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上海復星醫藥（集團）股份有限公司

Shanghai Fosun Pharmaceutical (Group) Co., Ltd.*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 02196)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016**

The board (the “**Board**”) of directors (the “**Directors**”) of Shanghai Fosun Pharmaceutical (Group) Co., Ltd.* (the “**Company**”) is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2016 (the “**Reporting Period**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

		2016	2015
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
REVENUE	3	14,505,584	12,502,163
Cost of sales		<u>(6,718,364)</u>	<u>(6,308,041)</u>
Gross profit		7,787,220	6,194,122
Other income	4	261,753	170,822
Selling and distribution expenses		(3,704,056)	(2,815,141)
Administrative expenses		(1,626,415)	(1,235,486)
Research and development expenses		(714,749)	(670,036)
Other gains	6	753,431	1,174,531
Other expenses		(121,171)	(140,682)
Interest income		80,899	56,246
Finance costs	7	(488,171)	(470,011)
Share of profits and losses of:			
Joint ventures		1,127	(11,049)
Associates		<u>1,341,681</u>	<u>1,118,516</u>
PROFIT BEFORE TAX	5	3,571,549	3,371,832
Income tax expense	8	<u>(350,207)</u>	<u>(501,171)</u>
PROFIT FOR THE YEAR		<u>3,221,342</u>	<u>2,870,661</u>
Attributable to:			
Owners of the parent		2,805,837	2,460,094
Non-controlling interests		<u>415,505</u>	<u>410,567</u>
		<u>3,221,342</u>	<u>2,870,661</u>
Earnings per share attributable to ordinary equity holders of the parent:			
Basic	10	<u>RMB1.21</u>	<u>RMB1.07</u>
Diluted		<u>RMB1.20</u>	<u>RMB1.06</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
PROFIT FOR THE YEAR	<u>3,221,342</u>	<u>2,870,661</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	100,700	962,095
Reclassification adjustments for gains included in the consolidated statement of profit or loss		
— Gain on disposal	(313,969)	(1,002,245)
Income tax effect	<u>68,774</u>	<u>62,866</u>
	(144,495)	22,716
Exchange differences on translation of foreign operations	(42,334)	(31,599)
Share of other comprehensive income/(loss) of associates	<u>114,689</u>	<u>(184,364)</u>
Other comprehensive income not being reclassified to profit or loss in subsequent periods:	<u>—</u>	<u>—</u>
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	<u>(72,140)</u>	<u>(193,247)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>3,149,202</u>	<u>2,677,414</u>
Attributable to:		
Owners of the parent	2,716,707	2,258,473
Non-controlling interests	<u>432,495</u>	<u>418,941</u>
	<u>3,149,202</u>	<u>2,677,414</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

		31 December 2016	31 December 2015
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		6,325,479	5,777,567
Prepaid land lease payments		1,030,485	1,041,705
Goodwill		3,473,110	3,303,379
Other intangible assets		2,620,078	2,204,086
Investments in joint ventures		248,421	225,285
Investments in associates		15,870,262	13,637,584
Available-for-sale investments		2,674,436	3,314,452
Deferred tax assets		129,551	102,477
Other non-current assets		<u>574,771</u>	<u>212,927</u>
Total non-current assets		<u>32,946,593</u>	<u>29,819,462</u>
CURRENT ASSETS			
Inventories		1,670,738	1,648,773
Trade and bills receivables	<i>11</i>	2,389,862	2,146,570
Prepayments, deposits and other receivables		659,188	399,719
Equity investments at fair value through profit or loss		48,489	33,751
Available-for-sale investments		—	67,928
Cash and bank balances		<u>5,996,030</u>	<u>4,028,637</u>
Total current assets		<u>10,764,307</u>	<u>8,325,378</u>

		31 December 2016 RMB'000	31 December 2015 RMB'000
	<i>Notes</i>		
CURRENT LIABILITIES			
Trade and bills payables	12	1,149,379	1,048,650
Other payables and accruals		2,504,278	2,155,959
Interest-bearing bank and other borrowings		6,139,393	7,323,428
Tax payable		315,503	411,163
Total current liabilities		10,108,553	10,939,200
NET CURRENT ASSETS/ (LIABILITIES)			
		655,754	(2,613,822)
TOTAL ASSETS LESS CURRENT LIABILITIES			
		33,602,347	27,205,640
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		5,570,958	3,571,526
Deferred tax liabilities		1,786,427	1,844,762
Deferred income		346,706	169,318
Other long-term liabilities		704,817	1,007,272
Total non-current liabilities		8,408,908	6,592,878
Net assets		25,193,439	20,612,762
EQUITY			
Equity attributable to owners of the parent			
Share capital		2,414,512	2,314,075
Treasury shares		(26,819)	(43,494)
Reserves		19,745,636	15,854,102
		22,133,329	18,124,683
Non-controlling interests		3,060,110	2,488,079
Total equity		25,193,439	20,612,762

1.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirement of Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain equity investments, which have been measured at fair value. Disposal groups and non-current assets held for sale are stated at the lower of their carrying amounts and fair values less costs to sell. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and Liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
HKFRS 14	<i>Regulatory Deferral Accounts</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
Annual Improvements 2012–2014 Cycle	<i>Amendments to a number of HKFRSs</i>

Other than as explained below regarding the impact of (state the applicable standards), the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

- (a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:
- (i) the materiality requirements in HKAS 1;
 - (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
 - (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
 - (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

- (b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.
- (c) Annual Improvements to HKFRSs 2012–2014 Cycle issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:

HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

1.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions²</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts²</i>
HKFRS 9	<i>Financial Instruments²</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
HKFRS 15	<i>Revenue from Contracts with Customers²</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers²</i>
HKFRS 16	<i>Leases³</i>
Amendments to HKAS 7	<i>Disclosure Initiative¹</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses¹</i>

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

⁴ No mandatory effective date yet determined but is available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is performing a high-level assessment of the impact of the adoption of HKFRS 9.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the

implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

HKFRS 16 replaces HKAS17 Lease, HKFRIC-Int 4 Determining whether an Agreement contains a lease, SIC-Int 15 Operating lease-Incentive and SIC-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt HKAS 7 from 1 January 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has five reportable operating segments as follows:

- (a) the pharmaceutical manufacturing and R&D segment mainly engages in the production, sale and research of medicine;
- (b) the pharmaceutical distribution and retail segment mainly engages in the retail and wholesale of medicine;
- (c) the medical devices and medical diagnosis segment mainly engages in the production and sale of medical equipment and diagnostic products;
- (d) the healthcare service mainly engages in the provision of healthcare service and hospital management; and
- (e) the other business operations segment comprises businesses other than those mentioned above.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss after tax. The adjusted profit or loss after tax is measured consistently with the Group's profit or loss after tax except that finance costs, dividend income from available-for-sale investments, gain or loss on disposal of available-for-sale investments, fair value gain or loss from equity investments at fair value through profit or loss, impairment of available-for-sale investments as well as head office and corporate income and expenses are excluded from such measurement.

Intersegment revenues are eliminated on consolidation. Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Segment assets exclude equity investments at fair value through profit or loss, available-for-sale investments and unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, interest payable and unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Year ended 31 December 2016

	Pharmaceutical manufacturing and R&D RMB'000	Healthcare Service RMB'000	Medical devices and medical diagnosis RMB'000	Pharmaceutical distribution and retail RMB'000	Other business operations RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue:							
Sales to external customers	10,150,184	1,675,637	2,653,143	—	26,620	—	14,505,584
Intersegment sales	25,787	—	—	—	48,549	(74,336)	—
Total revenue	10,175,971	1,675,637	2,653,143	—	75,169	(74,336)	14,505,584
Segment results*	1,580,181	231,079	435,411	—	25,099	(52,159)	2,219,611
Other income	145,571	1,603	14,900	—	112	—	162,186
Other gains	143,041	1,100	3,303	—	—	—	147,444
Interest income	5,715	6,988	11,922	—	428	—	25,053
Finance cost	(68,365)	(5,426)	(33,005)	—	(10,580)	49,992	(67,384)
Other expenses	(45,010)	(23,187)	(25,151)	—	(34)	—	(93,382)
Share of profits and losses of:							
Joint ventures	(2,414)	644	—	—	2,897	—	1,127
Associates	174,190	(631)	(18,314)	1,284,297	(97,861)	—	1,341,681
Unallocated other income, interest income and other gains							761,400
Unallocated finance cost							(420,787)
Unallocated expenses							(505,400)
Profit before tax	1,932,909	212,170	389,066	1,284,297	(79,939)	(2,167)	3,571,549
Tax	(292,771)	(63,283)	(66,200)	—	(17)	—	(422,271)
Unallocated tax							72,064
Profit for the year	1,640,138	148,887	322,866	1,284,297	(79,956)	(2,167)	3,221,342
Segment assets	16,335,986	6,202,740	4,825,602	9,524,975	3,131,930	(393,905)	39,627,328
Including:							
Investments in joint ventures	27,003	200,643	9,338	—	11,437	—	248,421
Investments in associates	1,922,234	2,162,417	457,370	9,486,598	1,841,643	—	15,870,262
Unallocated assets							4,083,572
Total assets							43,710,900
Segment liabilities	7,519,813	1,050,804	1,436,310	—	1,105,114	(5,847,423)	5,264,618
Unallocated liabilities							13,252,843
Total liabilities							18,517,461
Other segment information:							
Depreciation and amortisation	549,910	85,100	80,568	—	23,656	—	739,234
Provision for impairment of inventories	27,105	—	8,820	—	—	—	35,925
Provision for impairment of trade and other receivables	451	30,210	9,144	—	—	—	39,805
Provision for impairment of property, plant and equipment	3,616	—	—	—	—	—	3,616
Capital expenditure**	1,401,063	69,947	79,103	—	37,665	—	1,587,778

* Segment results are obtained as segment revenue less costs of sales, selling and distribution expenses and administrative expenses and research and development expenses.

** Capital expenditure consists of additions to property, plant and equipment, other intangible assets and prepaid land lease payments (not including the addition from acquisition of subsidiaries).

Year ended 31 December 2015

	Pharmaceutical manufacturing and R&D RMB'000	Healthcare Service RMB'000	Medical devices and medical diagnosis RMB'000	Pharmaceutical distribution and retail RMB'000	Other business operations RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue:							
Sales to external customers	8,842,663	1,377,350	2,244,371	—	37,779	—	12,502,163
Intersegment sales	41,243	—	—	—	38,476	(79,719)	—
Total revenue	8,883,906	1,377,350	2,244,371	—	76,255	(79,719)	12,502,163
Segment results*	1,270,328	202,769	383,723	—	32,454	(64,822)	1,824,452
Other income	67,695	1,720	10,882	—	—	—	80,297
Other gains	63,756	1,003	—	—	58,907	(2,450)	121,216
Interest income	19,521	6,239	7,223	—	687	(1,642)	32,028
Finance Cost	(107,171)	(7,679)	(35,688)	—	(11,130)	84,538	(77,130)
Other expenses	(18,244)	(12,943)	(44,649)	—	(54)	2,450	(73,440)
Share of profits and losses of:							
Joint ventures	(4,011)	(6,686)	—	—	(352)	—	(11,049)
Associates	147,172	(55,013)	(2,225)	1,036,958	(8,376)	—	1,118,516
Unallocated other income, interest income and other gains							1,168,058
Unallocated finance cost							(392,881)
Unallocated expenses							(418,235)
Profit before tax	1,439,046	129,410	319,266	1,036,958	72,136	18,074	3,371,832
Tax	(201,200)	(53,473)	(46,826)	—	(14,732)	—	(316,231)
Unallocated tax							(184,940)
Profit for the year	1,237,846	75,937	272,440	1,036,958	57,404	18,074	2,870,661
Segment assets:	14,336,441	4,850,967	4,266,743	9,059,851	1,478,786	(148,466)	33,844,322
Including:							
Investments in joint ventures	16,916	200,000	—	—	8,369	—	225,285
Investments in associates	1,579,615	1,923,387	355,500	9,059,851	719,231	—	13,637,584
Unallocated assets							4,300,518
Total assets							38,144,840
Segment liabilities	7,138,640	736,517	1,359,640	—	104,738	(4,886,973)	4,452,562
Unallocated liabilities							13,079,516
Total liabilities							17,532,078
Other segment information:							
Depreciation and amortisation	508,912	52,875	75,127	—	20,397	—	657,311
Provision for impairment of inventories	7,875	—	10,884	—	—	—	18,759
Provision for impairment of trade and other receivables	1,676	34,094	15,903	—	—	—	51,673
Provision for impairment of property, plant and equipment	23	—	—	—	—	—	23
Capital expenditure**	932,632	244,176	49,965	—	83,982	—	1,310,755

* Segment results are obtained as segment revenue less costs of sales, selling and distribution expenses, and administrative expenses and research and development expenses.

** Capital expenditure consists of additions to property, plant and equipment, other intangible assets and prepaid land lease payments (not including the addition from acquisition of subsidiaries).

Geographical information

(a) Revenue from external customers

	2016 RMB'000	2015 RMB'000
Mainland China	12,383,237	10,809,318
Overseas countries and regions	<u>2,122,347</u>	<u>1,692,845</u>
	<u>14,505,584</u>	<u>12,502,163</u>

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2016 RMB'000	2015 RMB'000
Mainland China	27,484,674	23,845,874
Overseas countries and regions	<u>2,657,932</u>	<u>2,556,659</u>
	<u>30,142,606</u>	<u>26,402,533</u>

The non-current asset information above is based on the locations of the assets and excludes available-for-sale investments and deferred tax assets.

Information about major customers

No revenue amounting to 10% or more of the Group's total revenue was derived from sales to a single customer for the years ended 31 December 2016 and 2015.

3. REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered.

An analysis of the Group's revenue is as follows:

	2016 RMB'000	2015 RMB'000
Sale of goods	12,550,232	10,897,898
Rendering of services	1,953,221	1,592,053
Sale of materials	<u>2,131</u>	<u>12,212</u>
	<u>14,505,584</u>	<u>12,502,163</u>

4. OTHER INCOME

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Dividend income from available-for-sale investments	86,062	78,790
Government grants	<u>175,691</u>	<u>92,032</u>
	<u>261,753</u>	<u>170,822</u>

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Cost of inventories sold	5,509,031	5,530,418
Cost of services provided	1,209,333	777,623
Staff costs (including Directors', Supervisors' and Chief Executive's remuneration)		
Salaries and other staff costs	2,037,455	1,870,720
Retirement benefits:		
Defined contribution fund	168,657	148,055
Accommodation benefits:		
Defined contribution fund	77,873	65,375
Share-based payment expense	<u>37,118</u>	<u>9,654</u>
	<u>2,321,103</u>	<u>2,093,804</u>
Research and development costs:		
Current year expenditure excluding amortisation of other intangible assets	666,375	621,662
Less: Government grants for R&D projects*	<u>(33,755)</u>	<u>(24,965)</u>
	<u>632,620</u>	<u>596,697</u>

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Auditors' remuneration	4,350	4,250
Operating lease payments	56,756	36,067
Depreciation of items of property, plant and equipment	606,891	535,087
Amortisation of prepaid land lease payments	21,109	20,128
Amortisation of other intangible assets	111,234	102,096
Provision for impairment of property, plant and equipment	3,616	23
Provision for impairment of inventories	35,925	18,759
Provision for impairment of trade and other receivables	39,805	51,673
Fair value (gain)/loss on equity investments at fair value through profit or loss	(12,301)	2,218
Foreign exchange gain, net	(29,841)	(3,156)
Loss/(gain) on disposal of items of property, plant and equipment and other intangible assets	5,074	(2,874)
Donations	<u>7,971</u>	<u>8,473</u>

- * The Group received various government grants related to research and development projects. The government grants received have been deducted from the research and development costs to which they relate. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the consolidated statement of financial position. There are no unfulfilled conditions or contingencies relating to these grants.

6. OTHER GAINS

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Gain on disposal of interests in associates and joint ventures	76,663	100,056
Gain on disposal of available-for-sale investments	617,706	1,006,527
Gain on disposal of subsidiaries	2,162	53,783
Foreign exchange gain, net	29,841	3,156
Others	<u>27,059</u>	<u>11,009</u>
	<u><u>753,431</u></u>	<u><u>1,174,531</u></u>

7. FINANCE COSTS

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Interest on bank and other borrowings	<u>491,341</u>	<u>475,771</u>
Less: Interest capitalised	<u>(3,170)</u>	<u>(5,760)</u>
Interest expenses, net	<u><u>488,171</u></u>	<u><u>470,011</u></u>

8. INCOME TAX

The provision for Mainland China current income tax is based on a statutory rate of 25% of the assessable profits of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in Mainland China, which are taxed at preferential rates of 0% to 20%.

Taxes on profits assessable elsewhere have been calculated at the tax rates prevailing in the jurisdictions in which the Group operates. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. The provision of current income tax of Alma Lasers Ltd., a subsidiary of the Company incorporated in Israel, is based on a preferential rate of 16%.

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Current	385,234	528,638
Deferred	<u>(35,027)</u>	<u>(27,467)</u>
Total tax charge for the year	<u><u>350,207</u></u>	<u><u>501,171</u></u>

9. DIVIDENDS

Cash dividend

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Proposed final — RMB0.35 (2015: RMB0.32) per ordinary share	<u><u>845,066</u></u>	<u><u>740,504</u></u>

The Company proposed to distribute a cash dividend of RMB0.35 (inclusive of tax) for each ordinary share to all shareholders. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and the final dividend amount will be determined by the number of the ordinary shares on the dividend payment date.

The amount of the proposed final dividend of RMB845,066,000 is calculated based on the total number of ordinary shares of the Company of 2,414,474,545 shares on 28 March 2017.

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent excluding cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future as of the balance sheet date and the weighted average number of ordinary shares of 2,327,341,402 (2015: 2,308,796,824) in issue excluding restricted shares during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

When calculating the weighted average number of shares in the calculation of the diluted earnings per share amounts, the dilutive potential ordinary shares which were issued in prior years are assumed to be converted at the beginning of the year and the dilutive potential ordinary shares which were issued during the year are assumed to be converted at the issuance date.

The calculation of basic and diluted earnings per share is based on:

	2016	2015
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	2,805,837	2,460,094
Less: Cash dividends attributable to the shareholders restricted shares expected to be unlocked in the future	<u>(985)</u>	<u>(695)</u>
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	<u>2,804,852</u>	<u>2,459,399</u>
	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	2,327,341,402	2,308,796,824
Effect of dilution — weighted average number of ordinary shares:		
Restricted shares	<u>1,301,669</u>	<u>2,846,623</u>
Weighted average number of ordinary shares in issue during the year		
used in the dilutive earnings per share calculation	<u>2,328,643,071</u>	<u>2,311,643,447</u>

11. TRADE AND BILLS RECEIVABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade receivables	1,965,005	1,736,220
Bills receivable	<u>424,857</u>	<u>410,350</u>
	<u>2,389,862</u>	<u>2,146,570</u>

The credit period for trade receivables is generally three months, which may be extended up to six months for major customers. Trade and bills receivables are non-interest-bearing.

An aged analysis of trade receivables, based on the invoice date and net of provisions, as at the respective reporting dates is as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 1 year	1,973,372	1,740,265
1 to 2 years	48,656	47,975
2 to 3 years	34,136	17,073
Over 3 years	<u>26,079</u>	<u>31,415</u>
	2,082,243	1,836,728
Less: Provision for impairment	<u>(117,238)</u>	<u>(100,508)</u>
	<u>1,965,005</u>	<u>1,736,220</u>

12. TRADE AND BILLS PAYABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade payables	1,024,791	973,220
Bills payable	<u>124,588</u>	<u>75,430</u>
	<u>1,149,379</u>	<u>1,048,650</u>

Trade and bills payables are non-interest-bearing and are normally settled on a three-month term.

An aged analysis of the trade payables as at the end of the reporting period is as follows:

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	1,009,582	952,031
1 to 2 years	7,832	6,216
2 to 3 years	1,747	8,920
Over 3 years	<u>5,630</u>	<u>6,053</u>
	<u><u>1,024,791</u></u>	<u><u>973,220</u></u>

13. EVENTS AFTER THE REPORTING PERIOD

(a) Establishment of a joint venture

On 10 January 2017, Shanghai Fosun Pharmaceutical Industrial Development Co., Ltd.* (上海復星醫藥產業發展有限公司) (“Fosun Pharma Industrial”), a wholly owned subsidiary of the Company, entered into an agreement with KP EU C.V, pursuant to which Fosun Pharma Industrial proposed to invest no more than US\$80 million (including but not limited to capital contribution and shareholder loan) to establish a joint venture named Fosun Pharma Kite Biotechnology Co., Ltd (tentative name, subject to the approval of relevant registration authority), to strive to explore the market of T-cell immunotherapy for cancer in China.

(b) Acquisition of a subsidiary

On 25 January 2017, Fosun Industrial (HK) Co., Ltd. (“Fosun Industrial”), a wholly owned subsidiary of the Company, Fosun Industrial Holdings Limited (“Fosun Industrial Holdings”), a connected person of the Company, PBM RESP Holding, LLC (“PBM”), PBM Capital Investments, LLC and Goldcup 14112 AB (“Goldcup”) entered into an agreement, pursuant to which Fosun Industrial and Fosun Industrial Holdings Limited agreed to set up a new company (“SPV”) in Sweden, and through which to contribute in an aggregate amount of up to US\$90 million to invest in Goldcup. Fosun Industrial and Fosun Industrial Holdings Limited proposed to contribute up to US\$49.50 million and US\$40.50 million through SPV, respectively, to acquire and subscribe for 80% of the enlarged total number of issued shares in the Goldcup. PBM shall have the right to sell all or portion of the remaining shares in the Goldcup held by PBM to SPV at a price agreed under the agreement, which shall be no more than US\$90 million.

(c) Unlocking and trading of the third tranche of restricted A shares under incentive scheme I

On 12 January 2017, the Board considered and approved the resolutions in relation to the fulfilment of the conditions for unlocking the third tranche of restricted A shares under the Incentive Scheme I, and the conditions for unlocking the aforementioned restricted A shares have been satisfied. As a result, a total of 1,259,360 restricted A shares were unlocked and became tradable on 19 January 2017. The total share capital of the Company is unchanged.

(d) Repurchase and cancellation of certain unlocked restricted A shares

Pursuant to the restricted A share incentive scheme II as adopted by the Company, since two share incentive participants (the “Resigned Participants”) had resigned from their respective positions and terminated their employment contracts with the Company, the restricted A shares held by the Resigned Participants no longer satisfied the conditions for unlocking. A total of 37,500 restricted A shares which had been granted to the Resigned Participants but had not been unlocked, were repurchased and cancelled at a repurchase price of RMB10.54 per share for a total repurchase consideration of RMB395,250 on 24 February 2017 and such procedure was completed by the Company. The total issued shares of the Company reduced from 2,414,512,045 shares to 2,414,474,545 shares (including 2,011,190,545 A Shares and 403,284,000 H Shares).

(e) The public issuance of corporate bonds to qualified investors (first tranche) in 2017

The approval on the public issuance of corporate bonds to the qualified investors (Zheng Jian Xu Ke [2015] No. 3154) was issued by China Securities Regulatory Commission (“CSRC”), pursuant to which the public issuance of corporate bonds not exceeding RMB5 billion (including RMB5 billion) to qualified investors by the Company was approved. The public issuance of first tranche of the corporate bonds was completed on 14 March 2017, of which the actual issuance size was RMB1.25 billion. The term of the first tranche of corporate bonds issued was 5 years, and the Company shall be entitled to adjust upwards the coupon rate and the investors shall be entitled to sell back the corporate bonds at the end of the third year during the term of the first tranche of the corporate bonds. The final coupon rate for the first tranche of the corporate bonds issued is 4.50%.

MANAGEMENT DISCUSSION AND ANALYSIS

1. THE BOARD'S DISCUSSION AND ANALYSIS ON OPERATIONS OF THE GROUP FOR THE REPORTING PERIOD

In 2016, amidst the severe situation that was full of challenges and uncertainties in the economies of the world and the PRC, there was ongoing further reform of the medical system in the PRC. The pharmaceutical manufacturing industry resumed growth at a slower pace, and the medical technology and medical services continued to be benefited from the policies with opportunities for rapid development. During the Reporting Period, the Group adhered to its business philosophy of “Innovation for Good Health”, focused on its core pharmaceutical and healthcare businesses, continued to develop product innovation and improve management as well as international development, actively promoted the strategies of organic growth, external expansion and integrated development, thereby maintaining the balanced growth of its principal businesses.

During the Reporting Period, the Group realized revenue of RMB14,506 million, representing an increase of 16.03% as compared to 2015; excluding the impact of the disposal of Handan Pharmaceutical Co., Ltd. (“**Handan Pharmaceutical**”) in 2015 and the new acquisition of Hangzhou Wanbang Tiancheng Pharmaceutical Co., Ltd. (“**Wanbang Tiancheng**”) and the new establishment of Wenzhou Geriatric Hospital Limited Company (“**Wenzhou Geriatric Hospital**”) and other companies in 2016, the revenue would have increased by 16.16% on the same basis as compared to 2015. The Group realized revenue of RMB10,150 million in pharmaceutical manufacturing and research and development (R&D) segment, representing an increase of 14.78% as compared to 2015; excluding the impact of the disposal of Handan Pharmaceutical in 2015 and the new acquisition of companies including Wanbang Tiancheng in 2016, the revenue would have increased by 16.24% on the same basis as compared to 2015. Revenue from healthcare service business amounted to RMB1,676 million, representing an increase of 21.71% as compared to 2015. Excluding the impact of the new establishment of Wenzhou Geriatric Hospital and other companies in 2016, the revenue would have increased by 13.61% on the same basis as compared to 2015. The Group recorded revenue of RMB12,384 million in the Mainland China, representing an increase of 14.57% as compared to 2015 and recorded revenue of RMB2,122 million in foreign countries or regions, representing an increase of 25.37% as compared to 2015. The Group's revenue generated from foreign countries or regions further increased.

During the Reporting Period, the revenue from each segment of the Group was as follows:

Unit: million Currency: RMB			
Business segment	Revenue 2016	Revenue 2015	Year-on-year increase/ decrease (%)
Pharmaceutical manufacturing and R&D ^(Note 1)	10,150	8,843	14.78
Healthcare services ^(Note 2)	1,676	1,377	21.71
Medical devices and medical diagnosis	2,653	2,244	18.23 (Note 3)

Note 1: Excluding the impact of the disposal of Handan Pharmaceutical in 2015 and the new acquisition of companies including Wanbang Tiancheng in 2016, the revenue of pharmaceutical manufacturing and R&D would have increased by 16.24% on the same basis as compared to the corresponding period of 2015;

Note 2: Excluding the impact of the new establishment of Wenzhou Geriatric Hospital and other companies in 2016, the revenue of healthcare services would have increased by 13.61% on the same basis as compared to the corresponding period of 2015;

Note 3: The increase in revenue of medical devices and medical diagnosis was mainly due to an increase in sales of consumables brought by the rapid increases in the number of installation of Da Vinci surgical robotic system as well as the volume of surgery by Da Vinci surgical robotic system.

In 2016, the Group recorded total profit of RMB3,572 million and net profit attributable to the shareholders of the Company of RMB2,806 million, representing an increase of 5.92% and 14.05%, respectively, as compared to 2015. The increase in each of total profit and net profit attributable to the shareholders of the Company was mainly due to (1) the steady growth maintained by the businesses of the Group, the further optimized sales structure, the construction of the marketing system and the positive effect of the supply chain integration; and (2) the rapid growth maintained by Sinopharm Group Co. Ltd.* (國藥控股股份有限公司) (“**Sinopharm**”), an associate of the Company.

During the Reporting Period, net profit (after extraordinary gain or loss) of the Group further increased and the Group recorded net profit (after extraordinary gain or loss) attributable to the shareholders of the Company of RMB2,093 million in 2016, representing an increase of 26.36% as compared to 2015.

During the Reporting Period, net cash flow from operating activities continued to rise, increasing to RMB2,110 million in 2016, representing an increase of 30.17% as compared to 2015. The profitability and operational quality of the Group were further enhanced.

