FOSUN PHARMA
复星医药

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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board (the "**Board**") of directors (the "**Directors**") of Shanghai Fosun Pharmaceutical (Group) Co., Ltd.* (the "**Company**") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2017 (the "**Reporting Period**").

FINANCIAL HIGHLIGHTS

Interim Condensed Consolidated Statement of Profit or Loss

Six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017	2016
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	*3*	**8,276,941**	6,877,865
Cost of sales		**(3,571,893)**	(3,228,575)
Gross profit		**4,705,048**	3,649,290
Other income	*4*	**70,484**	85,548
Selling and distribution expenses		**(2,283,045)**	(1,679,761)
Administrative expenses		**(783,911)**	(663,711)
Research and development expenses		**(461,320)**	(307,236)
Other gains	*5*	**491,900**	375,268
Other expenses		**(80,319)**	(48,344)
Interest income		**33,969**	35,973
Finance costs	*7*	**(268,021)**	(234,453)
Share of profits and losses of:			
Joint ventures		**(6,061)**	868
Associates		**760,440**	716,328
PROFIT BEFORE TAX	*6*	**2,179,164**	1,929,770
Income tax expense	*8*	**(252,545)**	(181,145)
PROFIT FOR THE PERIOD		**1,926,619**	1,748,625
Attributable to:			
Owners of the parent		**1,689,060**	1,500,266
Non-controlling interests		**237,559**	248,359
		1,926,619	1,748,625
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
— Basic		**RMB0.70**	RMB0.65
— Diluted		**RMB0.70**	RMB0.65

Interim Condensed Consolidated Statement of Comprehensive Income
Six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**1,926,619**	1,748,625
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**(25,350)**	(69,921)
Reclassification adjustments for gains included in the consolidated statement of profit or loss		
— Gain on disposal	**(123,164)**	(95,637)
Income tax effect	**13,042**	39,465
	(135,472)	(126,093)
Share of other comprehensive (loss)/income of associates	**(30,360)**	58,732
Exchange differences on translation of foreign operations	**(5,816)**	(10,841)
Other comprehensive income not being reclassified to profit or loss in subsequent periods	**—**	—
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(171,648)**	(78,202)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1,754,971**	1,670,423
Attributable to:		
Owners of the parent	**1,528,993**	1,419,695
Non-controlling interests	**225,978**	250,728
	1,754,971	1,670,423

Interim Condensed Consolidated Statement of Financial Position
30 June 2017

	Notes	**30 June 2017** ***RMB'000*** **(Unaudited)**	31 December 2016 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**6,607,398**	6,325,479
Prepaid land lease payments		**1,325,452**	1,030,485
Goodwill		**3,817,274**	3,473,110
Other intangible assets		**2,876,918**	2,620,078
Investments in joint ventures		**655,969**	248,421
Investments in associates		**17,029,992**	15,870,262
Available-for-sale investments		**2,675,805**	2,674,436
Deferred tax assets		**142,405**	129,551
Other non-current assets		**347,699**	574,771
Total non-current assets		**35,478,912**	32,946,593
CURRENT ASSETS			
Inventories		**1,965,661**	1,670,738
Trade and bills receivables	*10*	**2,963,608**	2,389,862
Prepayments, deposits and other receivables		**696,793**	659,188
An equity investment at fair value through profit or loss		**27,094**	48,489
Cash and bank balances		**9,445,010**	5,996,030
Total current assets		**15,098,166**	10,764,307

	Notes	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
CURRENT LIABILITIES			
Trade and bills payables	*11*	**1,285,434**	1,149,379
Other payables and accruals		**3,679,974**	2,504,278
Interest-bearing bank and other borrowings		**4,896,788**	6,139,393
Tax payable		**321,659**	315,503
Total current liabilities		**10,183,855**	10,108,553
NET CURRENT ASSETS		**4,914,311**	655,754
TOTAL ASSETS LESS CURRENT LIABILITIES		**40,393,223**	33,602,347
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**10,145,464**	5,570,958
Deferred tax liabilities		**1,788,576**	1,786,427
Deferred income		**342,265**	346,706
Other long term liabilities		**694,234**	704,817
Total non-current liabilities		**12,970,539**	8,408,908
Net assets		**27,422,684**	25,193,439
EQUITY			
Equity attributable to owners of the parent			
Issued share capital		**2,495,131**	2,414,512
Treasury shares		**(18,767)**	(26,819)
Reserves		**22,127,182**	19,745,636
		24,603,546	22,133,329
Non-controlling interests		**2,819,138**	3,060,110
Total equity		**27,422,684**	25,193,439

1 BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements, which comprise the interim condensed consolidated statement of financial position of the Group as at 30 June 2017 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six months ended 30 June 2017 (the "Period"), have been prepared in accordance with HKAS 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

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 healthcare service segment mainly engages in the provision of healthcare service and hospital management;

(c) the medical devices and medical diagnosis segment mainly engages in the production and sale of medical equipment and diagnostic products;

(d) the pharmaceutical distribution and retail segment mainly engages in the retail and wholesale of medicine; 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 resource 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 dividend income from available-for-sale investments, gain or loss on disposal of available-for-sale investments, fair value gain or loss on equity investments at fair value through profit or loss, impairment of available-for-sale investments as well as head office and investment management entities 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 investment management entities 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 investment management entities liabilities as these liabilities are managed on a group basis.

Six months ended 30 June 2017 (unaudited)

	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	**5,706,359**	**1,011,127**	**1,540,601**	**—**	**18,854**	**—**	**8,276,941**
Intersegment sales	**8,523**	**1,678**	**6,272**	**—**	**21,215**	**(37,688)**	**—**
Total revenue	**5,714,882**	**1,012,805**	**1,546,873**	**—**	**40,069**	**(37,688)**	**8,276,941**
Segment results*	**937,183**	**159,331**	**256,726**	**—**	**9,395**	**(18,613)**	**1,344,022**
Other income	**36,300**	**1,200**	**6,854**	**—**	**—**	**—**	**44,354**
Other gains	**232,957**	**1,058**	**(30)**	**—**	**—**	**—**	**233,985**
Interest income	**11,519**	**4,115**	**5,229**	**—**	**108**	**(4,156)**	**16,815**
Finance costs	**(39,270)**	**(1,677)**	**(16,637)**	**—**	**(5,021)**	**39,602**	**(23,003)**
Other expenses	**(37,069)**	**(4,855)**	**23,227**	**—**	**(27)**	**—**	**(18,724)**
Share of profits and losses of:							
Joint ventures	**(4,343)**	**356**	**338**	**—**	**(2,412)**	**—**	**(6,061)**
Associates	**61,796**	**18,263**	**(10,677)**	**750,235**	**(59,177)**	**—**	**760,440**
Unallocated other income, interest income and other gains							**301,199**
Unallocated finance cost							**(245,018)**
Unallocated expenses							**(228,845)**
Profit before tax	**1,199,073**	**177,791**	**265,030**	**750,235**	**(57,134)**	**16,833**	**2,179,164**
Tax	**(228,128)**	**(45,973)**	**(45,211)**	**—**	**(3)**	**—**	**(319,315)**
Unallocated tax							**66,770**
Profit for the period	**970,945**	**131,818**	**219,819**	**750,235**	**(57,137)**	**16,833**	**1,926,619**
Segment assets:	**17,719,501**	**7,105,324**	**5,698,523**	**10,205,750**	**3,150,220**	**(632,806)**	**43,246,512**
Including:							
Investments in joint ventures	***436,342***	***200,999***	***9,676***	***—***	***8,952***	***—***	***655,969***
Investments in associates	***1,816,940***	***2,761,517***	***452,969***	***10,167,374***	***1,831,192***	***—***	***17,029,992***
Unallocated assets							**7,330,566**
Total assets							**50,577,078**
Segment liabilities:	**7,991,211**	**945,764**	**1,451,993**	**—**	**593,895**	**(5,537,369)**	**5,445,494**
Unallocated liabilities							**17,708,900**
Total liabilities							**23,154,394**
Other segment information:							
Depreciation and amortisation	**302,000**	**48,215**	**51,381**	**—**	**12,785**	**—**	**414,381**
Provision for impairment of inventories	**23,392**	**—**	**3,707**	**—**	**—**	**—**	**27,099**
Provision for impairment of trade and other receivables	**1,800**	**1,334**	**2,581**	**—**	**—**	**—**	**5,715**
Provision for impairment of an available-for-sale investment and investments in associates	**—**	**—**	**—**	**—**	**18,706**	**—**	**18,706**
Capital expenditure**	**667,859**	**63,780**	**68,752**	**—**	**308,487**	**—**	**1,108,878**

