, representing an increase of RMB619.55 million from RMB4,941.29 million for the twelve months ended 31 December 2013. The increase was primarily attributed to the enhancement of the management and control of collections and payments of trade receivables in the Group's business operation.

Net cash used in investing activities

During the Reporting Period, the net cash used in investment activities of the Group was RMB4,357.57 million, representing an increase of RMB291.20 million as compared with RMB4,066.37 million for the twelve months ended 31 December 2013.

Net cash generated from financing activities

During the Reporting Period, the net cash generated from financing activities of the Group was RMB22.03 million, which was primarily attributable to the receipt of equity financing funds and the repayment of due debts. The net cash generated from financing activities of the Group for the twelve months ended 31 December 2013 was RMB3,408.73 million.

Capital Expenditure

The Group's capital expenditures are primarily utilized for the development and expansion of distribution channels, the upgrading of its logistic delivery systems and the improving of the level of informatization. The Group's capital expenditures amounted to RMB2,013.17 million and RMB2,904.17 million for the year ended 31 December 2013 and 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 in future is subject to a variety of factors, including its future operational results, financial condition and cash flows, economic, political and other conditions in PRC and Hong Kong, and the PRC Government's policies relating to foreign currency borrowings, etc.

Capital Structure

Fiscal resources

During the reporting period, the Group made certain improvement and adjustments to its capital structure, so as to relieve fiscal risks and reduce finance costs. The proceeds received by the Group from the placing of H shares of the Company amounted to approximately RMB4,400 million in the form of cash denominated in Hong Kong dollars ("**HKD**"). Through issuance of the super short-term commercial paper, the Group obtained approximately RMB6,000 million for the purpose of replenishing working capital, facilitating the adjustment of the debt structure of the Group and reducing financing costs.

The Group's borrowings are mainly denominated in RMB. There are certain loans denominated in United States Dollars ("**USD**") for settlement of payments for import of drugs. The Group's interest-bearing borrowings are determined at fixed rates.

As at 31 December 2014, the cash and cash equivalents of the Group were mainly denominated in RMB, with certain amount denominated in HKD and small amount denominated in USD and Euro ("**EUR**").

Indebtedness

As at 31 December 2014, the Group had aggregate banking facilities of RMB78,878 million, of which RMB45,814 million were not utilized and are available to be drawn down. Such banking facilities are primarily short-term loans for working capital. Among the Group's total borrowings as at 31 December 2014, RMB25,232.85 million will be due within one year and RMB4,222.60 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

As at 31 December 2014, the Group's gearing ratio was 71.79% (31 December 2013: 72.87%), which was calculated based on the net liabilities divided by the aggregate of its total equity and net liabilities as at 31 December 2014.

Foreign Exchange Risks

The Group's operations are mainly located in the PRC and most of its transactions are denominated and settled in RMB. However, the Group is exposed to foreign exchange risks on certain cash and cash equivalents, borrowings from banks and other financial institutions and trade payables denominated in foreign currencies, the majority of which are USD, HKD and EUR. During the Reporting Period, the Group has no corresponding hedging arrangements.

Pledge of Assets

As at 31 December 2014, part of the Group's bank borrowings was secured by land use rights with book value of RMB46.28 million, investment properties with book value of RMB21.26 million, properties, plant and equipment with book value of RMB79.76 million and trade receivables with book value of RMB2,524.56 million.

Major Acquisitions and Disposals

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

Major Investment

During the Reporting Period, the Group had no major investment.

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 2014, the Group neither had any material contingent liability, nor had any material litigation.

Human Resources

As at 31 December 2014, the Group had a total of 50,099 employees. In order to meet the development needs and support and promote the realization of its strategic objectives, the Group has integrated existing human resources, made innovations in management model and optimized management mechanism in accordance with the requirements of specialized operation and integrated management, so as to actively advance the organizational reform and accelerate the cultivation and recruitment of 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.

DIVIDENDS

Relevant resolution was passed at a meeting of the Board held on 20 March 2015 to propose to distribute a final dividend of RMB0.31 per share (tax inclusive) for the year ended 31 December 2014 (the "**Final Dividend**"), totalling approximately RMB857,799 thousands. The proposal in relation to the profit distribution will be submitted to the 2014 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 2014 annual general meeting of the Company 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 has established effective administrative entities in the PRC pursuant to the laws of foreign countries (regions) and whose name appears on the register of the 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 issuing law firm affixed thereon) and relevant documents to Computershare Hong Kong Investor Services Limited in due course, 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 by the Company from the Final Dividend payable to any individual holders of H shares whose names appear on the register of members of H shares of the Company on 29 June 2015, unless otherwise stated in the relevant taxation regulations, taxation agreements or the Notice.

The Company will have no liability in respect of any claims 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 currently consists of five Directors: including three independent non-executive Directors being Mr. Lyu Changjiang, Mr. Tan Wee Seng, and Mr. Liu Zhengdong and two non-executive Directors being Mr. Deng Jindong and Mr. Li Dongjiu. Mr. Lyu Changjiang currently serves as the chairman of the audit committee. The primary responsibilities of the Company's audit committee are to inspect, review and supervise the Company's financial information and reporting process for financial information. The audit committee has reviewed the audited annual results of the Group for the year ended 31 December 2014.

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 2014 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 2014. 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. During the Reporting Period, the Company had complied with the code provisions as 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 has adopted the "Model Code" as the code of practice for directors and supervisors in respect of their tradings in the listed securities of the Company. 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 2014 annual report of the Company will be duly dispatched to the shareholders of the Company, and published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.sinopharmgroup.com.cn).

By order of the Board of
Sinopharm Group Co. Ltd.
Wei Yulin
Chairman

Shanghai, the PRC
20 March 2015

As at the date of this announcement, the executive directors of the Company are Mr. Wei Yulin and Mr. Li Zhiming; the non-executive directors of the Company are Mr. Chen Qi Yu, Mr. She Lulin, Mr. Wang Qunbin, Mr. Li Yuhua, Mr. Zhou Bin, Mr. Deng Jindong, Mr. Li Dongjiu and Mr. Liu Hailiang; and the independent non-executive directors of the Company are Ms. Li Ling, Mr. Yu Tze Shan Hailson, Mr. Lyu Changjiang, Mr. Tan Wee Seng and Mr. Liu Zhengdong.

* *The Company is registered as a non-Hong Kong company under the Hong Kong Companies Ordinance under its Chinese name and the English name "Sinopharm Group Co. Ltd."*