During the Reporting Period, the Group continued to increase the investment in R&D. R&D expenditure (including capitalized expenditure) amounted to RMB1,106 million, representing an increase of 33.23% as compared to 2015. During the Reporting Period, the R&D expenses of the Group amounted to RMB715 million, representing an increase of 6.67% as compared to 2015. In particular, the R&D expense of pharmaceutical manufacturing and R&D segment amounted to RMB572 million, representing 6.36% growth from 2015 and accounting for 5.6% of the revenue of the pharmaceutical manufacturing and R&D segment. As at the end of the Reporting Period, the Group had 173 pipeline drugs, generic drugs, generic biopharmaceutical drugs and vaccine projects. During the Reporting Period, the Group applied for 103 patents, including 21 U.S. patent applications, 2 Japanese patent applications, 3 European patent applications and 6 PCT applications, in the pharmaceutical manufacturing and R&D segment, and obtained 30 licensed patents, including 22 invention patents (including 2 U.S. patents). The venlafaxine hydrochloride tablets of Chongqing Yao Pharmaceutical Company Limited (“**Yao Pharma**”) obtained the launching approval from U.S. FDA. Rabies vaccine (Vero cells) for human use of Dalian Aleph Biomedical Co., Ltd. (“**Dalian Aleph**”), N-Acetyl Cysteine and Histidine hydrochloride APIs of Shine Star (Hubei) Biological Engineering Company Limited (“**Hubei Shine Star**”), Fasudil Hydrochloride APIs of Yao Pharma and Clindamycin Phosphate injection, Cefepime Dihydrochloride injection, thymopentin for injection, Diammonium Glycyrrhizinate injection and Aceglutamide injection of Suzhou Erye Pharmaceutical Co., Ltd (“**Erye Pharmaceutical**”) obtained production approvals from the China Food and Drug Administration (“**CFDA**”).

Pharmaceutical Manufacturing and R&D

During the Reporting Period, the pharmaceutical manufacturing and R&D segment of the Group realized revenue of RMB10,150 million, representing an increase of 14.78% as compared to 2015. Excluding the impact of the disposal of Handan Pharmaceutical in 2015 and the new acquisition of companies including Wanbang Tiancheng in 2016, revenue would have increased by 16.24% as compared with 2015. The revenue of major products in the pharmaceutical manufacturing segment for the year increased by 20.41% as compared to 2015, representing an increase of 22.30% on the same basis. During the Reporting Period, the pharmaceutical manufacturing and R&D segment of the Group achieved segment results and segment profit amounting to RMB1,580 million and RMB1,640 million, which increased by 24.39% and 32.50% as compared to 2015 respectively.

During the Reporting Period, the pharmaceutical manufacturing and R&D segment of the Group continued to grow steadily and the development of its professional operational team was further strengthened. In 2016, the sales of the Group's major products in therapeutic areas such as cardiovascular system, central nervous system and anti-tumor, antimalarial series such as artesunate and anti-tuberculosis series products, maintained rapid growth. Among new and recent products, the cardiovascular therapeutic product alprostadil dried emulsion (You Di Er) and the metabolism system therapeutic product febuxostat tablets (You Li Tong) maintained rapid growth.

In 2016, the Group had 18 formulation items or series with sales over RMB100 million. The sales of the products or series such as Ao De Jin, You Di Er, cefmetazole sodium series and Atomolan exceeded RMB500 million.

Revenue of major products of the Group in the major therapeutic areas during the Reporting Period is set out in the following table:

Unit: million Currency: RMB			
Pharmaceutical manufacturing and R&D	2016	2015	Year-on-year increase on the same basis (%)
Major products of cardiovascular system therapeutic area (<i>Note 1</i>)	1,200	847	41.76
Major products of central nervous system therapeutic area (<i>Note 2</i>)	1,076	788	36.46
Major products of blood system therapeutic area (<i>Note 3</i>)	357	324 (<i>Note 3*</i>)	10.14 (<i>Note 3*</i>)
Major products of metabolism and alimentary system therapeutic area (<i>Note 4</i>)	1,867	1,740 (<i>Note 4*</i>)	13.87 (<i>Note 8</i>)
Major products of anti-infection therapeutic area (<i>Note 5</i>)	1,863	1,594	16.82
Major products of anti-tumor therapeutic area (<i>Note 6</i>)	305	225	35.43
Major products of APIs and intermediate products (<i>Note 7</i>)	1,115	945	17.98

Note 1: Major products of cardiovascular system therapeutic area include alprostadil dried emulsion (You Di Er), heparin series preparations, meglumine adenosine cyclophosphate for injection (Xin Xian An), calcium dobesilate (Ke Yuan), Telmisartan (Bang Tan) and pitavastatin (Bang Zhi);

Note 2: Major products of central nervous system therapeutic area include deproteinised calf blood injection (Ao De Jin) and quetiapine fumarate tablets (Qi Wei);

Note 3: Major products of blood system therapeutic area include hemocoagulase for injection (Bang Ting) and Cobamamide for injection (Mi Le Ka);

Note 3:* the 2015 data is restated for comparison with the 2016 data on the same basis, i.e. the 2015 data including the revenue of Cobamamide for injection (Mi Le Ka), a new core product.

Note 4: Major products of metabolism and alimentary system therapeutic area include reduced glutathione series (Atomolan injection and Atomolan tablets), febuxostat tablets (You Li Tong), glimepiride (Wan Su Ping), animal insulin and its formulation, recombinant human erythropoietin (Yi Bao) and compound aloe capsules;

Note 4:* the 2015 data include Mo Luo Dan products;

Note 5: Major products of anti-infection therapeutic area include antimalarial series such as artesunate, anti-tuberculosis series, cefmetazole sodium (Xi Chang and Cefmetazon), potassium sodium dehydroandrographolide succinate for injection (Sha Duo Li Ka), Piperacillin Sodium and Sulbactam Sodium 1.5g (Qiang Shu Xi Lin), Piperacillin Sodium and Sulbactam Sodium 3g (Qin Shu), Piperacillin Sodium and Tazobactam Sodium (Pai Shu Xi Lin) and Ceftizoxime Sodium (Er Ye Bi);

Note 6: Major products of anti-tumor therapeutic area include Xihuang capsules, pemetrexed disodium for injectio (Yi Luo Ze) and bicalutamide (Zhao Hui Xian);

Note 7: Major products of APIs and intermediate products include amino acid, tranexamic acid and clindamycin hydrochloride; and

Note 8: The year-on-year increase (%) excludes the sales of Mo Luo\ Dan products in 2015.

The Group has placed great emphasis on quality and risk management of the life cycle of its products and implemented stringent quality and safety control mechanisms and adverse reaction monitoring mechanisms at each stage of the production chain from R&D to pulling off shelf of products, so as to ensure the R&D, registration, production, sales, pulling off shelf and recall of pharmaceutical products are conducted safely and properly. The Group's pharmaceutical manufacturing segment has fully implemented the concept of quality and risk management and focused on quality control mechanisms such as annual quality review, change management, deviation management, OOS investigation, Corrective and Preventive Actions (CAPA) and audit on suppliers. The Group's pharmaceutical manufacturing segment continued to push forward the improvement of qualification certifications. As at the end of the Reporting Period, subsidiaries of the Group that engaged in pharmaceutical manufacturing business had 53 GMP certificates (2010) in aggregate, which included 32 production lines for sterile preparation, 37 production lines for oral formulation and 61 APIs. All subsidiaries that engaged in pharmaceutical manufacturing business fulfilled

national new GMP requirements. While ensuring the production lines to fulfill the new GMP in China, the Group encouraged the companies in the pharmaceutical manufacturing segment to comply with international standards and pushed them forward to put international cGMP certifications such as the U.S., European Union and WHO into practice. As at the end of the Reporting Period, 13 APIs of the Group received GMP certifications from the U.S. FDA, EU, Ministry of Health, Labour and Welfare of Japan and Federal Ministry of Health of Germany. 1 production line for oral solid dosage formulation and 5 APIs of Guilin South Pharma Company Limited (“**Guilin Pharma**”) also obtained PreQualification from the WHO-PQ, and 1 production line of oral solid dosage formulation of Yao Pharma was recognized by Canada Health and the U.S. FDA and its many formulations products were sold overseas.

The Group has focused on innovation and R&D in long run and continued to increase investment in R&D. During the Reporting Period, expenses recognized as R&D expenditures were RMB715 million, representing an increase of 6.67% as compared to 2015, of which the R&D expenses in the pharmaceutical manufacturing and R&D segment were RMB572 million, accounting for 5.6% of the revenue of the pharmaceutical manufacturing and R&D segment. During the Reporting Period, the Group continued to optimize its pharmaceutical R&D system that integrated generic and innovator drugs, increased investment in the four major R&D platforms, improved its innovation system, enhanced R&D capabilities, and strengthened the core competitiveness of the Group. The Group had national level enterprise technical centers and had established highly-efficient international R&D teams in Shanghai, Chongqing, San Francisco and Taiwan. In order to leverage its competitive strengths, the Group focused its R&D projects on therapeutic areas including cardiovascular system, central nervous system, blood system, metabolism and alimentary system, anti-infection and anti-tumor, and the major products had gained a leading position in their respective market segments.

As at the end of the Reporting Period, the Group had 173 pipeline drugs, generic drugs, biosimilars and vaccine projects. During the Reporting Period, application for clinical trial was tendered to the CFDA for PA-824 type 1.1 innovative API and tablets; research on monoclonal antibody products further accelerated; as at the end of the Reporting Period, application for clinical trial was tendered to the CFDA for recombinant anti-TNF α fully human monoclonal antibody injection (psoriasis indications) and such application was accepted; recombinant murine/human chimeric anti-CD20 monoclonal antibody injection, recombinant humanized anti-HER2 monoclonal antibody injection, recombinant anti-TNF α fully human monoclonal antibody injection (rheumatoid arthritis indications), recombinant humanized anti-VEGF monoclonal antibody injection, recombinant murine/human chimeric anti-EGFR monoclonal antibody injection and anti-EGFR humanized monoclonal antibody injection were in clinical trial or were approved to

commence clinical trial. Recombinant murine/human chimeric anti-CD20 monoclonal antibody injection and recombinant humanized anti-HER2 monoclonal antibody injection were in phase III of the trial; anti-EGFR humanized monoclonal antibody injection commenced clinical trial in Taiwan. During the Reporting Period, approval of clinical trial was obtained for 50 products in the pharmaceutical manufacturing and R&D segment. In addition, during the Reporting Period, the venlafaxine hydrochloride tablets of Yao Pharma obtained the launching approval from U.S. FDA. Rabies vaccine (Vero cells) for human use of Dalian Aleph, N-Acetyl Cysteine and Histidine hydrochloride APIs of Hubei Shine Star, Fasudil Hydrochloride APIs of Yao Pharma and Clindamycin Phosphate injection, Cefepime Dihydrochloride injection, thymopentin for injection, Diammonium Glycyrhizinate injection and Aceglutamide injection of Erye Pharmaceutical obtained production approvals from the CFDA.

During the Reporting Period, the Group applied for 103 patents, including 21 U.S. patent applications, 2 Japanese patent applications, 3 European patent applications and 6 PCT applications, in the pharmaceutical manufacturing and R&D segment, and obtained 30 licensed patents, including 22 invention patents (including 2 U.S. patents).

During the Reporting Period, the Group continued to focus on innovation and international development, and strived to develop strategic products. Whilst actively seeking opportunities for mergers and acquisitions as well as consolidation in the industry, the Group also consolidated and integrated its current product lines and various resources and proactively expanded its international market in order to expand its pharmaceutical manufacturing and R&D segment while achieving continuous and rapid growth of its revenue and profit. During the Reporting Period, the Group also commenced and proceeded the application for listing of Shanghai Henlius Biotech Co., Ltd.* (“**Shanghai Henlius**”) on the National Equities Exchange and Quotations System (“**NEEQ**”).

Healthcare Services

In 2016, the Group continued to reinforce its substantially completed strategic deployment of healthcare services segment with high-end healthcare institutions in the more developed coastal cities and specialty and general hospitals in second-tier and third-tier cities in the PRC. It established regional medical centers and a supply chain spanning major health industries and explored models of cooperation with local large state-owned companies, public hospitals and university-affiliated hospitals to accelerate its internet medical development strategy, and enhance operating capabilities and profitability. During the Reporting Period, the “Phase II district project of Qingdao Qilu Hospital of Shandong University”, the reconstruction and expansion of Suqian Zhongwu Hospital Co., Ltd. (“**Zhongwu Hospital**”) and Yueyang Guangji Hospital Company Limited (“**Guangji**”).

Hospital”), Wenzhou Geriatric Hospital Limited Company (“**Wenzhou Geriatric Hospital**”) and Yulin Guanghai Medical Investment Management Co., Ltd.* (玉林廣海醫療投資管理有限公司) (“**Yulin Guanghai**”, which is responsible for the operation and management of Yulin Cardiovascular Specialty Hospital (玉林心血管專科醫院) and Yulin Brain Hospital (玉林腦科醫院)), in which the Group was involved, commenced, started operation and was established respectively, laying foundations of a new model for social enterprises’ participation in the healthcare services segment. The Group participated in the reorganization of healthcare operations of relevant medical institutions previously in the Xuzhou Coal Mining Group and the establishment of Huaihai Medical Group, which was a breakthrough of the Group in reorganizing healthcare operations of state-owned companies as it would facilitate the exploration of co-operating and managing medical institutions with such large local institutions and large insurers. Such a breakthrough was momentous towards the reformation of hospital with mixed ownership and integration of the healthcare supply chain. Furthermore, the Group explored the potential in a new model by cooperating and establishing third party medical examination with public hospitals through its investment in Jinan Qilu Medical Examination Co., Ltd.* (濟南齊魯醫學檢驗有限公司) (“**Qilu Clinical Laboratory**”). Through further involvement in the “B” round financing of “Mingyi Zhudao” platform, a seamless integration of online and offline services was achieved and a closed circuit of O2O was formed so as to explore the innovation of medical services operation and model. Moreover, the Group also entered into a series of framework agreements with local governments, universities and hospitals to further reserve and consolidate various resources in achieving complementary advantages and mutual development.