* Segment results are obtained as segment revenue less cost of sales, selling and distribution expenses, 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).

Six months ended 30 June 2016 (unaudited)

	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	4,796,657	752,150	1,315,954	—	13,104	—	6,877,865
Intersegment sales	6,710	—	—	—	16,369	(23,079)	—
Total revenue	4,803,367	752,150	1,315,954	—	29,473	(23,079)	6,877,865
Segment results*	812,431	132,660	245,118	—	5,593	(12,995)	1,182,807
Other income	69,572	77	4,091	—	—	—	73,740
Other gains	101,752	67	4,873	—	—	(2,450)	104,242
Interest income	9,126	2,500	4,140	—	280	—	16,046
Finance costs	(41,510)	(3,208)	(16,285)	—	(5,341)	31,755	(34,589)
Other expenses	(5,175)	(4,179)	(10,838)	—	(17)	2,450	(17,759)
Share of profits and losses of:							
Joint ventures	(1,199)	669	—	—	1,398	—	868
Associates	76,543	18,576	(5,518)	694,625	(50,198)	—	734,028
Unallocated other income, interest income and other gains							285,061
Unallocated finance cost							(199,864)
Unallocated expenses							(214,810)
Profit before tax	1,021,540	147,162	225,581	694,625	(48,285)	18,760	1,929,770
Tax	(164,351)	(35,216)	(36,489)	—	—	—	(236,056)
Unallocated tax							54,911
Profit for the period	857,189	111,946	189,092	694,625	(48,285)	18,760	1,748,625
Segment assets:	15,990,694	5,274,836	4,480,443	9,652,826	2,281,881	(137,022)	37,543,658
Including:							
Investments in joint ventures	*15,718*	*200,669*	—	—	*9,775*	—	*226,162*
Investments in associates	*1,688,535*	*2,038,467*	*399,720*	*9,652,826*	*1,546,853*	—	*15,326,401*
Unallocated assets							3,343,553
Total assets							40,887,211
Segment liabilities:	7,554,962	747,313	1,361,811	—	538,436	(5,407,364)	4,795,158
Unallocated liabilities							14,322,896
Total liabilities							19,118,054
Other segment information:							
Depreciation and amortisation	292,376	38,027	37,982	—	10,281	—	378,666
Provision for impairment of inventories	1,463	—	2,821	—	—	—	4,284
Provision for impairment of trade and other receivables	(1,175)	18,321	1,137	—	—	—	18,283
Capital expenditure**	766,326	65,592	30,996	—	25,413	—	888,327

* Segment results are obtained as segment revenue less cost of sales, selling and distribution expenses, 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).

3. REVENUE

Revenue, which is also the Group's turnover, 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:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Sale of goods	**7,101,820**	5,995,030
Rendering of services	**1,172,092**	881,916
Sale of materials	**3,029**	919
	8,276,941	6,877,865

4. OTHER INCOME

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Dividend income from available-for-sale investments	**25,401**	3,285
Government grants	**45,083**	82,263
	70,484	85,548

5. OTHER GAINS

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Gain on disposal of available-for-sale investments	**231,193**	267,005
Gain on disposal of shareholdings in a joint venture and an associate	**248,303**	91,313
Foreign exchange gain, net	**—**	12,095
Gain on disposal of an equity investment at fair value through profit or loss	**7,298**	—
Others	**5,106**	4,855
	491,900	375,268

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**2,817,475**	2,701,925
Cost of services provided	**754,418**	526,650
Staff costs (including Directors', Supervisors' and Chief Executive's remuneration)		
Salaries and other staff costs	**1,189,578**	942,149
Retirement benefits:		
Defined contribution fund	**95,161**	77,695
Accommodation benefits:		
Defined contribution fund	**42,869**	36,208
Share-based payment expense	**5,179**	13,301
	1,332,787	1,069,353
Research and development expenses:		
Current year expenditure excluding amortisation of other intangible assets	**437,133**	283,049
Less: Government grants for R&D projects*	**7,404**	8,718
	429,729	274,332
Operating lease payments	**43,455**	23,933
Depreciation of items of property, plant and equipment	**324,019**	286,030
Amortisation of prepaid land lease payments	**12,636**	10,896
Amortisation of other intangible assets	**77,726**	81,741
Provision for impairment of inventories	**27,099**	4,283
Provision for impairment of trade and other receivables	**5,715**	18,283
Provision for impairment of available-for-sale investments	**18,706**	—
Fair value loss on an equity investment at fair value through profit or loss	**3,562**	7,415
Foreign exchange loss/(gain), net	**10,555**	(12,095)
Loss on disposal of items of property, plant and equipment and other intangible assets	**1,062**	3,687

* The Group received various government grants related to research and development projects. The government grants received have been deducted from the research and development expenses 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.

7. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings	**272,879**	236,980
Less: Interest capitalised	**(4,858)**	(2,527)
Interest expenses, net	**268,021**	234,453

8. INCOME TAX

The provision for Mainland China current income tax is based on a statutory rate of 25% (for the six months ended 2016: 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% (for the six months ended 30 June 2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the Period. The provision of current income tax of Alma Lasers Ltd., a subsidiary of the Group incorporated in Israel, is based on a preferential rate of 16% (for the six months ended 30 June 2016: 16%). The provision of current income tax of Breas Medical Holdings AB, a subsidiary of the Group incorporated in Sweden, is based on a statutory rate of 22%.

The major components of tax expenses for the six months ended 30 June 2017 and 2016 are as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current	**281,723**	203,221
Deferred	**(29,178)**	(22,076)
Total tax charge for the Period	**252,545**	181,145

9. 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 period 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 2,426,136,770 (for the six months period ended 30 June 2016: 2,310,121,004) in issue excluding restricted shares during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the Company. 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.

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent	**1,689,060**	1,500,266
Less: Cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future	**(623)**	(1,265)
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**1,688,437**	1,499,001

	Number of shares	
	30 June 2017	30 June 2016
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,426,136,770**	2,310,121,004
Effect of dilution — weighted average number of ordinary shares: Restricted shares	**745,535**	3,954,360
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**2,426,882,305**	2,314,075,364

10. TRADE AND BILLS RECEIVABLES

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**2,574,464**	1,965,005
Bills receivable	**389,144**	424,857
	2,963,608	2,389,862

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 as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Outstanding balances with ages:		
Within 1 year	**2,559,623**	1,973,372
1 to 2 years	**51,229**	48,656
2 to 3 years	**24,359**	34,136
Over 3 years	**53,859**	26,079
	2,689,070	2,082,243
Less: Provision for impairment	**(114,606)**	(117,238)
	2,574,464	1,965,005

11. TRADE AND BILLS PAYABLES

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables	**1,159,292**	1,024,791
Bills payable	**126,142**	124,588
	1,285,434	1,149,379

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

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

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Outstanding balances with ages:		
Within 1 year	**1,129,743**	1,009,582
1–2 years	**16,329**	7,832
2–3 years	**6,670**	1,747
Over 3 years	**6,550**	5,630
	1,159,292	1,024,791

12. DIVIDENDS

The Directors did not recommend the payment of an interim dividend in respect of the Period (for the six months period ended 30 June 2016: Nil).

The proposed final dividend of RMB0.35 (tax included) per ordinary share for the year ended 31 December 2016 was declared payable and approved by the shareholders at the annual general meeting of the Company on 29 June 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

1. The Board's Discussion and Analysis on Operations of the Group for the Reporting Period

In the first half of 2017, amidst the situation that was full of challenges and uncertainties in the economies of the world and the PRC, there were continuous reform of the medical system in the PRC and limited growth of pharmaceutical manufacturing industry despite the slight recovery, while medical technology and medical services continued to be benefited from policies 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 core businesses.

During the Reporting Period, the revenue of the Group increased by 20.34% as compared to the corresponding period of 2016 to RMB8,277 million, and excluding the impacts of the new acquisition of Breas Medical Holdings AB ("**Breas**") in 2017, the new establishment of Wenzhou Geriatric Hospital Limited Company* (溫州老年病醫院有限公司) ("**Wenzhou Geriatric Hospital**") and the acquisition of Jinan Qilu Medical Laboratory Co., Ltd.* (濟南齊魯醫學檢驗有限公司) ("**Qilu Clinical Laboratory**") in 2016 as comparable factors, revenue would have increased by 17.06% as compared to the corresponding period of 2016. Of which, the revenue from pharmaceutical manufacturing and research and development (R&D) segment of the Group amounted to RMB5,706 million, representing an increase of 18.95% as compared to the corresponding period of 2016. The revenue from healthcare service business amounted to RMB1,011 million, representing an increase of 34.44% as compared to the corresponding period of 2016, and excluding the impacts of the establishment of Wenzhou Geriatric Hospital, the acquisition of Qilu Medical Laboratory in 2016 as comparable factors and other factors, revenue from healthcare service would have increased by 19.14% as compared to the corresponding period of 2016. The Group recorded revenue of RMB6,808 million in the Mainland China, representing an increase of 14.38% as compared to the corresponding period of 2016 and recorded revenue of RMB1,469 million in foreign countries or regions, representing an increase of 58.64% as compared to the corresponding period of 2016. The proportion of the Group's overseas revenue was 17.75%, representing an increase of 4.29% as compared to the corresponding period of 2016.

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

Unit: RMB million

Business segment	**Revenue for January to June 2017**	Revenue for January to June 2016	Year-on-year increase/ decrease (%)
Pharmaceutical manufacturing and R&D	**5,706**	4,797	18.95
Healthcare services *(Note 1)*	**1,011**	752	34.44
Medical devices and medical diagnosis *(Note 2)*	**1,541**	1,316	17.10

Note 1: Excluding the impact of the establishment of Wenzhou Geriatric Hospital, the acquisition of Qilu Clinical Laboratory in 2016 as comparable factors, the revenue of healthcare services business segment would have increased by 19.14% on the same basis as compared to the corresponding period of 2016;

Note 2: Excluding the impact of the new acquisition of Breas in 2017 and other factors, the revenue of medical devices and medical diagnosis business segment would have increased by 11.74% on the same basis as compared to the corresponding period of 2016.

During the Reporting Period, the Group recorded profit before tax of RMB2,179 million and profit attributable to owners of the parent of RMB1,689 million, representing an increase of 12.92% and 12.58%, respectively, as compared to the corresponding period of 2016. The increase in each of the profit before tax and profit attributable to owners of the parent was mainly due to the steady growth maintained by businesses of the Group, the further optimized sales structure, the construction of marketing system and emergence of effects arising from supply chain integration.

During the Reporting Period, net cash flow from operating activities continued to rise, increasing to RMB1,104 million for the first half of 2017, representing an increase of 17.90% as compared to the corresponding period of 2016. The profitability and operational quality of the Group further enhanced.

During the Reporting Period, the Group continued to increase R&D investment. The total R&D investment amounted to RMB626 million, representing an increase of RMB137 million or 28.12% as compared to the corresponding period of 2016. In particular, the R&D expenses amounted to RMB461 million, representing an increase of RMB154 million or 50.15% as compared to the corresponding period of 2016. The R&D investment in the pharmaceutical manufacturing and R&D segment amounted to RMB530 million, representing an increase of RMB106 million or 24.93% as compared to 2016. In particular, R&D expenses amounted to RMB365 million, representing an increase of RMB122 million or 50.46% as compared to the corresponding period of 2016, accounting for 6.3% 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, biosimilars and vaccine projects (including 11 small molecular innovative drugs, 9 biopharmaceutical innovative

drugs, 12 biosimilars, 2 improved innovative drugs, 133 generic drugs with international standards, 4 biological products for prevention and 2 traditional Chinese medicine drugs). During the Reporting Period, the Group applied for 31 patents, including 6 U.S. patent applications, 1 Japanese patent application, 1 European patent application and 6 PCT applications, in the pharmaceutical manufacturing and R&D segment, and obtained 7 licensed patents, all of which were invention parents.

Pharmaceutical Manufacturing and R&D

During the Reporting Period, the pharmaceutical manufacturing and R&D segment of the Group generated revenue of RMB5,706 million, representing an increase of 18.95% as compared to the corresponding period of 2016. During the Reporting Period, segment results and segment profit of the pharmaceutical manufacturing and R&D segment of the Group amounted to RMB937 million and RMB971 million, which increased by 15.36% and 13.27% as compared to the corresponding period of 2016, 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. The Group's products including, among others, pitavastatin (Bang Zhi) and alprostadil dried emulsion (You Di Er) in cardiovascular system therapeutic area, compound aloe capsules and febuxostat tablets (You Li Tong) in metabolism and alimentary system therapeutic area and pemetrexed disodium (Yi Luo Ze) in anti-tumor therapeutic area entered the National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance Drugs Catalogue (2017 version) (《國家基本醫療保險、工傷保險和生育保險藥品目錄》(2017年版)) during the Reporting Period.