During the Reporting Period, the healthcare services entities controlled by the Group realized total revenue of RMB1,676 million, representing an increase of 21.71% as compared to 2015. Excluding the impact of the new establishment of Wenzhou Geriatric Hospital and other companies during the year, the revenue would have increased by 13.61% on the same basis as compared to 2015. Segment results amounted to RMB231 million, representing an increase of 13.96% as compared to 2015, and segment profit of RMB149 million, representing an increase of 96.06% as compared to 2015. In particular, the net profit of the subsidiaries of healthcare services segment increased by 31.29% on the same basis. As at the end of the Reporting Period, the total number of beds available for the public in Foshan Chancheng Central Hospital Company Limited (“**Chancheng Hospital**”), Anhui Jimin Cancer Hospital (“**Jimin Cancer Hospital**”), Guangji Hospital, Zhongwu Hospital, Wenzhou Geriatrics Hospital, etc. controlled by the Group was 3,018 in aggregate.

In addition, during the Reporting Period, the Group continued to actively support and facilitated the development and deployment of hospital and clinic network under “United Family Hospital”, a leading premium healthcare services brand under Chindex International, Inc. (“**Chindex**”). In 2016, the United Family Hospital maintained its brand awareness and prominent positions in high-end healthcare segment in major cities such as Beijing, Tianjin and Shanghai. Qingdao United Family Hospital has commenced operation. The construction of Guangzhou United Family Hospital and Shanghai Pudong United Family Hospital was also at full steam.

While devoting itself to the domestic healthcare services industry, the Group also paid close attention to exploring new service models in healthcare services segment of the global mainstream market.

Medical Devices and Medical Diagnosis

In 2016, the Group continued to push the development of the medical devices and medical diagnosis segment forward. During the Reporting Period, the Group realized revenue of RMB2,653 million from the medical devices and medical diagnosis segment, representing an increase of 18.23% as compared to 2015. The results and profit of the medical devices and medical diagnosis segment amounted to RMB435 million and RMB323 million, which increased by 13.47% and 18.51% as compared to the corresponding period of 2015 respectively. The increase in revenue of the medical devices and medical diagnosis segment was mainly due to an increase in sales of consumables brought by the rapid increases in the number of installation of Da Vinci surgical robotic system as well as the volume of surgery by Da Vinci surgical robotic system.

During the Reporting Period, Alma Lasers Ltd. (“**Alma Lasers**”) continued to accelerate the development of the global market and especially key emerging markets such as China and India. Alma Lasers also strengthened its new product portfolio, in particular, by increasing R&D of medical devices and extending its production line into the clinical treatment area. Alma Lasers recorded revenue equivalent to approximately RMB786 million in 2016, representing an increase of 14.19% as compared to 2015. While the Group actively fostered the business development of Alma Lasers, the Group also commenced and proceeded the preparations for the listing of Sisram Medical Ltd. (“**Sisram**”) on Hong Kong Stock Exchange in 2016.

During the Reporting Period, the Group continued to enhance the expansion of the distribution business of high-end medical devices of Chindex Medical Limited. As a representative figure of minimally invasive surgery, Da Vinci surgical robotic system has an extensive application in urinary surgery, thoracic surgery and gynecology by virtue of its advantages including being more accurate, less

traumatic and quick recovery. The volume of surgery by Da Vinci surgical robotic system maintained a significant increase in 2016. In 2016, the volume of surgery by Da Vinci surgical robotic system amounting to approximately 19,000 in the Mainland China and Hong Kong, representing growth of approximately 54% as compared to 2015.

Besides, by making joint investment with Intuitive Surgical SARL (“**Intuitive Surgical**”, the owner of the technology and products of Da Vinci surgical robotic system) in establishing a joint venture, the Company intended to facilitate the enhancement and development of the medical devices segment of the Group by achieving concept fusion, resources matching and complementary advantages on brands and business with Intuitive Surgical with the use of the leading position of Intuitive Surgical in the field of minimally invasive surgical robots, which played a positive role in the development and popularization of high-end medical technology in China. Furthermore, dental digitized product lines became the new source of growth for the Group. The year 2016 saw a growth of sales of 149.14% as compared to 2015. In 2016, the Company also completed the “C” round investment of Spirosure, Inc. (“**Spirosure**”, a respiratory disease testing company in Silicon Valley), further expanding the deployment in medical device products and expanding into the respiratory disease testing segment.

Pharmaceutical Distribution and Retail

During the Reporting Period, Sinopharm, an associate of the Group, put continuous efforts in accelerating industry consolidation, expanding distribution network of pharmaceutical products and maintaining rapid growth in business. In 2016, Sinopharm realized revenue of RMB258,388 million, net profit of RMB6,892 million and net profit attributable of RMB4,647 million, which represented an increase of 12.99%, 20.04% and 23.20% as compared to 2015, respectively. As at the end of the Reporting Period, the distribution network of Sinopharm covered 31 provinces, autonomous regions and municipalities in China. Its direct customers included 14,231 hospitals (only referring to hospitals with ranking, including 1,991 of the tier-three hospitals, which are the largest and most highly-ranked hospitals). During the Reporting Period, Sinopharm’s revenue from pharmaceutical distribution business increased by 13.34% as compared to 2015 to RMB246,459 million. Meanwhile, the pharmaceutical retail business of Sinopharm also maintained growth with revenue of RMB10,239 million realized during the Reporting Period, representing an increase of 17.29% as compared to 2015, while its pharmaceutical retail network further expanded with retail pharmacies owned by GuoDa Drug Store, its subsidiary, amounted to 3,502 as at the end of the Reporting Period.

Internal integration and operation enhancement

During the Reporting Period, the Group continued to increase its investment in internal integration, further strengthened the internal communication of the Group and proactively improved operational efficiency.

The Group strengthened the linkage within the segments as well as between the segments by way of internal consolidation of shareholding and cooperation for products and services between segments in order to further consolidate resources and achieve integration and circulation of the Group's internal resources to facilitate business development. By setting up regional financial sharing centers, the Group achieved the integration of accounting, statement preparation, tax administration, financial analysis and internal control establishment of the subsidiaries in the relevant regions. By virtue of the cooperation and linkage with Sinopharm, the Group also fully utilized Sinopharm's advantages in distribution network and logistics to facilitate the expansion of the drug sales channels of the Group.

In respect of cutting costs and making improvement, during the Reporting Period, the Group further enhanced the operation efficiency in aspects such as centralized procurement, strategic procurement, procurement management system and platform establishment. In 2016, the average decrease of the procurement costs of the project bids through centralized procurement was about 23%, and the highest decrease for the procurement price of an item was 83%. With respect to the establishment of suppliers, the Group set up three strategic supplier bases for infrastructure through open tendering. The Group strengthened its cooperation with the leading industry peers so as to reduce supply risk. The Group also issued the Green Supply Chain Initial Proposal so as to motivate the suppliers to strengthen self-regulation in environment and in the industry and facilitate a healthier and more sustainable supply chain in the whole industry. In respect of management system and platform construction, the Group published and organized 20 business templates and 14 business processes based on the Basic Guidelines for Procurement and Tendering (Trial) to further promote the application of its procurement and tendering platform. Meanwhile, the Company also assisted the implementation of ERP system and strengthened the synergy of the internal procurement and tendering of the Group.

In respect of compliance operation, the Group has formulated and amended systems including the Anti-Corruption Regulation and the Management Rules on Operation with Integrity, which fully implemented open tendering and monitored the sensitive areas, in order to enhance its integrity inspection system for compliance operation.

In respect of information resources, adhering to the development strategy of “Internet+”, the Group has introduced the SAP system for the pharmaceutical manufacturing segment and established a information sharing platform for the information exchange between the healthcare services segment and the headquarters, achieving the resources and information sharing within the Group and meeting the needs for the management and control of the Group across different regions.

Environment, Health and Safety

During the Reporting Period, the Group continued to proceed at the subsidiary level with the establishment and deepening implementation of the management system of environment, health and safety (EHS). Through a series of proactive improvements ranging from the comprehensive EHS compliance and risk assessment, modification and upgrade of EHS governance facilities to risk self-assessment, reporting and rectification, the Group further lowered its EHS risk. The management at each level had set up the system of regular EHS review and decision making and further enhanced the organizational structure, human resources, the management process and the securing of resources. Improvement to the EHS taskforce was promoted and its expertise enhanced, while the EHS awareness and consciousness of all staff heightened, so as to ensure the compliance and continuous improvement of the Group’s EHS.

During the Reporting Period, in addition to the further promotion of the construction of and strengthening management on the EHS management system at the group and subsidiary level, the Group initiated various EHS-related management and improvement activities, such as EHS cross-audit spanning different segments and units, EHS incident warning system, EHS inspection kit for front-line officers and a platform for sharing information of internal affairs and excellent practices. The Group also issued the EHS Performance Reporting and Management System, which refined the EHS indicators requirements monthly reported by its members. These efforts rendered the Company’s EHS management more professional and refined and continuously procured the lowering of operational EHS risks and the wide increase in staff participation. Meanwhile, the Group also revised and issued the Major Safety, Quality and Environmental Incidents Reporting System, put into full implementation the accountability of chief officers of EHS. EHS potential hazards and defects were tracked and rectified under a red and yellow cards mechanism and zero tolerance was given to any violation of laws or regulations. As a result, the whole Group had consistently adopted an EHS risk management philosophy of early identification and early resolution.

The Group, in light of its rapid development and needs arising during the course of internationalization, conducted EHS due diligence against its domestic and overseas investment, acquisition or merger projects and set this as a significant consideration when making investment decisions. It further promptly took over management of investees and introduced and enforced its EHS management system in them.

Financing

During the Reporting Period, the non-public issuance of A Shares was completed. The net proceeds amounted to approximately RMB2,275 million and were used for the purposes of the repayment of interest-bearing debts and replenishment of working capital. The Company completed the issue of corporate bonds of RMB3,000 million and the two tranches of super short-term commercial papers of a total of RMB1,000 million. Fosun Industrial, a subsidiary of the Company, entered into an agreement for a syndicated loan of US\$500 million equivalent with an overseas bank consortium, which further expanded financing channels, optimized debt structure and reduced financing costs. Shanghai Henlius, a subsidiary of the Company, completed external equity financing of a total of approximately US\$40 million, providing financial support for future development. Meanwhile, the Group also extended cooperation with the Export-Import Bank of China, China Development Fund Co., Ltd., and International Finance Corporation (IFC) to obtain facilities at low interest rates. The Group extended and maintained solid partnerships and further increased credit facilities with major principal banks domestically and overseas, enabling the Group to continuously further its mergers and acquisitions of domestic and overseas pharmaceutical companies, enhance the construction of international R&D platform, and strengthen the development of its principal businesses.

Social Responsibility

Whilst the Group has been rapidly growing, the Group remains committed to undertaking social responsibilities. The Group had made great progress in corporate governance, economic, products and services, environment, health and safety, employees and social contribution as it continued to assume the responsibility of a corporate citizen.

During the Reporting Period, the Group had continually increased investment in upgrading its technology, improved production process, focused on the establishment of product quality system, extended the life cycle of products and lowered the cost in order to offer safe, efficient, affordable products and services. For pharmaceutical enterprises, drug research and innovation is an important reflection of their social responsibilities. During the Reporting Period, the Group continued to increase the investment in R&D and achieved significant progress in

the R&D of monoclonal antibody products. As at the end of the Reporting Period, the Group obtained approval of clinical trial for 6 products and 10 indications and 2 products were in the phase III clinical trial. Meanwhile, during the Reporting Period, to care for patients and life, the Group continuously improved a long-term mechanism and contingency plan for monitoring adverse drug reaction. The Group adopted the “patient-centered” service concept, upheld the principle of “patient first, quality first” and highly concerned the medical quality and safety of patient. Chancheng Hospital was awarded titles including “Exemplary Hospital of Improvement in Medical Services” from National Health and Family Planning Commission of the People’s Republic of China (“NHFPC”) and Health News in 2016.

During the Reporting Period, the Group constantly strengthened environment protection, optimized the production process and improved the utilization rate of the production facilities for the purposes of energy saving, emission reduction and environment protection. The Group emphasized harmonious development with nature to protect the sustainable development of the environment.

With respect to the sustainability of talents, in addition to rapid development, the Group also provided room for development for its excellent talents and strengthened the establishment of talents teams in order to provide a platform for employees to discover their values and improve themselves.

With respect to social welfare, the Group undertook its social responsibilities and benefited the society by continuously investing in education, supporting scientific researches and community healthcare services, alleviating poverty by donations, and providing disaster assistances. As the manufacturer of artesunate for injection series, the most preferred drug for severe disease treatment as recommended by the World Health Organization, the Group continued to proactively participate in the Chinese government projects of anti-malarial in Africa in 2016.

The Group’s outstanding performance in corporate social responsibilities has gained recognition from all aspects of the society. During the Reporting Period, the Company was awarded the “Golden Bee 2016 Excellent Corporate Social Responsibility Report • Leadership Enterprise Award” (金蜜蜂2016優秀企業社會責任報告•領袖型企業獎), “Responsibility Innovation Best Case Award for the Year” (年度責任創新最佳案例獎), “Excellent Enterprise Award of “Corporate Social Responsibility of Listed Companies”” (「上市公司企業社會責任評選」傑出企業獎), No. 2 in the Social Responsibility Development Index (社會責任發展指數第二名), No. 1 in the Report Evaluation (報告評價結果第一名) and other honors.

2. MAJOR OPERATIONS IN THE REPORTING PERIOD

A Analysis on Principal Operations

Analysis of Changes in Relevant Items of Income Statement and Statement of Cash Flows

Unit: million Currency: RMB

Items	Amount for the period	Amount for the corresponding period of last year	Year-on- year change (%)	Reasons
Revenue	14,506	12,502	16.03	
Cost of sales	6,718	6,308	6.50	
Selling and distribution expenses	3,704	2,815	31.58	<i>Note 1</i>
Administrative expenses	1,626	1,235	31.66	<i>Note 2</i>
Research and development expense	715	670	6.67	
Finance costs	488	470	3.83	
Net cash flow generated from operating activities	2,110	1,621	30.17	<i>Note 3</i>
Net cash flow generated from investment activities	-2,447	-1,870	-30.87	<i>Note 4</i>
Net cash flow generated from financing activities	1,446	551	162.57	<i>Note 5</i>
R&D expenditures	1,106	830	33.23	<i>Note 6</i>

Note: Items (other than R&D expenditures) are extracted from the consolidated income statement and consolidated statement of cash flows.

Note 1: The increase in selling and distribution expenses was mainly due to the growth in sales of the major products of the Group in the major therapeutic areas and further market expansion during the Reporting Period;

Note 2: The increase in administrative expenses was mainly due to the business development, accelerated mergers and expansion in international market and increase in other investment related expenses, expenditure in informationization and others of the Group during the Reporting Period;

Note 3: The increase in net cash flow generated from operating activities was mainly due to the outstanding sales performance and operational enhancement of the Group during the Reporting Period;

Note 4: The increase in net cash outflow generated from investment activities was mainly due to the large sum of cash received from the disposal of subsidiaries in 2015 and receipt of investment return;

Note 5: The increase in net cash flow generated from financing activities was mainly due to the non-public offering of A shares and the issuance of corporate bonds by the Company during the Reporting Period;

Note 6: Mainly due to the increase in R&D expenditure of the Company during the Reporting Period.

I. Analysis of Revenue and Cost of Sales

During the Reporting Period, revenue of the Group increased by 16.03% to RMB14,506 million from 2015.

The change in revenue was mainly attributable to the increase in revenue from the business segments of manufacturing, healthcare services and distribution of medical devices of the Group.

Sales to the top 5 customers of the Group amounted to RMB1,995 million, representing 13.75% of the total sales revenue in 2016, in which sales to related parties amounted to RMB1,334 million, representing 9.2% of the total sales revenue for the year.

In 2016, the gross profit margin of the Group was 53.68%, representing an increase of 4.14 percentage points as compared to 2015 primarily due to the improvement in the sales structure and economics of scale, centralized procurement and optimized raw materials supply chain, and energy saving and consumption reduction.

(1) Principal Operations by Segments, Products and Geographical Locations

Unit: million Currency: RMB

Principal Operations by Segments						
By segments	Revenue	Cost of sales	Gross profit margin (%)	Year-on-year change in revenue (%)	Year-on-year change in cost of sales (%)	Year-on-year change in gross margin (%)
Pharmaceutical manufacturing and R&D	10,150	4,103	59.58	14.78	-0.85	increase of 6.37 percentage points
Healthcare services	1,676	1,239	26.07	21.71	20.36	increase of 0.80 percentage point
Medical devices and medical diagnosis	2,653	1,339	49.53	18.23	20.65	decrease of 1.05 percentage points

Principal Operations by Products

By Products	Revenue	Cost of sales	Gross profit margin (%)	Year-on-year change in revenue	Year-on-year change in cost of sales	Year-on-year change in gross margin (%)
				(%)	(%)	(%)
Major products of cardiovascular system therapeutic area (Note 1)	1,200	254	78.81	41.76	25.66	increase of 2.72 percentage points
Major products of central nervous system therapeutic area (Note 2)	1,076	133	87.60	36.46	-1.73	increase of 4.82 percentage points
Major products of blood system therapeutic area (Note 3)	357	63	82.46	10.14	-17.13	increase of 5.78 percentage points
Major products of metabolism and alimentary system therapeutic area (Note 4)	1,867	533	71.45	7.33	-15.16	increase of 7.57 percentage points
Major products of anti-infection therapeutic area	1,863	715	61.61	16.82	1.07	increase of 5.99 percentage points
Major products of anti-tumor therapeutic area (Note 5)	305	62	79.53	35.43	5.94	increase of 5.70 percentage points
Major products of APIs and intermediate products	1,115	802	28.02	17.98	16.98	increase of 0.62 percentage point

Principal Operations by Geographical Locations

By Geographical Locations	Revenue	Cost of sales	Gross profit margin (%)	Year-on-year change in revenue	Year-on-year change in cost of sales	Year-on-year change in gross margin (%)
				(%)	(%)	(%)
Mainland China	12,384	5,556	55.14	14.57	3.85	increase of 4.64 percentage points
Overseas countries or regions	2,122	1,163	45.21	25.37	21.39	increase of 1.80 percentage points

Note 1: The revenue of major products of cardiovascular system therapeutic area recorded a year-on-year increase of 41.76%, which was mainly due to the growth in sales volume of alprostadil dried emulsion products;

Note 2: The revenue of major products of central nervous system therapeutic area recorded a year-on-year increase of 36.46%, which was mainly due to the growth in sales volume of deproteinised calf blood injection products;

Note 3: Major products of blood system therapeutic area included Cobamamide for injection in 2016, where the revenue and cost of Cobamamide for injection were restated on the same basis for the revenue and cost of sales of last year;

Note 4: The percentage included the growth in the revenue of Mo Luo Dan in 2015, if excluding the sales of Mo Luo Dan in 2015, the increase would be 13.87% on the same basis;

Note 5: The revenue of major products of anti-tumor therapeutic area recorded a year-on-year increase of 35.43%, which was mainly due to the growth in sales quantities.

(2) Analysis of Cost

Unit: million Currency: RMB

		By Segments				
By Segments	Cost			Amount	Percentage of	Ratio of
				for the	the total cost	change for
				corresponding	for the	the period as
		Amount for	the total cost	period of	corresponding	compared with the
		the period	for the period	last year	period of	corresponding
			(%)		last year	period of
					(%)	last year
						(%)
Pharmaceutical manufacturing and R&D	Cost of products	4,102	61.06	4,138	65.59	-0.85
Medical devices and medical diagnosis	Cost of products and goods	1,339	19.93	1,110	17.59	20.65
Healthcare services	Cost of services	1,239	18.44	1,029	16.32	20.36
Others	Other costs	38	0.57	31	0.5	21.52
Total		6,718	100.00	6,308	100.00	6.50

Unit: million Currency: RMB

By Therapeutic Areas						
By Therapeutic Areas	Cost	Ratio of change				
		Percentage of				for
		Amount		the total cost		the period as
		for the		for the		compared with
		of the total		corresponding		the corresponding
		Amount for	cost for the	period of	period of	period of
		the period	period	last year	last year	last year
			(%) (note)		(%)	(%)
Major products of cardiovascular system therapeutic area	Cost of products	254	6.20	202	4.89	25.66
Major products of central nervous system therapeutic area	Cost of products	133	3.25	136	3.28	-1.73
Major products of blood system therapeutic area	Cost of products	63	1.53	76	1.83	-17.13
Major products of metabolism and alimentary system therapeutic area	Cost of products	533	12.99	628	15.18	-15.16
Major products of anti-infection therapeutic area	Cost of products	715	17.43	708	17.10	1.07
Major products of anti-tumor therapeutic area	Cost of products	62	1.52	59	1.42	5.94
Major products of APIs and intermediate products	Cost of products	802	19.56	686	16.58	16.98

Major Customers and Suppliers

Sales to the top 5 customers of the Group amounted to RMB1,995 million, representing 13.75% of the total sales revenue in 2016.

Purchases from the top five suppliers amounted to RMB1,288 million, accounting for 17.90% of the total purchases of the Group for 2016.

II. Expenses

During the Reporting Period, the selling expenses of the Group amounted to RMB3,704 million, representing an increase of 31.58% as compared to 2015. The change in selling expenses was mainly due to the growth in the sales volume of major products in the major therapeutic areas of the Group and the extensive expansion of market.

The management expenses of the Group amounted to RMB1,626 million, representing an increase of 31.66% as compared to 2015. The change in management expenses was mainly due to the business development,

accelerated mergers and expansion in international market and increase in other investment related expenses, expenditure in informationization and others of the Group during the Reporting Period.

The R&D expenses of the Group amounted to RMB715 million, representing a year-on-year increase of 6.67% primarily due to the increased R&D expenditure of the Group.

III. R&D Expenditure

R&D Expenditure

Unit: million Currency: RMB

R&D expenditures expensed for the period	715
R&D expenditures capitalized for the period	391
Total R&D expenditures	1,106
Percentage of total R&D expenditures on revenue (%)	7.6
Number of R&D staff in the Company	986
Percentage of number of R&D staff on total number of staff in the Company (%)	5.05
Percentage of R&D expenditures capitalized (%)	35.38

Descriptions

During the Reporting Period, the R&D expenses were RMB715 million, representing an increase of 6.67% as compared to 2015, of which the R&D expenses in the pharmaceutical manufacturing and R&D segment were RMB572 million, accounting for 5.6% of the revenue of the pharmaceutical manufacturing and R&D segment of the Group, mainly because the Group had increased its investments on R&D.

IV. Cash Flows

Unit: million Currency: RMB

Items	Amount for the period	Amount for the corresponding period of last year	Ratio of Change (%)	Reasons
Net cash flow generated from operating activities	2,110	1,621	30.17	Mainly due to the outstanding sales performance and operational enhancement of the Group during the Reporting Period
Net cash flow generated from investment activities	-2,447	-1,870	-30.87	Mainly due to the disposal of subsidiaries in the same period last year and the more cash received for investment return
Net cash flow generated from financing activities	1,446	551	162.57	Mainly due to the non- public offering of A shares and the issuance of bonds of the Company during the Reporting Period

B. Description on the non-principal business leading to significant changes in profit

Not applicable

C. Assets and liabilities analysis

Assets and liabilities

Unit: million Currency: RMB

Items	Amount as at the end of the period	Percentage of the amount as at the end of the period to the total assets (%)	Amount as at the end of last period	Percentage of the amount as at the end of last period to the total assets (%)	Ratio of change for the amount as at the end of the period as compared with the amount as at the end of last period (%)	Reasons
Other non-current assets	575	1.32	213	0.56	169.95	Mainly due to the increases in prepayment for acquisition and land premium by the Group during the Reporting Period
Prepayments, deposits and other receivables	659	1.51	400	1.05	64.75	Mainly due to the increase in prepayment for raw materials and finished goods by the Group
Equity investments at fair value through profit or loss	48	0.11	34	0.09	41.18	Mainly due to the increase in the stock price of financial assets held for trading by the Group during the Reporting Period
Cash and bank balances	5,996	13.72	4,029	10.58	48.82	Mainly due to the increase in sales of the Group and the improvement in recovability during the Reporting Period
Interest-bearing bank and other borrowings	5,571	12.75	3,572	9.38	55.96	Mainly due to the bond issuance of the Company during the Reporting Period
Deferred income	347	0.79	169	0.44	105.33	Mainly due to the receipt of assets-related government subsidies by the Group during the Reporting Period

D. Analysis on investments

Major Subsidiaries and Investees

(1) *Operation and Results of Subsidiaries*

① Operation and Results of Major Subsidiaries

Unit: million Currency: RMB								
Name of subsidiary	Nature of business	Major products or services	Registered capital	Total assets	Net assets	Revenue	Operating profit	Net profit
Yao Pharma	Pharmaceutical manufacturing	Atomolan, You Di Er, Shaduolika, V Jialin, etc.	197	2,257	1,443	3,087	293	312
Jiangsu Wanbang Biopharmaceutical Group Company Limited* (江蘇萬邦生化醫藥集團有限責任公司) (“ Jiangsu Wanbang ”)	Pharmaceutical manufacturing	Wan Su Lin, Wan Su Ping, Xihuang capsules, EPO, enoxaparin sodium series, etc.	440	2,811	1,436	2,764	364	315
Hubei Shine Star	Manufacturing of amino acid	Amino acid series products	51	762	588	1,119	91	80
Jinzhou Aohong Pharmaceutical Company Limited (“ Aohong Pharma ”)	Pharmaceutical manufacturing	Ao De Jin, Bang Ting	108	1,716	1,362	1,043	498	427
Guilin Pharma	Pharmaceutical manufacturing	Artesunate series	285	1,173	801	727	204	202

Note: Aohong Pharma’s data include appreciation of asset evaluation and amortization of appreciation of asset evaluation

② Status of Major Subsidiaries of Other Business Segments

Unit: million Currency: RMB							
Name of subsidiary	Nature of business	Major products	Registered capital	Total assets	Net assets	Revenue	Net profit
Alma Lasers (<i>note</i>)	Medical devices	Medical devices for beauty treatment and medical devices for medical purposes	N/A	1,171	915	786	100
Chancheng Hospital (禪城醫院) (<i>note</i>)	Healthcare services	Healthcare services	50	1,628	1,168	1,169	167

Note: The data of Alma Lasers and Chancheng Hospital include appreciation of asset evaluation and amortization of appreciation of asset evaluation.

(2) *Operation and Results of Investee Companies whose Net Profit Contributing More Than 10% of the Group's Net Profit*

Unit: million Currency: RMB

Name of investee	Nature of business	Principal activities	Registered capital	Total assets	Net assets	Revenue	Operating profit	Net profit
Sinopharm Industrial Investment Co., Ltd.* (國藥產業投資有限公司)	Pharmaceutical investment	Pharmaceutical investment	100	157,649	44,863	257,834	8,382	6,872

(3) *Acquisition and Disposal of Subsidiaries for the Year (including the Purposes, Methods and Effects of the Acquisitions and Disposals and the Effects on the Group's Overall Operation and Results)*

① Acquisition of Subsidiaries in 2016

On 22 December 2015, Shanghai Fosun Hospital Investment (Group) Co., Ltd.* (上海復星醫院投資(集團)有限公司) (“**Fosun Hospital Investment**”), a subsidiary, entered into a joint venture agreement with Wang Xiang, Wang Weiguo and other parties, pursuant to which Fosun Hospital Investment received 65% equity interest in Hunan Jingren Medical Investment Management Co., Ltd.* (湖南景仁醫療投資管理有限公司) (“**Hunan Jingren**”) held by Wang Xiang and it was agreed that the shareholders shall make capital contributions according to their respective shareholding upon the above equity transfer. As at the end of the Reporting Period, Fosun Hospital Investment held 65% equity interest in Hunan Jingren.