In the first half of 2017, febuxostat tablets (You Li Tong) maintained rapid growth, while certain other products including, among others, reduced glutathione (Atomolan series), antimalarial series such as artesunate, alprostadil dried emulsion (You Di Er), anti-tuberculosis series, compound aloe capsules and other products recorded relatively fast growth.

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

Unit: RMB million

Pharmaceutical manufacturing and R&D	**January to June 2017**	January to June 2016	Changes compared to the corresponding period of 2016 (%)
Major products of cardiovascular system therapeutic area *(Note 1)*	**647**	585	10.69
Major products of central nervous system therapeutic area *(Note 2)*	**544**	488	11.46
Major products of blood system therapeutic area *(Note 3)*	**193**	161*(Note 3*)*	19.87
Major products of metabolism and alimentary system therapeutic area *(Note 4)*	**1,094**	847	29.17
Major products of anti-infection therapeutic area *(Note 5)*	**1,121**	936	19.79
Major products of anti-tumor therapeutic area *(Note 6)*	**150**	155	–3.23
Major products of APIs and intermediate products *(Note 7)*	**657**	544	20.74

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 deproteinized 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 data of the first half of 2016 was restated for comparison with the data in 2016 Annual Report on the same basis, i.e. the data of the first half of 2016 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 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 injection (Yi Luo Ze) and bicalutamide (Zhao Hui Xian); and

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

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 and R&D 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, out-of-specification (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, the subsidiaries of the Group that engaged in pharmaceutical manufacturing business had 53 Good Manufacturing Practices (GMP) certificates (2010) in aggregate, which included 33 production lines for sterile preparation, 37 production lines for oral formulation and 63 APIs. All subsidiaries that engaged in pharmaceutical manufacturing business fulfilled the new GMP in China. 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 Current Good Manufacturing Practice (cGMP) certifications such as the U.S., European Union and World Health Organization (WHO) into practice. As at the end of the Reporting Period, more than 10 APIs of the Group received GMP certifications of national health authorities from the U.S. FDA, EU, Ministry of Health, Labor and Welfare of Japan and Federal Ministry of Health of Germany; 1 production line for oral solid dosage formulation and 5 production lines for APIs of Guilin South Pharma Company Limited* (桂林南藥股份有限公司) ("**Guilin Pharma**"), a subsidiary, obtained PreQualification from the WHO-PQ; and 1 production line of oral solid dosage formulation of Chongqing Yao Pharmaceutical Company Limited* (重慶藥友製藥有限責任公司) ("**Yao Pharma**"), a subsidiary, was recognized by Canada FDA 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, the total R&D investment amounted to RMB626 million in total, representing an increase of RMB137 million or 28.12% as compared to the corresponding period of 2016. In particular, the R&D expenses amounted to RMB461 million, representing an increase of RMB154 million or 50.15% as compared to the corresponding period of 2016. The

R&D investment in the pharmaceutical manufacturing and R&D segment amounted to RMB530 million, representing an increase of RMB106 million or 24.93% as compared to 2016. In particular, R&D expenses amounted to RMB365 million, representing an increase of RMB122 million or 50.46% as compared to the corresponding period of 2016, accounting for 6.3% of the revenue of the pharmaceutical manufacturing and R&D segment. The Group continued to increase its R&D investment in monoclonal antibody biopharmaceutical innovative drugs and biosimilars and small molecular innovative drugs and pushed forward consistency evaluation. The Group also continued to optimize its pharmaceutical R&D system that integrated generic and innovator drugs, 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, Taipei and San Francisco. In order to leverage its competitive strengths, the Group focused its R&D projects on therapeutic areas including anti-tumor, cardiovascular system, central nervous system, blood system, metabolism and alimentary system and anti-infection, 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 (including 11 small molecular innovative drugs, 9 biopharmaceutical innovative drugs, 12 biosimilars, 2 improved innovative drugs, 133 generic drugs with international standards, 4 biological products for prevention and 2 traditional Chinese medicine drugs). During the Reporting Period, research on monoclonal antibody products further accelerated and the R&D progress is set out below:

No.	Name of R&D project on drugs (products)	R&D stage as at the end of the Reporting Period	Stage of clinical trial
1	Recombinant murine/human chimeric anti-CD20 monoclonal antibody injection	Clinical trial	Phase I/III of clinical trial *(Note 1)*
2	Recombinant humanized anti-HER2 monoclonal antibody injection	Clinical trial *(Note 2)*	Phase III of clinical trial
3	Recombinant anti-TNF α fully human monoclonal antibody injection	Clinical trial *(Note 3)*	Phase I of clinical trial
4	Recombinant humanized anti-EGFR monoclonal antibody injection	Clinical trial *(Note 4)*	Phase I of clinical trial *(Note 5)*
5	Recombinant humanized anti-VEGF monoclonal antibody injection	Clinical trial	Phase I of clinical trial
6	Recombinant anti-VEGFR2 fully human monoclonal antibody injection	Accepted the application for clinical trial	Not applicable

Note 1: Such drug for rheumatoid arthritis indications and non-Hodgkin lymphoma indications were in phases I and III clinical trial, respectively;

Note 2: Approved for clinical trial in the PRC and Ukraine as at the end of the Reporting Period;

Note 3: Approved for clinical trial for psoriasis indications in the PRC during the Reporting Period;

Note 4: Approved for clinical trial in the PRC (including Taiwan) and the U.S. as at the end of the Reporting Period;

Note 5: Carried out phase I of clinical trial in Taiwan.

During the Reporting Period, a total of 31 patents had been applied for in the pharmaceutical manufacturing and R&D segment, including 6 U.S. patent applications, 1 Japanese patent application, 1 European patent application and 6 PCT applications, and 7 licensed patents had been obtained, all of which were invention 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.

Healthcare Services

In the first half of 2017, 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, reconstruction and expansion projects including Suqian Zhongwu Hospital Co., Ltd.* (宿遷市鐘吾醫院有限責任公司) ("**Zhongwu Hospital**") and Yueyang Guangji Hospital Company Limited* (岳陽廣濟醫院有限公司) ("**Guangji Hospital**") commenced one by one and Wenzhou Geriatric Hospital was under smooth operation, laying foundations of a new model for social enterprises' participation in the healthcare services segment. The Group participated in the reorganization 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 Qilu Clinical Laboratory. The Group cooperated in the establishment of Shandong Yixing Nursing Services Co., Ltd.* (山東頤星護理服務有限公司), which met the demand of a closed circuit in the healthcare service industry. The Group actively explored and participated in the new business model of providing healthcare services on the Internet to achieve a seamless integration of online and offline services and form a closed circuit of O2O 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 RMB1,011 million, representing an increase of 34.44% as compared to the corresponding period of 2016. Excluding the impacts of the establishment of Wenzhou Geriatric Hospital and the acquisition of Qilu Clinical Laboratory in 2016 as comparable factors and other factors, revenue from healthcare service would have increased by 19.14% as compared to the corresponding period of 2016. The performance of the hospitals commenced operation improved steadily. During the Reporting Period, segment results were RMB159 million, representing an increase of 20.10% as compared to the corresponding period of 2016, and segment profit was RMB132 million, representing an increase of 17.75% as compared to the corresponding period of 2016. As at the end of the Reporting Period, the total number of authorized beds available for the public in Foshan Chancheng Central Hospital Company Limited* (佛山市禪城區中心醫院有限公司) ("**Chancheng Hospital**"), Anhui Jimin Cancer Hospital* (安徽濟民腫瘤醫院) ("**Jimin Cancer Hospital**"), Guangji Hospital, Zhongwu Hospital and Wenzhou Geriatrics Hospital, etc. controlled by the Group was 3,018 in aggregate.