On 1 March 2016, Wanbangyun Jiankang Technology Co., Ltd.* (萬邦雲健康科技有限公司) (“**Wanbangyun Jiankang**”), a subsidiary, entered into an equity transfer agreement with Sun Zhongping and Liu Yiwen, pursuant to which Wanbangyun Jiankang received 100% equity interest in Jiangsu Wanbang Cloud Pharmacy Chain Co., Ltd.* (江蘇萬邦雲藥房連鎖有限公司) (“**Wanbang Cloud Pharmacy**”) held by Sun Zhongping and Liu Yiwen. As at the end of the Reporting Period, Wanbangyun Jiankang held 100% equity interest in Wanbang Cloud Pharmacy.

On 23 June 2016, Jiangsu Wanbang, a subsidiary, entered into an equity transfer agreement, pursuant to which Jiangsu Wanbang received 80% equity interest in Wanbang Tiancheng held by Hangzhou Tiancheng. As at the end of the Reporting Period, Jiangsu Wanbang held 80% equity interest in Wanbang Tiancheng.

On 3 November 2016, Shanghai Fosun Long March Medical Science Co., Ltd.* (上海復星長征醫學科學有限公司) (“**Fosun Long March**”), a subsidiary, entered into an equity transfer agreement and a capital contribution agreement with Changsha Zhongshengzhongjie Bio-Technology Co., Ltd.* (長沙中生眾捷生物技術有限公司) (“**Zhongsheng Zhongjie**”), pursuant to which Fosun Long March received 40% equity interest in Zhongsheng Zhongjie and it was agreed that Fosun Long March shall subscribe the additional registered capital of Zhongsheng Zhongjie of RMB3 million. As at the end of the Reporting Period, Fosun Long March held approximately 53.85% equity interest in Zhongsheng Zhongjie in aggregate.

On 31 August 2016, Fosun Hospital Investment, a subsidiary, entered into an investment agreement with Yinfeng Biological, Zhou Gengyin, Zou Xiong and other parties, pursuant to which Fosun Hospital Investment received 52% equity interest in Qilu Clinical Laboratory. As at the end of the Reporting Period, Fosun Hospital Investment held 52% equity interest in Qilu Clinical Laboratory.

On 18 September 2016, Fosun Pharmaceutical Industrial, a subsidiary, entered into an equity transfer agreement with Xuzhou Yihuishe, pursuant to which Fosun Pharmaceutical Industrial received 100% equity interest in Xuzhou Kangxin Pharmaceutical Co., Ltd.* (徐州康信醫藥有限公司) (“**Xuzhou Kangxin**”). As at the end of the Reporting Period, Fosun Pharmaceutical Industrial held 100% equity interest in Xuzhou Kangxin.

The acquisitions of the subsidiaries in 2016 have the following effect on the Group's production and results:

Unit: million Currency: RMB

Name of subsidiary	Acquired through	Net assets (as at 31 December 2016)	Net profit (from date of acquisition/ merger up to 31 December 2016)	Date of acquisition/ merger
Xuzhou Kangxin	Equity transfer	1.9	-0.0	25 November 2016
Zhongsheng Zhongjie	Equity transfer	48.0	-2.1	7 November 2016
Qilu Clinical Laboratory	Equity transfer	50.0	1.5	9 November 2016
Wanbang Tiancheng	Equity transfer	15.5	-4.8	23 June 2016
Wanbang Cloud Pharmacy	Equity transfer	-0.6	-0.9	9 March 2016
Hunan Jingren	Equity transfer	72.9	-7.1	26 April 2016

Note: The data of Wanbang Tiancheng, Zhongsheng Zhongjie and Qilu Clinical Laboratory include appreciation of asset evaluation and amortization of appreciation of asset evaluation

② Disposal of Subsidiaries in 2016

On 16 December 2016, Fosun Long March, a subsidiary, entered into an equity transfer agreement with Yang Zhijun, pursuant to which Fosun Long March transferred 50% equity interest in Shanghai Xingyao Medical Technology Development Co., Ltd.* (上海星耀醫學科技發展有限公司) (“**Xingyao Medical**”) to Yang Zhijun. As at the end of the Reporting Period, Fosun Long March held 50% equity interest in Xingyao Medical.

Chongqing Kaixing Pharmaceutical Co., Ltd.* (重慶凱興製藥有限責任公司) (“**Chongqing Kaixing**”), a subsidiary, completed deregistration on 5 December 2016.

Chindex China-Export GmbH, a subsidiary, completed deregistration on 23 December 2016.

The disposals of the subsidiaries in 2016 have the following effect on the Group's production and results:

Unit: million Currency: RMB

Name	Disposed through	Net assets as at date of disposal	Net profit from beginning of Reporting Period to date of disposal	Date of disposal
Xingyao Medical	Equity transfer	19	3	29 December 2016
Chongqing Kaixing	Deregistration	7	—	5 December 2016
Chindex China-Export GmbH	Deregistration	—	—	23 December 2016

E. Core Competence Analysis

I. Overview

The Group has formed a relatively complete product portfolio in the six major therapeutic areas (being areas of cardiovascular system, metabolism and alimentary system, central nervous system, blood system, anti-infection and anti-tumor) which are areas with the greatest potential to grow in China's pharmaceutical market. Each of the major pharmaceutical products of the Group has its own competitive advantages in their respective segments. In 2016, there were 18 formulation items or series of the Group that each recorded revenue of over RMB100 million.

The Group has developed internationalized R&D structure and strong R&D capabilities. It has set up interactive and integrated R&D systems in Shanghai, Chongqing, San Francisco and Taiwan. It has also established an efficient R&D platform in areas of small molecular innovative drugs, large-molecule biosimilars, generic drugs with high value and specialized formulation technology. During the Reporting Period, the Group strengthened its presence in the production of anti-tumor drugs. After years of research and development and as at the end of the Reporting Period, there were 173 pipeline drugs, generic drugs, biosimilars and vaccine projects, 6 projects under clinical trial applications, 22 projects under clinical trial, and 42 projects awaiting official approval for sales. It is expected that these projects under development will provide a solid foundation to maintain sustainable growth of the Group in the future. As at the end of the Reporting Period, there were nearly 1,000 staff members in the R&D team. Meanwhile, the

Group diversified its innovative research through strategic alliances, cooperative projects, joint ventures and other means so as to further strengthen its R&D capabilities.

Whilst enhancing the competitiveness of its products, the Group also focused on developing its marketing capabilities. With a marketing team consisting of over 3,000 employees and a sales network covering most of the major domestic markets, the Group has been improving its capabilities in sales and marketing. Sinopharm, an investee of the Group for over a decade, has developed into the largest pharmaceutical and healthcare distributor and a leading supply chain service provider in China possessing and operating China's largest drug distribution and delivery network. The Group, leveraging its long-established strategic cooperation with Sinopharm, put the synergy into full play.

The Group is one of the first enterprises in the PRC pharmaceutical industry to develop internationally. Its production has expanded overseas with several production lines recognized by relevant international certifications, and some of the formulations and APIs have also entered into the international markets in a considerable scale. Globally, the solid dosage formulation production line of Yao Pharma is recognized by the FDA in Canada and the U.S. The dietary supplement amino acid of Hubei Shine Star is recognized by the FDA. The Group is the leading provider of anti-malaria medicines.

For the healthcare service segment, the Group has completed the preliminary strategic deployment of its healthcare services business with high-end healthcare institutions in the more developed coastal cities and specialty and general hospitals in second-tier and third-tier cities in the PRC.

In addition, the Group's capabilities in investment, merger and acquisition activities and consolidation have been widely recognized in the pharmaceutical industry, providing a solid foundation for the Group to make a leap-forward development in the future. The listings in two markets have created favorable condition for the Group to rapidly expand its scale of operation and enhance its competitiveness through merger and acquisition activities.

II. *During the Reporting Period*

According to its strategy, the Group mainly invests in pharmaceutical manufacturing and R&D as well as healthcare services segments, with a majority of investment holding. It also maintains its long-term investment

in Sinopharm. The pharmaceutical manufacturing and R&D as well as medical devices and medical diagnosis business of the Group are in leading positions in the industry. According to the statistics of IMS, the Group ranked sixth in terms of the sales revenue generated from the prescription drugs for hospitals that produced by the Group in 2016, whilst the Da Vinci surgical robotic system of the distribution of medical devices of the Group had no similar competing products in the market. Meanwhile, the healthcare services business of the Group also takes the lead in terms of business development and integration capability in the industry.

The core competitiveness of the Group can be reflected in the increasingly extensive product lines, strong R&D capability, highly standardized production management, high quality services, professional marketing teams and international business development capability. With respect to the pharmaceutical manufacturing and R&D segment of the Group, there were 18 formulation items or series that each recorded revenue of over RMB100 million in 2016. These key products constitute the major sources of income of the pharmaceutical manufacturing and R&D segment of the Group and support the rapid development of the pharmaceutical manufacturing and R&D segment. Meanwhile, the pharmaceutical treatment sector of the Group has been expanding. As at the end of the Reporting Period, the Group has formed a relatively complete product portfolio in the six major therapeutic areas (being areas of cardiovascular system, metabolism and alimentary system, central nervous system, blood system, anti-infection and anti-tumor) which are areas with the greatest potential to grow in China's pharmaceutical market.

In order to maintain its continuous growth, the Group will follow the direction of China's Thirteenth Five-year Plan in relation to the pharmaceutical industry, take advantage of its competitive strengths and adhere to the strategies of organic growth, external expansion and integrated development.

F. Employees and Remuneration Policies

As at the end of the Reporting Period, the Group had a total of 19,523 employees. The employee's remuneration policies of the Group are formulated on the basis of the results, work experience and salary level prevailing in the market.

3. THE BOARD'S DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT OF THE COMPANY

A. Competition and Development Trends of the Industry

In 2017, the pharmaceutical and healthcare industry will maintain stable growth. For the market demand, the quickening aging process and liberalization of two-child policy, the further increased investment in the medical and healthcare industry from the government and the increase in per capita disposable income in China will become three major drivers for the further development of pharmaceutical industry in China. Besides, with the continual growth in morbidity rate of geriatric, chronic diseases and tumors, these drivers will persist and further encourage industry development at a speed faster than the GDP growth in the near future. With respect to industry structure, the domestic economy will sustain stable growth while the government will guide and encourage the strategically emerging industries to proceed with industry upgrading and structure optimization, thereby supporting the development of the innovation-driven pharmaceutical industry. In terms of national policies, the promulgation of “Healthy China 2030” has devised a brighter future for the major health industries in China. The implementation of “paying for pharmaceutical products and medical insurance with benchmark price” policy, amendments to the “National List of Essential Drugs”, “consistency evaluation” and other policies will lay a relatively more stable business foundation for domestic pharmaceutical enterprises. Upon the formulation and promulgation of China’s Thirteenth Five-year Plan for the pharmaceutical industry, there will be more demanding requirements in respect of the overall industry structure. Pharmaceutical enterprises with advantages in size, technology, brand and marketing will embrace rare opportunities. In view of the specific industry environment, the coexistence of challenges and opportunities will remain in future.

In terms of challenges, on the one hand, the consistent concern about the drug quality, system standards and standardized operation of pharmaceutical enterprises from the government, especially the increasingly demanding planning and requirements on pharmaceutical distribution channels and marketing environment, have procured the industry to be more regulated, standardized and efficient, which may bring great pressure and challenges for certain enterprises in China in short term. However, in the long run, such efforts will facilitate the upgrading of the entire industry structure and the further concentration of industry. The accelerated implementation of regulation and control over prices and classification of pharmaceutical products, and further improvement in the centralized tender system for procurement of pharmaceutical products will facilitate and accelerate the

consolidation in the domestic pharmaceutical industry. The level of industrial concentration will rapidly increase by way of acquisition and reorganization. On the other hand, under the influence of slow recovery in the global economy, the trend of anti-globalization and populism, unbalanced development between different regions, exchange rate risk and other factors, the international expansion of domestic enterprises will be subject to various challenges. However, it will be difficult for the trend of transnational information, technology, talents and capital flows to change in the long run. The expiration of patents of pharmaceutical products in major markets such as Europe and the U.S. will present opportunities for the rapid development of PRC companies with capabilities to innovate and carry out international expansion. While facing with favorable capital market conditions and product market opportunities, the international expansion of PRC pharmaceutical enterprises is also consistent with the policy directions of the government's industry plans.

In terms of opportunities, the innovation capacity of enterprises will have rapid development. In particular, some quality pharmaceutical enterprises will realize the market value of their excellent R&D results built up during the Twelfth Five-year Plan period, thus further encouraging domestic pharmaceutical enterprises to increase R&D expenditure and develop high-value added industry. Besides, in view of the international market, the pace of international development of the domestic pharmaceutical industry as a whole has accelerated. Various quality products have obtained approvals for market access in Europe, the U.S., Japan and other developed countries. There have been more and more international mergers and acquisitions year by year as well. These factors ensure the acceleration of international and global development of PRC pharmaceutical enterprises in terms of products and investment while conforming to the overall policy direction of the government's industry plans.

At the same time, the healthcare services segment in China will further open up and the participation in the segment by social enterprises has been highly encouraged, such as by further opening up of market access and encouraging social enterprises to participate in the public hospital reform. In addition, the scheme of multiple practices has been further introduced and approvals on acquisition of medical equipment have been gradually loosened, and basic medical insurance has been introduced into the hospital system. The Group has entered the healthcare services segment since 2009 and is accelerating its deployment of the medical services network while accumulating operation and management experience in medical services.

The Board of the Company is of the opinion that the Group, as a pharmaceutical enterprise with a considerable size and the first pharmaceutical group to develop internationally with the use of internet technology while creating product vitality, will benefit from the current government policies for the pharmaceutical market and industry. The Group will continue to strengthen its business operation and invest more resources to support product innovation and market expansion, and will also continue to proactively carry out mergers and acquisitions in therapeutic areas and rapidly extend the scale of its business to continuously enhance its overall competitiveness. As for the healthcare service sector, the Group will seize the opportunities and speed up its expansion amid the favorable policies.

B. Development Strategies

In 2017, the Group will continue to be committed to its mission of improving human health, adhere to its corporate philosophy of “Innovation for Good Health”, and endeavor to capture the opportunities presented by the broad pharmaceutical market in China, the rapid growth of generic drugs in mainstream markets such as Europe and the U.S as well as the continuous research and development in innovative drugs. It will adhere to the development strategies of organic growth, external expansion and integrated development, and further its efforts in acquiring quality companies in the international pharmaceutical industry. By continuing to optimize and integrate resources in the pharmaceutical industry chain, strengthening product innovation and product marketing systems, positively implementing internationalization and enhancing the core competence of the Group, the Group strives to further enhance its operating results. Meanwhile, the Group will continue to actively explore the financing channels domestically and internationally and create favorable conditions for the continuous development of the Group.