In addition, during the Reporting Period, the Group actively supported 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 the first half of 2017, the United Family Hospital maintained its brand awareness and prominent positions in high-end healthcare segment in major cities such as Beijing, Shanghai and Tianjin. Qingdao United Family Hospital had commenced operation. The construction of Guangzhou United Family Hospital and Shanghai Pudong United Family Hospital was 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

During the Reporting Period, 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 RMB1,541 million from the medical devices and medical diagnosis segment, representing an increase of 17.10% as compared to the corresponding period of 2016. Excluding the impact of the new acquisition of Breas in 2017 and other factors, revenue would have increased by 11.74% as compared to the corresponding period of 2016. During the Reporting Period, the results and profit of the medical devices and medical diagnosis segment amounted to RMB257 million and RMB220 million, which increased by 4.74% and 16.25% as compared to the corresponding period of 2016, respectively. In the first half of 2017, HPV reagent, medical beauty devices and dental digitized product maintained rapid growth.

The number of surgeries by Da Vinci surgical robotic system sustained rapid growth and amounted to over 12,800 in the Mainland China and Hong Kong, representing year-on-year growth of approximately 60%. However, as affected by the approval progress of the allocation of large equipment, the sales and installation of Da Vinci surgical robotic system delayed in the first half of 2017, causing a decrease of 52% in sales revenue.

During the Reporting Period, Alma Lasers Ltd. ("**Alma Lasers**") under Sisram Medical Ltd ("**Sisram**") continued to accelerate the development of the global market and especially key emerging markets while strengthening its new product portfolio, in particular, by increasing R&D of medical devices and extending its production line into the clinical treatment area. In June 2017, Sisram submitted the listing application to The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**"). Upon the transfer of 30% equity interest in Chindex Medical Limited ("**CML**") as a transferee, the Group wholly owned CML and would further accelerate the collaborative development of the medical device segment in respect of R&D, manufacturing, sales, product services as well as investment, acquisition and merger by taking CML as a platform. The Company made 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, namely Intuitive Surgical-Fosun Medical Technology (Shanghai) Co., Ltd.* (直觀復星醫療器械技術(上海)有限公司), and completed the relevant business registration so as to facilitate the development and popularization of high-end medical technology in China. The Group completed its investment in the 80% equity interest of Breas, a leading brand of respiratory medical devices in Sweden, which further expanded the product portfolio of respiratory medical business and established a strategic platform covering the early diagnosis of lung cancer and asthma as well as the medical devices for treatment of common respiratory diseases so as to form a closed circuit for the respiratory segment of the Group.

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 the first half of 2017, Sinopharm realized revenue of RMB137,768 million, net profit of RMB4,032 million and net profit attributable to shareholders of the parent of RMB2,765 million, which represented an increase of 8.65%, 7.39% and 9.04% as compared to the corresponding period of 2016, respectively. As at the end of the Reporting Period, the distribution network of Sinopharm covered 31 provinces, autonomous regions and municipalities in China. The number of its direct customers reached 14,279 hospitals (only referring to hospitals with ranking, including 1,938 of the tier-three hospitals, which are the largest and most highly-ranked hospitals), 112,014 small-sized end customers (including basic medical institutions and others) and 74,108 retail pharmacies. During the Reporting Period, Sinopharm's revenue from pharmaceutical distribution business increased by 9.10% as compared to the corresponding period of 2016 to RMB131,700 million. Meanwhile, the pharmaceutical retail business of Sinopharm also maintained growth with revenue of RMB5,701 million realized during the Reporting Period, representing an increase of 16.12% as compared to the corresponding period

of 2016, while its pharmaceutical retail network further expanded. As at the end of the Reporting Period, the retail pharmacy network covered 18 provinces and cities in China with 3,693 retail pharmacies (only refer to those under GuoDa Pharmacy) comprising 2,664 direct-sale stores and 1,029 franchise stores.

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 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 pharmaceutical products sales channels of the Group. Through the establishment of regional financial sharing centers, the Group achieved the integration of accounting, statement preparation, tax administration, financial analysis and internal control establishment of regional subsidiaries.

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. During the Reporting Period, the Group further expanded the scope of centralized procurement and completed a total of 12 centralized procurement projects. The largest decrease of the procurement costs of the project bids was about 52%, and the highest decrease for the procurement price of an item was 65%. With respect to the establishment of suppliers, the Group set up two strategic supplier bases for infrastructure through open tendering. During the Reporting Period, the Group introduced a credit system in selecting bidders so as to have objective knowledge of the overall business conditions of the bidders for reducing supply risk. The Group also pushed forward its green supply chain project in this year by a rolling update to its five-year strategy for green supply chain 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 cooperated with its member companies in the preparation of corporate procurement and tendering management measures based on the Basic Guidelines for Procurement and Tendering (Trial). By further promoting the application of the procurement and tendering platform, further enhancing collaboration and efficiency of procurement and tendering and assisting the implementation of ERP system, the Group strengthened the synergy of its internal procurement and tendering.

In respect of compliance operation, the Group had 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 "Digital transformation", the Group had introduced the SAP system in stages for the pharmaceutical manufacturing segment and established an 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 with the establishment and deepening implementation of the management system of environment, health and safety (EHS). Through the improvement and upgrade of various EHS facilities and the enhancement in the management of EHS standards and procedures, the EHS performance of the Group was improved in a practicable and effective manner.

Due to the further demanding national requirements on environmental management, the Group carried out a thorough inspection on volatile organic compounds (VOCs) at the subsidiary level for the pharmaceutical manufacturing segment and implemented emission reduction construction projects step by step. During the Reporting Period, the Group has completed the VOCs management and emission reduction project of Shanghai Zhaohui Pharmaceutical Company Limited* (上海朝暉藥業有限公司). In addition, the relevant subsidiaries pushed forward the overall planning based on the environmental management policies in the relevant regions by implementing various environment enhancement measures such as replacing the use of coal with natural gas and upgrading or renovating sewage treatment facilities. The Group made proactive effort into various environmental, energy saving and emission tasks properly.

During the Reporting Period, the Group established and enhanced the process safety management (PSM) framework for subsidiaries storing and using APIs and hazardous chemical substances while conducting process safety risk assessment and management for high-risk process facilities and units involving refined chemical process in order to ensure the effective mitigation and control of the safety production risks. During the Reporting Period, the Group accomplished its safety goal of zero occupational fatality and zero fire and explosion.

In respect of EHS management and culture establishment, the Group had published and issued a series of management regulations including the Response and Reporting System of EHS Official Inspections for Controlled Companies, the Management Procedures for Occupational Health, Safety and Environmental Performance Indicators of Special Safety and Environmental Standards and the Occupational Health, Safety and Environmental Accountability System, and established a EHS basic data online reporting platform and a monthly EHS basic data reporting system to refine means of management and control and refined management of process in order to strive for the realization of early intervention, early discovery and early improvement for EHS issues and ensuring zero material non-compliance.

During the Reporting Period, the Group conducted full 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 also promptly took over and improved the EHS management systems of its investees.

As at the end of the Reporting Period, the Group had established a regular review and management decision making mechanism for EHS. Being active in organizational structure, human resources, management and control process and resource allocation, EHS team building and expertise had constantly improved, which provided organizational and resource protection for the EHS compliant operation and sustainable development of the Group.

Financing

During the Reporting Period, the Company completed the placing of H shares ("**Placing of H Shares**"). The total proceeds from the placing amounted to approximately HK$2,322.91 million and were used for repaying interest-bearing debts, replenishing the working capital of the Group, and financing potential mergers and acquisitions domestically or overseas. The Company completed the issue of corporate bonds of RMB1,250 million, which adjusted debt structure. Meanwhile, the Group also further extended cooperation with the Export-Import Bank of China, China Development Bank 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 strengthen the development of its principal businesses and implement the strategy of international development.

A. *Analysis on Principal Operations*

(1) *Analysis of Changes in Relevant Items of Financial Statements*

Unit: RMB million

Items	**January to June 2017**	January to June 2016	Period-on-period change (%)
Revenue	**8,277**	6,878	20.34
Cost of sales	**3,572**	3,229	10.63
Selling and distribution expenses	**2,283**	1,680	35.91
Administrative expenses	**784**	664	25.29
R&D expenses	**461**	307	50.15
Finance costs	**268**	234	14.53
Net cash flow generated from operating activities	**1,104**	936	17.90
Net cash flow generated from investment activities	**–1,653**	–1,128	–46.49
Net cash flow generated from financing activities	**4,901**	668	633.43
R&D expenditure	**626**	488	28.12

The increase in selling expenses was mainly due to the growth in the sales volume of major products in the major therapeutic areas and the extensive market expansion during the Reporting Period;

The increase in R&D expenses was mainly due to the further increase in the R&D investment in monoclonal antibody biopharmaceutical innovative drugs and biosimilars and small molecular innovative drugs and focused investment in consistency evaluation during the Reporting Period;

The increase in finance costs was mainly due to the exchange loss of the proceeds from the Placing of H Shares as a results of the change in exchange rate and the increase in interest expenses due to the increases in the domestic open market interest rate and US dollar Libor interest rate during the Reporting Period;

The decrease in net cash flow generated from investment activities was mainly due to more cash paid for external investments by the Group during the Reporting Period;

The increase in net cash flow generated from financing activities was mainly due to the Placing of H Shares and the additional bank borrowings of the Group during the Reporting Period.

(2) *R&D Expenditure*

① R&D Expenditure

Unit: RMB million

R&D expenditures expensed for the period	461
R&D expenditures capitalized for the period	165
Total R&D expenditures	626
Percentage of total R&D expenditures on net assets (%)	2.28
Percentage of total R&D expenditures on revenue (%)	7.5

② Descriptions

During the Reporting Period, the total R&D investment amounted to RMB626 million in total, representing an increase of RMB137 million or 28.12% as compared to the corresponding period of 2016. In particular, the R&D expenses amounted to RMB461 million, representing an increase of RMB154 million or 50.15% as compared to the corresponding period of 2016. The R&D investment in the pharmaceutical manufacturing and R&D segment amounted to RMB530 million, representing an increase of RMB106 million or 24.93% as compared to 2016. In particular, R&D expenses amounted to RMB365 million, representing an increase of RMB122 million or 50.46% as compared to the corresponding period of 2016, accounting for 6.3% of the revenue of the pharmaceutical manufacturing and R&D segment, which was mainly due to the further increase in the R&D investment in monoclonal antibody biopharmaceutical innovative drugs and biosimilars and small molecular innovative drugs and focused investment in consistency evaluation during the Reporting Period.

(3) *Introduction on the progress of operation plans*

During the Reporting Period, the Group adhered to its strategies of "organic growth, external expansion and integrated development", focused its competitive strengths and resources on its major business of pharmaceutical manufacturing and R&D, insisted on product innovation and further enhanced the competitiveness of its products. Meanwhile, the Group continued to increase its investment in the healthcare services segment and substantially completed the strategic deployment of its healthcare services segment to combine 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 actively promoted its internationalization strategies, accelerated the pace of its international mergers and acquisitions and increased its business scale.

B. *Industry and Regional Operations*

(1) *Principal Business by Segment and by Products*

Unit: RMB million

Principal business by segment

Segments	Revenue	Cost of sales	Gross margin *(%)*	Year-on-year change in revenue *(%)*	Year-on-year change in cost of sales *(%)*	Period-on-period change in gross margin
Pharmaceutical manufacturing and R&D	5,706	2,050	64.07	18.95	2.03	increase of 5.95 percentage points
Healthcare services *(Note 1)*	1,011	711	29.67	34.44	33.19	increase of 0.68 percentage point
Medical devices and medical diagnosis	1,541	791	48.67	17.10	18.45	decrease of 0.57 percentage point

Principal Business by Products

Products	Revenue	Cost of sales	Gross margin *(%)*	Year-on-year change in revenue *(%)*	Year-on-year change in cost of sales *(%)*	Period-on-period change in gross margin
Major products of cardiovascular system therapeutic area	647	125	80.71	10.69	2.05	increase of 1.64 percentage points
Major products of central nervous system therapeutic area	544	56	89.70	11.46	–13.45	increase of 2.97 percentage points
Major products of blood system therapeutic area *(Note 2)*	193	20	89.64	19.87	–40.78 *(Note 3)*	increase of 10.61 percentage points
Major products of metabolism and alimentary system therapeutic area	1,094	248	77.30	29.17	–5.29	increase of 8.26 percentage points
Major products of anti-infection therapeutic area	1,121	348	68.94	19.79	–11.87	increase of 11.16 percentage points
Major products of anti-tumor therapeutic area	150	39	73.83	–3.23	34.68 *(Note 4)*	decrease of 7.37 percentage points
Major products of APIs and intermediate products	657	441	32.80	20.74	10.68	increase of 6.10 percentage points

Note 1: The year-on-year growth in revenue and cost of healthcare service segment was mainly due to the establishment of Wenzhou Geriatric Hospital and the acquisition of Qilu Clinical Laboratory in 2016;

Note 2: The data of major products of blood system therapeutic area of the first half of 2016 was restated for comparison with the data in 2016 Annual Report on the same basis, i.e. the data of the first half of 2016 including the revenue and cost of Cobamamide for injection (Mi Le Ka), a new core product;

Note 3: The cost of the major products of blood system therapeutic area reduced 40.78% year on year, which was mainly due to the decreased procurement cost of raw materials by enhancing management on raw materials sources;

Note 4: The cost of the major products of anti-tumor therapeutic area increased 34.68% year on year, which was mainly due to the increased material cost as a result of the replacement of the raw materials of Xihuang capsules.