C. Operation Plan

In 2017, the development of the pharmaceutical industry will be presented with both opportunities and challenges. The Group will endeavor to develop its product-oriented strategy and further enhance its investments in R&D activities, and strengthen its marketing efforts for major products. In addition, the Group will continue to increase investment in the healthcare services segment to expand the operating scale in the segment and improve its operation management and ability of internationalization. Meanwhile, the Group will accelerate its mergers and acquisitions as well as integration of quality domestic and overseas pharmaceutical companies, medical enterprises and innovative companies, and promote the consolidation of Sinopharm in the pharmaceutical distribution segment.

In 2017, the Group plans to achieve rapid growth and aim to make revenue of not less than RMB1,600 million. Meanwhile, the Group will strive to control costs and various expenses. As a result, the increase in costs will not be greater than the growth in revenue and the cost of sales ratio and management expense (excluding R&D expenses) ratio will be relatively stable. Also, the percentage of R&D expenditure on pharmaceutical manufacturing segment to the total sales revenue from the pharmaceutical business will not be less than 5.0% so as to enhance profit margin and profitability of the major products.

The above operation objectives do not represent the profit forecast and performance commitment of the Group for 2017. The achievement of the objectives is subject to various internal and external factors with uncertainty. Investors should pay attention to the investment risk.

Pharmaceutical Manufacturing and R&D

In 2017, the Group will continue to focus on innovation and international development, and strive to develop strategic products. Whilst actively seeking opportunities for mergers and acquisitions as well as consolidation in the industry, the Group seeks to achieve continuous and rapid growth of its revenue and profit.

The Group will proactively push forward the development of professional marketing teams and follow-on products in therapeutic areas such as cardiovascular system, central nervous system, blood system, metabolism and alimentary system, anti-tumor and anti-infection. In addition to solidifying the market position and product growth in its existing key segments and products, the Group will further its efforts in promoting products such as the anti-malaria medicines such as artesunate series, febuxostat tablets (You Li Tong), recombinant human erythropoietin (Yi Bao), alprostadil dried emulsion (You Di Er), calcium dobesilate (Ke Yuan) and compound aloe capsules so as to maintain and further improve the leading position in their respective market segments.

The Group will continue to adopt the strategy to integrate imitation with innovation to combine international technology licenses with domestic industry-university-research cooperation, and increase its investments in R&D driven by the cooperation tie of “project plus technology platform”. Project approval process for new products will continue to be strictly implemented by the Group in order to enhance the efficiency of research and development. The Group will strengthen the development of the teams for the registration of pharmaceutical products in order to accelerate the approval process of existing products as well as to support innovation. The Group will actively facilitate the R&D and registration processes for products including

monoclonal antibody products and small molecular innovative drugs and ensure that the development and registration processes will be completed on schedule. The Group will also accelerate its efforts to link its R&D with the market situation so that demand and supply are better matched. The Group will fully take advantage of the benefits of various R&D platforms, and strive to develop strategic product lines as well as R&D systems that are in line with international standards for new pharmaceutical products, and accelerate the development and reserve for follow-on strategic products.

At the same time, the consistency evaluation on generic drugs is critical to the development of the Group. The Group will seize such opportunity to maintain and expand its market position in advantage types and make a new deployment in the market for the Group's products. The Group plans to select more than 40 types in cardiovascular system, metabolism and alimentary system, central nervous system, anti-infection and other therapeutic areas to commence consistency evaluation and related works are proceeding properly.

Meanwhile, the Group will also further expand and intensify its cooperation with the leading pharmaceutical companies in the world in order to give full play to the advantages of connecting momentum in China to global resources, making innovations in cooperation model and searching for new momentum. In 2017, the Group will proceed with the domestic and overseas projects including the establishment of a joint venture with Kite Pharma in China so as to make use of the industry experience of the Group and the leading research and development in the world for the purpose of active cooperation among pharmaceutical manufacturing enterprises, in order to solidify the core competence of its pharmaceutical manufacturing business.

Healthcare Services

In 2017, the Group will continue to seize the business and investment opportunities arising from the opening up of the healthcare services segment to social enterprises. The Group will continuously increase its investments in the healthcare services segment, and strengthen the established strategic deployment of its healthcare services business which integrates high-end healthcare services in coastal developed cities and specialty hospitals and general hospitals in second-tier and third-tier cities in an effort to expand the scale of our healthcare services business. The healthcare institutions controlled by the Group will further strengthen their disciplines and quality management, enhance operational efficiency and accelerate the business development. With the commencement of operation of the new complex and tumor center of Chancheng Hospital (禪城醫院), the Group will continue to expand the coverage and regional influence of healthcare services of Chancheng Hospital. The Group will also promote the implementation of the

Taizhou Zhedong Hospital (台州浙東醫院), Yulin Cardiovascular Specialty Hospital (玉林心血管專科醫院), Yulin Brain Hospital (玉林腦科醫院), the construction of Phase II of Qilu Hospital of Shandong University (Qingdao) and the reconstruction and expansion of Zhongwu Hospital and Guangji Hospital, and positively seek new opportunities for merger and acquisition of healthcare services. Furthermore, the Group will continue to support and promote the development of “United Family Hospital”, a high-end brand for healthcare services under Chindex, and in particular the establishment and business expansion of hospitals in Guangzhou and Pudong, Shanghai in order to accelerate the development of its high-end healthcare services characterized by multiple levels, diversification and extensibility.

Medical Devices and Medical Diagnosis

In 2017, the Group will increase its investments in R&D, manufacturing and sales of medical devices, and proceed with the listing of Sisram in Hong Kong. Alma Lasers under the Sisram group will further stimulate the R&D and sales of medical devices and synergy and innovation in service models with other business segments in order to extend its business from device supply to services. Meanwhile, the Group will continue to leverage its strengths in expanding international operations, and with its existing overseas companies as platforms, vigorously explore cooperation with overseas companies on the basis of proactive integration and seek investment opportunities in outstanding domestic and foreign medical devices enterprises and introduction of high-end medical devices while targeting at precise medical care, so as to achieve growth in the scale of its medical devices business. With the completion of the “C” round investment of Spirosure and the proposed establishment of a joint venture with Intuitive Surgical in Shanghai, the Group will continue to expand its product portfolio and diversify its product lines through investment, acquisitions and mergers of the relevant companies in the respiratory field in the medical devices and diagnosis segment. In 2017, upon the completion of the transfer of controlling interests in the relevant companies of Breas, a leading brand of respiratory medical devices in Sweden, the Group will establish a strategic platform covering the early diagnosis of lung cancer and asthma as well as the medical devices for treatment of common respiratory diseases in the field of respiratory medical business so as to form a closed circuit for the respiratory segment of the Group.

In 2017, the Group will continue to develop and introduce products, launch new products and enrich new product lines for its diagnostic business. The Group will continue to enhance the development of domestic and overseas sales network and its professional sales team, strive to increase the market

share of its diagnostic products including those newly introduced and registered in 2016, and actively seek opportunities to invest in quality companies both domestically and internationally.

Pharmaceutical Distribution and Retail

In 2017, the Group will continue to facilitate consolidation and rapid development of Sinopharm in its pharmaceutical distribution business, and the continued expansion of the competitive advantages of Sinopharm in the pharmaceutical distribution and retail sector.

Financing

The Group will continue to explore the financing channels domestically and internationally, optimize its financing structure and debt structure, lower financial costs and further enhance its core competence, so as to consolidate its leading position in the industry.

D. Financial Needs Required by the Group for Maintaining the Current Operations and Completing Investment Projects under Construction

With the organic growth of the Group and the steady growth in the industry consolidation, the Group expects to invest approximately RMB1,600 million for production capacity expansion, plant relocation and the development of cGMP and reconstruction and expansion of hospitals in 2017. Primary sources of funding include, among others, the Group's own capital, cash flow from operating activities, and proceeds from debt and equity financing.

E. Potential Risks

I. Risks in relation to industry policies and system reforms

Pharmaceutical industry is one of the industries mostly affected by national policies in the PRC. Enterprises which engage in production and sale of pharmaceutical products, medical devices and diagnostic products must obtain relevant permits issued by food and drug supervision and administration authorities. The product quality is regulated under stringent laws and regulations. The pharmaceutical industry is currently at the stage where relevant state policies are under significant adjustment and is strictly controlled. Although the Group's major business segments in manufacturing and sale for pharmaceutical products, diagnostic products and medical devices have obtained the above-mentioned permits and approvals issued by food and drug supervision and administration authorities, the state may adjust its regulations in respect of the manufacturing and sale of pharmaceutical products, diagnostic products

and medical devices. If the Group is unable to make corresponding adjustment and improvement, the production and operation of the Group may be adversely affected. In addition, with the official launch of reform of drugs and pharmaceutical system, industry consolidation and transformation in business models are inevitable. The exploring medical reform in the PRC will directly affect the development trend of the entire pharmaceutical industry. Implementation of policies and measures regarding drug price reduction, production quality regulations and environmental protection practice will also directly affect the profitability and production cost of pharmaceutical enterprises, which in turn affect the production and operation of the Group.

II. *Market risks*

Due to the huge market size and great development potential of the pharmaceutical market in the PRC, leading international pharmaceutical enterprises have been entering into the market. At the same time, the participation of enterprises from other industries in the competition and the existence of numerous domestic pharmaceutical enterprises across the PRC result in the excessive number of pharmaceutical manufacturing companies, fragmented market and low market concentration. Hence, the market competition has been intensified. The intense competition among domestic pharmaceutical companies and the implementation of reform measures relating to, among others, deregulation of drug prices and medical insurance fund coverage have increased the risk of uncertainty in product pricing of pharmaceutical manufacturing companies.

III. *Business and operating risks*

Being a special commodity, pharmaceutical products are directly related to life and health. The quality issues arising from raw materials, production, transportation, storage and usage of pharmaceutical products may have adverse impact on the production, operation and market reputation of the Group. On the other hand, in the event that the new drugs of the Group do not align with the changing market demand, or the Group fails to develop new products or the Group's new products do not receive positive market response, the operating costs of the Group will increase, which adversely affected the Group's profitability and future development.

Pharmaceutical manufacturing companies are exposed to environmental risks during the production process. Residue, waste gas, waste liquid and other pollutant produced will be harmful to the nearby environment if they are not treated properly, which in turn affect the normal production

and operation of the Group. Despite the strict compliance by the Group of the relevant environmental protection laws, regulations and standards for its waste treatment and emission of residue, waste gas and waste liquid, the environmental protection costs incurred by the Group may increase in light of the enhanced social awareness on environmental protection over time, and the potential implementation of more stringent environmental protection laws and regulations by central and local government.

There also exist risks of medical malpractice in the healthcare services segment, including complaints and disputes between doctors and patients arising from medical malpractice, medical misdiagnosis and incidents relating to defects of treatment devices. In the event of serious medical malpractice, relevant compensation and loss may be incurred by the Group, and operation results, brand and market reputation of the Group's healthcare services segment could be adversely affected.

IV. *Management risks*

(1) Management risks in relation to business expansion

With the implementation of the internationalization strategies of the Group, the scale of export of the Group's products and the region coverage of its overseas production will be expanded. The Group may face various problems during the process of implementation of internationalization strategies, including unfamiliarity with the overseas markets, difference in the demands between overseas and domestic customers, and implementation of trade protection policies in certain countries. At the same time, with the further expansion in global sales network of the Group, the scale of sales and the scope of business scope, there are higher requirements on the operating and management ability of the Group. If the Group's capability regarding production, marketing, quality control, risk management, compliance with integrity and talent training does not align with the development pace of the internationalization of the Group or the requirement for the expansion of the Group, the Group is exposed to operating and management risks. In addition, as the proportion of procurement, sales and acquired businesses that are settled in foreign currencies has been increasing, the exchange fluctuation between RMB and other currencies may affect the operation of the Group.

(2) *Risks arising from acquisitions and reorganizations*

It is one of the development strategies of the Group to facilitate acquisitions and business consolidations so as to achieve economies of scale. However, there might be legal, policy and operating risk exposures during the process of acquisitions and business consolidations. Upon successful acquisitions, the requirements on the operation and management of the Group will become higher. If acquisitions cannot bring about the synergistic impact, the operating results of the Group may be adversely affected.

V. *Force majeure risks*

Severe natural disasters and abrupt public health incidents may harm the properties and personnel of the Group, and may affect the ordinary production and operation of the Group.

Other Events

1. *The Restricted A Share Incentive Scheme*

On 7 January 2016, the Board considered and approved, the resolution in relation to the fulfillment of the conditions for unlocking the second tranche of the restricted A shares of the Company (the “**Restricted A Shares**”) in respect of the Restricted A Share Incentive Scheme, and the conditions for unlocking the Restricted A Shares have been satisfied by 24 grantees. As a result, a total of 1,222,320 Restricted A Shares were unlocked, and trading of such Restricted A Shares commenced on 14 January 2016.

On 12 January 2017, the Board considered and approved, the resolution in relation to the fulfillment of the conditions for unlocking the third tranche of the Restricted A Shares in respect of the Restricted A Share Incentive Scheme, and the conditions for unlocking the Restricted A Shares were satisfied by 24 grantees. As a result, a total of 1,259,360 Restricted A Shares were unlocked, and trading of such Restricted A Shares commenced on 19 January 2017.

2. *The Restricted A Share Incentive Scheme II*

As two of the grantees of the Restricted A Share Incentive Scheme II, namely Mr. Bai Huan and Mr. Chen Yi, had resigned from the Company and terminated their employment contracts with the Company, they no longer fulfilled the conditions for incentives. Pursuant to the Restricted A Share Incentive Scheme II, the Board considered and approved the buyback and cancellation of 37,500 Restricted A Shares which were granted to Mr. Bai

Huan and Mr. Chen Yi which had not been unlocked with a price of RMB10.54 per share for the buyback. The total consideration for the buyback amounted to RMB395,250. The number of grantees of the Restricted A Share Incentive Scheme II reduced to 43 from 45. Such portion of shares was cancelled on 24 February 2017.