(2) *Business by Geographical Location*

Unit: RMB million

Region	Revenue	Period-on-period change in revenue (%)
Mainland China	6,808	14.38
Overseas countries or regions	1,469	58.63

C. *Analysis on Major Subsidiaries and Investee Companies*

(1) *Operation and Results of Major Subsidiaries of the Group*

① Operation and Results of Major Subsidiaries

Unit: RMB million

Name	Nature of business	Main products or services	Registered capital	Total assets	Net assets	Revenue	Operating profit	Net profit
Yao Pharma	Pharmaceutical manufacturing	Atomolan, You Di Er, Sha Duo Li Ka, Xi Chang, Cefmetazon, etc.	197	2,666	1,621	1,839	242	223

Name	Nature of business	Main products or services	Registered capital	Total assets	Net assets	Revenue	Operating profit	Net profit
Jiangsu Wanbang Biopharmaceutical Company Limited* (江蘇萬邦生化醫藥集團有限責任公司) ("**Wanbang Pharma**")	Pharmaceutical manufacturing	You Li Tong, EPO, Xihuang capsules, Wan Su Ping, heparin series, etc.	440	2,956	1,423	1,489	178	149
Jinzhou Aohong Pharmaceutical Company Limited* (錦州奧鴻藥業有限責任公司)	Pharmaceutical manufacturing	Ao De Jin, Bang Ting	108	1,779	1,385	564	238	204
Guilin Pharma	Pharmaceutical manufacturing	Artesunate	285	1,244	856	471	175	155
Shine Star (Hubei) Biological Engineering Company Limited* (湖北新生源生物工程股份有限公司) ("**Hubei Shine Star**")	Manufacturing of amino acid	Amino acid series products	51	749	352	650	59	49

② Status of Major Subsidiaries of Other Business Segments

Unit: RMB million

Name	Nature of business	Major products	Registered Capital	Total assets	Net assets	Net profit
Chancheng Hospital *(Note)*	Healthcare services	Healthcare services	50	1,701	1,209	116

Note: The figures of Chancheng Hospital included appreciation of asset evaluation and amortization of appreciation of asset evaluation.

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

Unit: RMB million

Name	Nature of business	Main business	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	174,389	48,962	137,433	4,920	4,019

(3) *Acquisition and Disposal of Subsidiaries during the Reporting Period (including the Methods of the Acquisitions and Disposals and the Effects on the Group's Overall Operation and Results)*

Unit: RMB million

Name	Method of acquisition	Net assets (as at 30 June 2017)	Net profit (from acquisition date to 30 June 2017)	Acquisition date
Breas	Equity transfer	278.41	3.56	15 March 2017
Far-Eastern Casing Co., Ltd.* (遠東腸衣食品有限公司) ("**Fareast Casings**")	Equity transfer	7.20	1.65	13 April 2017

Note: The figures of Breas and Fareast Casings included appreciation of asset evaluation and amortization of appreciation of asset evaluation.

D. *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.

The Group has developed internationalized R&D structure and strong R&D capabilities through the establishment of interactive and integrated R&D systems in China (Shanghai, Chongqing and Taipei), the U.S. (San Francisco and Boston), Israel and Sweden. In the pharmaceutical manufacturing and R&D segment, it has established efficient innovative chemical drugs platform, biopharmaceutical drugs platform, platform for generic drugs with high value and cell-mediated immunity platform. During the Reporting Period, the Group also 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 (including 11 small molecular innovative drugs, 9 biopharmaceutical innovative drugs, 12 biosimilars, 2 improved innovative drugs, 133 generic drugs with international standards, 4 biological products for prevention and 2 traditional Chinese medicine drugs), 8 projects under

clinical trial applications, 25 projects under clinical trial, and 33 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 over 1,000 staff members in the R&D team. Meanwhile, the Group achieved the transformation and practice of global innovative advanced technology through a variety of means of cooperation including setting up joint ventures and technology innovation incubation platforms and adopting technology introduction and "deep incubation" models to access the global innovative advanced technology so as to facilitate the connection between the Group and the leading technology innovation projects worldwide and further propel the innovation capacity and international operation progress of the Group.

Whilst enhancing the competitiveness of its products, the Group also focuses on developing its product marketing systems. With a marketing team consisting of over 3,500 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, puts 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 U.S. FDA. The Group is the leading provider of anti-malaria medicines. The Group also achieved preliminary results in the establishment of the international marketing platform, especially in the African market, with marketing competence of medical devices in the European and U.S. markets.

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. A basic layout has been formed for the establishment of investment management system and post-investment management system, enabling the member hospitals to sustain improvement in management efficiency, control on procurement cost and information technology system with further improving efficiency in asset management.

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 dual listing status creates favorable conditions 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. 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 took 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, 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.

E. ***Employees and Remuneration Policies***

As at the end of the Reporting Period, the Group had a total of 20,497 employees. The employee's remuneration policies of the Group were formulated on the basis of the results, work experience and salary level prevailing in the market.

2. Business Outlook for the Second Half of 2017

In the second half of 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 it will endeavor to capture the opportunities presented by the broad pharmaceutical market in China as well as the rapid growth of generic drugs in mainstream markets such as Europe and the U.S. and emerging markets in the world, in order to insist on the development strategies of organic growth, external expansion and integrated development. While strengthening R&D capabilities, the Group will continue to achieve the transformation and practice of global innovative advanced technology

by adopting technology introduction and "deep incubation" models to access the global innovative advanced technology so as to facilitate the connection between the Group and the leading technology innovation projects worldwide and further improve the innovation capacity and propel the international operation progress of the Group. Meanwhile, the Group will also step up its efforts to acquire and integrate with domestic and overseas quality pharmaceutical manufacturing companies. By strengthening production and manufacturing systems and product marketing systems, the Group will proactively implement internationalization. Meanwhile, the Group will seize the development opportunities of healthcare services to strengthen its investment and management in the healthcare services segment. The Group will further enhance its core competence to improve its operating results. In addition, the Group will continue to actively explore the financing channels domestically and internationally and create favorable conditions for the continuous development of the Group.

Pharmaceutical Manufacturing and R&D

In the second half of 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 products and key areas, the Group will step up its efforts to promote major products so as to maintain and promote their 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 to link its R&D with the market situation so that the values of innovation and R&D are realized. 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 grasp new market opportunities.

In addition, the Group will make use of its industry experience to cooperate with the leading R&D and 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 to further solidify the core competence of its pharmaceutical manufacturing business.

Healthcare Services

In the second half of 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. It will further strengthen healthcare institutions it controls in terms of their disciplines and quality management, operational efficiency and business development. With the operation of the new complex and tumor center of Chancheng Hospital, 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 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), and Zhongwu Hospital and Guangji Hospital and other projects, and positively seeking 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 "United Family Hospitals" in Guangzhou and Pudong in order to accelerate the development of its high-end healthcare services characterized by multiple levels, diversification and extensibility.

Medical Diagnosis and Medical Devices

In the second half of 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 Sisram 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. 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. With the establishment of a joint venture with Intuitive Surgical in Shanghai and 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.

At the same time, the Group will optimize and consolidate its existing business sectors with respect to medical diagnosis products and promote the moving down of end market while further establishing or introducing new technology platform and new business model.

Pharmaceutical Distribution and Retail

In the second half of 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

In the second half of 2017, the Group will continue to explore the financing channels domestically and internationally, optimize its financing channels and debt structure, lower financial costs and further enhance its core competence, so as to consolidate its leading position in the industry.

3. 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, diagnostic products and medical devices 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, medical devices and diagnostic products 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. Meanwhile, with the further implementation 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, drug pricing reform and healthcare at affordable price 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.

The healthcare services segment is also exposed to medical malpractice risks, 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.

4. Other Events

(a) *The Restricted A Share Incentive Scheme*

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 (the "**Restricted A Shares**"), and the conditions for unlocking the Restricted A Shares have been 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.

(b) *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, resigned from their positions in the Company and terminated their employment contracts with the Company, they were 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 were not 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 was reduced to 43 from 45. Such portion of shares was cancelled on 24 February 2017.

(c) *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 China Securities Regulatory Commission (the "**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. The First Tranche of the Corporate Bonds in 2016 completed on 4 March 2016 and the issuance size was RMB3,000 million.

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 is 14 March 2017, with the final coupon rate at 4.50%.

(d) ***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 annual general meeting of the Company. It was agreed to authorize the Board 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 (H shares) with a nominal value of RMB1 each and all shares to be issued would be ordinary shares.

On 24 May 2017, the Company successfully allotted and issued a total of 80,656,500 new H shares to not less than six placees at a price of HK$28.80 per placing share. The total proceeds from the Placing of H Shares were approximately HK$2,322.91 million.

(e) ***Proposed Overseas Listing of Sisram Group***

The shareholders of the Company approved, among other things, the proposed spin-off and overseas listing of Sisram on 31 August 2016. The CSRC issued the no objection letter for spin-off in relation to the overseas listing of Sisram on 22 December 2016.

On 6 June 2017, Sisram submitted, through its joint sponsors, a listing application (Form A1) to Hong Kong Stock Exchange to apply for the listing of, and permission to deal in, its shares on the Main Board of the Hong Kong Stock Exchange. As at the end of the Reporting Period, the proposed overseas listing of Sisram is still subject to the approval of the Hong Kong Stock Exchange.

(f) ***Share Increase Plan of Mr. Wu Yifang***

On 30 December 2016, the Company was notified by Mr. Wu Yifang, an executive director, president and chief executive officer of the Company, that Mr. Wu Yifang proposed to acquire additional shares (including A shares and/or H shares) of the Company on the secondary market during the 12-month period from 3 January 2017 (inclusive), if and where appropriate, and the cumulative amount thereof shall not be less than RMB20 million. As at the end of the Reporting Period, Mr. Wu Yifang acquired a total of 529,000 shares (including 270,000 A shares and 259,000 H shares) of the Company in a cumulative amount of approximately RMB14.57 million since the implementation of the share increase plan, representing approximately 0.021% of total issued shares of the Company as at the end of the Reporting Period.

(g) ***2016 Shareholding Increase Plan of the Controlling Shareholder***

As notified by Shanghai Fosun High Technology (Group) Company Limited* (上海復星高科技(集團)有限公司) ("**Fosun Group**"), the controlling shareholder of the Company, in writing on 28 January 2016, 1 February 2016, 3 February 2016 and 10 November 2016, Fosun Group intended to further increase its shareholding in the Company (including A Shares and/or H Shares) on the secondary market by itself or parties acting in concert with it during the 12-month period from 28 January 2016 (inclusive), if and where appropriate, and the cumulative total amount thereof shall not be less than RMB70 million and the increased shareholding percentage of Fosun Group and parties acting in concert with it in aggregate shall not exceed 2% of total issued shares of the Company as at 7 November 2016 (i.e. 2,314,075,364 shares).

As at 27 January 2017 (after trading hours), the period of the implementation of the 2016 shareholding increase plan of the controlling shareholder lapsed. From 28 January 2016 to 27 January 2017, Fosun Group acquired a total of 17,070,466 shares (including 11,897,466 A shares and 5,173,000 H shares) of the Company in a cumulative amount of approximately RMB370.92 million, representing approximately 0.74% of total issued shares of the Company as at 7 November 2016.

(h) ***2017 Shareholding Increase Plan of the Controlling Shareholder***

On 9 May 2017 and 24 May 2017, the Company was notified by Fosun Group in writing that Fosun Group intended to further increase its shareholding in the Company (including A Shares and/or H Shares) on the secondary market by itself or parties acting in concert with it during the 12-month period from 9 May 2017 (inclusive), if and where appropriate, and the cumulative total amount thereof shall not be less than RMB70 million and the increased shareholding percentage of Fosun Group and parties acting in concert with it in aggregate shall not exceed 2% of total issued shares of the Company prior to the Placing of H Shares (i.e. 2,414,474,545 shares). As at the end of the Reporting Period, Fosun Group acquired a total of 4,169,928 shares (including 755,928 A shares and 3,414,000 H shares) of the Company in a cumulative amount of approximately RMB112.52 million since the implementation of the shareholding increase plan, representing approximately 0.17% of total issued shares of the Company prior to the Placing of H Shares.

(i) ***Acquisition of the Controlling Interest in Gland Pharma***

On 28 July 2016, the Company entered into, among other things, a share purchase agreement with the relevant parties to the acquisition of the controlling interest in Gland Pharma Limited ("**Gland Pharma**") (the "**Share Purchase Agreement**"). The shareholders of the Company approved, among other things, the resolution in relation to the acquisition of the controlling interest in Gland Pharma on 29 September 2016. On 25 April 2017 and 27 July 2017, upon

consideration and approval by the Board of the Company, it is agreed that the date of termination of the acquisition of the controlling interest in Gland Pharma under the Share Purchase Agreement was extended to 26 September 2017.

As at the date hereof, the acquisition of the controlling interest in Gland Pharma is still subject to the approval of the Cabinet Committee on Economic Affairs of India.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

(a) 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, resigned from their positions in the Company and terminated their employment contracts with the Company, they were 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 and were not unlocked at a buyback price of RMB10.54 per share. The total consideration for the buyback amounted to RMB395,250. Such portion of shares was cancelled on 24 February 2017.

(b) Issuance of H Shares under General Mandate

On 17 May 2017, the Company entered into a placing agreement with the placing agents in relation to the placing of 80,656,500 H shares at a placing price of HK$28.80 per H share.

On 24 May 2017, the Company announced that all conditions precedent to the Placing of H Shares were satisfied, and completion of the Placing of H Shares took place on 24 May 2017. An aggregate of 80,656,500 new H shares, representing approximately 16.67 % of the total number of H shares in issue as enlarged by the allotment and issue of H shares, were successfully allotted and issued by the Company on 24 May 2017 at the placing price of HK$28.80 per H share to not less than six placees. The total proceeds from the Placing of H Shares amounted to approximately HK$2,322.91 million.

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 CG CODE

As a public company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, the Company has been in strict compliance with the articles of association of the Company, 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 improving its corporate governance structure, and optimizing 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 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 Directors confirmed that they had complied with the standards as set out in the Model Code and the Written Code throughout the Reporting Period.

REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the unaudited interim results of the Group for the six months ended 30 June 2017.

INTERIM DIVIDEND

The Board does not recommend the distribution of any interim dividend for the Reporting Period.

PUBLICATION OF INTERIM RESULTS AND 2017 INTERIM 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 2017 Interim Report will be dispatched to the shareholders of the Company 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 People's Republic of China
29 August 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*