On 21 November 2016, the Board considered and approved, the resolution in relation to the fulfillment of the conditions for unlocking the first tranche of the Restricted A Shares in respect of the Restricted A Share Incentive Scheme II, and the conditions for unlocking the Restricted A Shares have been satisfied by 43 grantees. As a result, a total of 876,975 Restricted A Shares were unlocked, and trading of such Restricted A Shares commenced on 6 December 2016.

3. *Proposed Non-Public Issuance*

The shareholders of the Company approved, among other things, the Proposed Non-Public Issuance on 29 June 2015.

On 23 February 2016, the Company entered into termination agreements to the subscription agreements/termination agreements to the subscription agreements and supplemental agreements with China Merchants Wealth Asset Management Co., Ltd., China Fund Management Co., Ltd. and China Universal Asset Management Company Limited, pursuant to which they no longer participated in the Proposed Non-Public Issuance. The number of new A Shares to be issued was adjusted to no more than 99,052,541 shares. The total proceeds raised from such offer amounted to no more than RMB2,300,000,002.02 and the issue price remained at RMB23.22.

On 8 July 2016, the Company received an approval from the CSRC in relation to the Proposed Non-Public Issuance approving the non-public issuance of no more than 99,052,541 new A Shares by the Company.

Since the distribution of the Company's final dividend for 2015 was completed in July 2016, according to the proposal on the Proposed Non-Public Issuance, the issue price of the Proposed Non-Public Issuance was adjusted to RMB22.90 per share and the number of A Shares to be issued was adjusted to no more than 100,436,681 new A Shares.

On 8 November 2016, the registration of the new shares in respect of the Proposed Non-Public Issuance with the Shanghai Branch of China Securities Depository and Clearing Corporation Limited for depository matters completed. The Company issued an aggregate of 100,436,681 new A Shares to China Life Insurance Company Limited, Taikang Asset Management Co.,

Ltd. and Anhui Railway Development Fund Co., Ltd. (安徽省鐵路發展基金股份有限公司). The total proceeds amounted to RMB2,299,999,994.90. The net proceeds amounted to RMB2,275,249,558.22.

4. *The Public Issuance of Corporate Bonds to Qualified Investors (First Tranche)*

The shareholders of the Company approved, among other things, the public issuance of Corporate Bonds on 16 November 2015.

The approval on the public issuance of the Corporate Bonds to the qualified investors was issued by CSRC on 30 December 2015, pursuant to which it approved the Company to publicly issue the Corporate Bonds not exceeding RMB5,000 million to qualified investors.

For the issuance according to the “Announcement on the Public Issuance of Corporate Bonds to Qualified Investors (First Tranche) in 2016 by Shanghai Fosun Pharmaceutical (Group) Co., Ltd.*”, the issuance of the First Tranche of the Corporate Bonds in 2016 was completed on 4 March 2016 and the issuance size was RMB3,000 million. The value date for the First Tranche of the Corporate Bonds in 2016 issued is 4 March 2016, with the final coupon rate at 3.35%.

For the issuance according to the “Announcement on the Public Issuance of Corporate Bonds to Qualified Investors (First Tranche) in 2017 by Shanghai Fosun Pharmaceutical (Group) Co., Ltd.*”, the issuance of the First Tranche of the Corporate Bonds in 2017 was completed on 14 March 2017 and the issuance size was RMB1,250 million. The value date for the First Tranche of the Corporate Bonds in 2017 issued is 14 March 2017, with the final coupon rate at 4.50%.

5. *Issuance of Super Short-term Commercial Papers*

The shareholders of the Company approved, among other things, the issuance of inter-bank market debt financing instruments on 29 June 2015.

On 1 December 2015, the National Association of Financial Market Institutional Investors issued a “Letter of Acceptance of Registration” for accepting the registration of the Company’s super short-term commercial papers with a register amount of RMB4,500 million. The registered amount shall be effective within a period of two years from the date of the letter. The Company can issue super short-term commercial papers in tranches during the valid period of registration.

The issuance of the First Tranche of Super Short-term Commercial Papers for 2016 was completed on 20 May 2016. The term of the First Tranche of Super Short-term Commercial Papers for 2016 was 180 days and the actual issuance size thereof is RMB500 million. The value date for the First Tranche of Super Short-term Commercial Papers for 2016 is 20 May 2016, with the coupon rate at 2.98%.

The issuance of the Second Tranche of Super Short-term Commercial Papers for 2016 was completed on 18 August 2016. The term of the Second Tranche of Super Short-term Commercial Papers for 2016 was 270 days and the actual issuance size thereof is RMB500 million. The value date for the Second Tranche of Super Short-term Commercial Papers for 2016 is 18 August 2016, with the coupon rate at 2.66%.

6. *Issuance of H Shares under General Mandate*

The resolution in relation to the grant of general mandate to the Board to issue H shares of the Company was considered and approved at the 2015 general meeting of the Company. It was agreed to authorize the Board of the Company to issue, allot and deal with additional shares which shall not exceed 20% of the overseas listed foreign shares (H shares) in issue upon passing such resolution at the general meeting, subject to the market condition and the needs of the Company.

On 30 November 2016, the Company received the Reply in Relation to the Issuance of Overseas Listed Foreign Shares of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (Zheng Jiang Xu Ke [2016] No. 2680) (《關於核准上海復星醫藥（集團）股份有限公司增發境外上市外資股的批覆》) from the CSRC, approving the Company to issue not more than 80,656,800 shares of overseas listed foreign shares with a nominal value of RMB1 each and all shares to be issued would be ordinary shares.

7. *Proposed Overseas Listing of Sisram*

The shareholders of the Company approved, among other things, the proposed spin-off and overseas listing of Sisram on 31 August 2016. It was proposed by the Company that Sisram be spun off and listed overseas on Hong Kong Stock Exchange. The CSRC issued the no objection letter for spin-off in relation to the overseas listing of Sisram on 22 December 2016.

The proposal spin-off and overseas listing of Sisram on the Hong Kong Stock Exchange constitute a spin-off within the meaning of Practice Note 15 of the Hong Kong Listing Rules (“**Practice Note 15**”) and are subject to the approval of the Hong Kong Stock Exchange.

As at the date hereof, the proposed overseas listing of Sisram is still subject to the approval of the Hong Kong Stock Exchange.

8. *Acquisition of the Controlling Interest in Gland Pharma*

The shareholders of the Company approved, among other things, the resolution in relation to the acquisition of the controlling interest in Gland Pharma Limited (“**Gland Pharma**”) on 29 September 2016.

The Company proposed to invest in no more than US\$1,261.37 million through its subsidiaries to acquire in aggregate approximately 86.08% equity interest in Gland Pharma, including contingent consideration of no more than US\$50 million according to the sales of Enoxaparin in the U.S.

As at the date hereof, the acquisition of the controlling interest in Gland Pharma has not yet completed.

9. *Potential Quotation of Shanghai Henlius on NEEQ*

On 10 August 2016, the Board considered and approved, among other things, the resolution in relation to the potential quotation of Shanghai Henlius on NEEQ (the “**Potential Quotation**”). Shanghai Henlius has converted from a limited liability company (Sino-foreign joint venture) into a joint stock limited corporation, and applied for the quotation on NEEQ.

The Potential Quotation constitutes a spin-off under the Practice Note 15 and is subject to the approval of the Hong Kong Stock Exchange. As at the date hereof, the Potential Quotation has been approved by the Hong Kong Stock Exchange and is subject to approval of NEEQ.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

(a) The Restricted A Share Incentive Scheme II

The Restricted A Share Incentive Scheme II was approved by the shareholders of the Company at the extraordinary general meeting, the A Shareholders’ class meeting and the H Shareholders’ class meeting held on 16 November 2015. On 19 November 2015, the Company granted a total number of 2,695,000 Restricted A Shares at the grant price of RMB10.54 each to 45 Grantees. As disclosed in the announcement of the Company dated 30 November 2015, the 45 Grantees had accepted and subscribed with their own funds under the Restricted A Share Incentive Scheme II and a total number of 2,695,000 Restricted A Shares were issued by the Company to the relevant Grantees. On 10 November 2016, due to the resignation of Mr. Bai Huan and Mr. Chen Yi from their respective position in the Company, the Board approved the Company to buy back and cancel the 37,500 Restricted A Shares which were granted to them which had not been unlocked at a price of RMB10.54 per share for the buyback. The total

consideration for the buyback amounted to RMB395,250. The above buyback was completed on 23 February 2017 while the cancellation of such repurchased shares was completed on 24 February 2017.

(b) Proposed Non-Public Issuance

On 8 November 2016, the registration of the new shares in respect of the Proposed Non-Public Issuance with the Shanghai Branch of China Securities Depository and Clearing Corporation Limited for depository matters completed. The Company issued an aggregate of 100,436,681 new A Shares to China Life Insurance Company Limited, Taikang Asset Management Co., Ltd. and Anhui Railway Development Fund Co., Ltd. (安徽省鐵路發展基金股份有限公司). The total proceeds amounted to RMB2,299,999,994.90. The net proceeds amounted to RMB2,275,249,558.22.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

COMPLIANCE WITH THE ANNUAL CG CODE

As a company whose shares listed on the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”), the Company has remained in strict compliance with the articles of association, relevant laws and regulations, the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange and the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “**Hong Kong Listing Rules**”). The Company is committed to continually improve its corporate governance structure, and to optimize its internal management and control and its business operation in order to improve the corporate governance of the Company.

The corporate governance practices adopted by the Company are based on the principles and code provisions of the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) as set out in Appendix 14 to the Hong Kong Listing Rules. The Company has complied with all the applicable code provisions contained in the CG Code during the Reporting Period.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Hong Kong Listing Rules and formulated its Written Code for Securities Transactions for Directors and Relevant Employees of the Company (the “**Written Code**”) as its codes of conduct regarding securities transactions.

Having made specific enquiry with the Directors, all the Directors confirmed that they have complied with the standards as set out in the Model Code and the Written Code throughout the Reporting Period.

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

The Group's annual results for the year ended 31 December 2016 have been reviewed by the Audit Committee of the Company.

FINAL DIVIDEND

The final dividend for the year ended 31 December 2016 (the “**2016 Final Dividend**”) as proposed by the Board, inclusive of tax, amounted to RMB0.35 per share, and is subject to the approval of the Company's shareholders (the “**Shareholders**”) at the forthcoming annual general meeting (the “**AGM**”). Subject to the approval of the Shareholders at the AGM, the 2016 Final Dividend is expected to be paid to the eligible Shareholders by no later than 31 August 2017.

A circular containing, among other things, further information in respect of the AGM and the proposed distribution of the final dividend will be dispatched to the Shareholders as soon as practicable.

AGM AND PERIOD OF CLOSURE OF REGISTER OF MEMBERS OF H SHARES

The Company will arrange the time of convening the forthcoming AGM as soon as practicable, and the notice of the AGM will be published and dispatched to the Shareholders in a timely manner in accordance with the requirements of the Hong Kong Listing Rules and the articles of association of the Company. Once the date of the AGM is finalized, the Company will publish the period of closure of register of members of H shares of the Company in a separate announcement and in the notice of the AGM.

THE WITHHOLDING AND PAYMENT OF ENTERPRISE INCOME TAX FOR NON-RESIDENT ENTERPRISE SHAREHOLDERS AND OF PERSONAL INCOME TAX FOR INDIVIDUAL SHAREHOLDERS

According to the requirements of the PRC Enterprise Income Tax Law effective from 1 January 2008 and the implementation rules thereof and the Notice on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders which are Overseas Non-resident Enterprises (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (Guo Shui Han [2008] No. 897) issued by the State Administration of Taxation on 6 November 2008, the 2016 Final Dividend payable to the non-resident enterprise shareholders whose names appear on the registers of members of H shares of the Company is subject to a withholding tax at a rate of 10%. Any shares registered in

the name of the non-individual registered shareholders, including HKSCC Nominees Limited, other nominees or trustees and other groups and organizations will be treated as being held by non-resident enterprise shareholders and therefore will be subject to the withholding of the enterprise income tax at the rate of 10%.

According to the Notice on Matters Concerning the Levy and Administration of Individual Income Tax after the Repeal of Guo Shui Fa [1993] No. 045 (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) (Guo Shui Han [2011] No. 348) issued by the State Administration of Taxation on 28 June 2011 and the Letter on the Tax Arrangements on Dividends Paid to Hong Kong Residents by Mainland Companies issued by the Hong Kong Stock Exchange on 4 July 2011, when domestic companies other than foreign invested enterprises which issue shares in Hong Kong distribute dividends to their shareholders, the individual shareholders in general will be subject to a withholding of individual income tax at a rate of 10%. When the Company distributes the 2016 Final Dividend to the individual holders of H Shares, such dividend will be subject to the withholding of individual income tax at a rate of 10%. However, if otherwise provided by tax laws, relevant tax treaties or notices, the tax will be withheld in accordance with the relevant requirements and tax levy and administration requirements.

The arrangement relating to withholding tax, if any, in respect of the 2016 Final Dividend to be paid by the Company to the investors who invest through the Shanghai Stock Exchange in the H Shares of the Company listed on the Main Board of the Hong Kong Stock Exchange will be finalized with the relevant PRC authorities prior to the payment of the 2016 Final Dividend.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the websites of the Company (<http://www.fosunpharma.com>) and the Hong Kong Stock Exchange (<http://www.hkexnews.hk>). The 2016 Annual Report will be dispatched to the Shareholders and will be made available on the websites of the Company and the Hong Kong Stock Exchange as and when appropriate.

By order of the Board
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.*
Chen Qiyu
Chairman

Shanghai, the PRC
28 March 2017

As at the date of this announcement, the executive directors of the Company are Mr. Chen Qiyu, Mr. Yao Fang and Mr. Wu Yifang; the non-executive directors of the Company are Mr. Guo Guangchang, Mr. Wang Qunbin, Ms. Kang Lan and Mr. Wang Can; and the independent non-executive directors of the Company are Mr. Cao Huimin, Mr. Jiang Xian, Dr. Wong Tin Yau Kelvin and Mr. Wai Shiu Kwan Danny.

** for identification purposes only*