国药集团
SINOPHARM

國藥控股股份有限公司
SINOPHARM GROUP CO. LTD.*

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

(Stock Code: 01099)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

The board of directors (the "**Board**") of Sinopharm Group Co. Ltd. (the "**Company**" or "**Sinopharm**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") prepared under the Hong Kong Financial Reporting Standard ("**HKFRSs**") for the year ended 31 December 2017 (the "**Reporting Period**").

CHAIRMAN'S STATEMENT

I would like to express my heartfelt gratitude to the shareholders and the community for your great support and encouragement to Sinopharm over time. 2017 was a year full of challenges for the Company, but the Board, the management and all the staff took "new thought, new structure, new momentum, new target" as strategic guidance, overcame various difficulties and attributed to the shareholders with sustained and stable growth in operation again for their support and caring for the growth of the Company.

Stable economy with upward trend and industry growth faced with challenges

In 2017, the Chinese economy moved forward with stability, moved upward with stability and was better than expected, the development of economy and society remained stable and healthy. It is expected that the Chinese economy would still be able to maintain medium-to-high-speed growth during the "13th Five-Year" period and continue to be an important driver to the growth of the world economy.

In 2017, the Chinese government continued to release various healthcare policies, continued to push forward the healthcare reform, continued to increase investments in the healthcare industry and continued to enhance healthcare quality, aiming to establish a "Healthy China" that can satisfy the basic healthcare needs of the masses. The pharmaceutical distribution industry's sales growth dropped slightly on a year-on-year basis, but was still better than GDP growth, the rigid demand continued to be seen, the industry concentration ratio continued to increase, the whole industry still faced challenges from policies, payment collection and working capital, etc.

Sustained and Stable Growth in the Results

During the Reporting Period, the Group recorded a revenue of RMB277,717.02 million, representing an increase of RMB19,329.33 million or 7.48% as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded a net profit of RMB7,868.18 million, representing an increase of RMB976.58 million or 14.17% as compared with the corresponding period of last year. Profit attributable to owners of the parent amounted to RMB5,283.09 million, representing an increase of RMB635.75 million or 13.68% as compared with the corresponding period of last year.

During the Reporting Period, basic earnings per share of the Company amounted to RMB1.91, representing an increase of 13.69% as compared with the corresponding period of last year.

Compared to 2016, total assets of the Group increased from RMB157,711.59 million to RMB169,539.03 million, net assets increased from RMB44,532.44 million to RMB51,269.65 million, and gearing ratio decreased from 71.76% to 69.76%.

For the year of 2017, total capital expenditure of the Group amounted to RMB2,563.49 million, which was primarily used for the expansion and development of distribution channels, upgrading the logistic delivery system and improving the level of informatisation, so as to increase the Group's market share and improve delivery efficiency.

Awards-winning and highly recognized in the market

In 2017, the Company ranked 22nd in the list of Chinese listed companies by brand value, ranked 1st among pharmaceutical companies on the list, the brand value reached RMB23.342 billion. The Company ranked 22nd in the 2017 "Fortune" China's 500 list, and received "The Best Investor Relation Award" from "China Financial Market". These awards demonstrated the market's high recognition for the Company's brand and strength.

Prospects

Looking to the future, the healthcare industry will maintain a stable growth which is attributable to factors such as the aging population, urbanization, increase in chronic diseases, increase in healthcare investments as well as the continuous deepening of healthcare reform, etc. The business opportunities brought by various innovative business models will also drive the future growth in the industry. The healthcare industry is still one of the industries with the highest growth potential. We believe that the healthcare reform being deepened continuously and various policies being released will accelerate the survival of the fittest in the industry and bring about further compliance and consolidation. The prospect of the industry will become better and better.

As the largest and most powerful pharmaceutical distributor and retailer, Sinopharm will continue to conform to the "New Normal" of the development of healthcare industry, seize the opportunities brought by supply-side structural reforms, further stimulate corporate vitality and creativity, and take "new thought, new structure, new momentum, new target" as strategic guidance to achieve a new leap-forward development with more adamant faith, broader views and more actionable endeavors.

Finally, I would like to express heartfelt gratitude once again to all the shareholders, directors, strategic partners, members of management of the Company and all my fellow colleagues. Let us continue to make great efforts hand in hand to advance the transformation of Sinopharm from distinction to excellence as well as from a traditional pharmaceutical distribution company to a smart healthcare service ecosystem.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
(All amounts in Renminbi thousand unless otherwise stated)
YEAR ENDED 31 DECEMBER 2017

	Notes	**2017**	2016
Revenue	*4*	**277,717,018**	258,387,689
Cost of sales	*7*	**(254,640,464)**	(237,717,016)
Gross profit		**23,076,554**	20,670,673
Other income	*5*	**399,814**	272,285
Selling and distribution expenses	*7*	**(7,383,263)**	(6,618,858)
Administrative expenses	*7*	**(4,187,139)**	(4,110,380)
Operating profit		**11,905,966**	10,213,720
Other gains – net	*6*	**359,234**	410,732
Finance income		**321,165**	291,010
Finance costs		**(2,854,784)**	(2,222,830)
Finance costs – net	*9*	**(2,533,619)**	(1,931,820)
Share of profits and losses of associates		**431,470**	232,190
Share of profits and losses of a joint venture		**9,953**	-
Profit before tax		**10,173,004**	8,924,822
Income tax expense	*10*	**(2,304,828)**	(2,033,227)
Profit for the year		**7,868,176**	6,891,595
Attributable to:			
Owners of the parent		**5,283,091**	4,647,344
Non-controlling interests		**2,585,085**	2,244,251
		7,868,176	6,891,595
Earnings per share attributable to ordinary equity holders of the parent (expressed in RMB per share)			
– Basic	*11*	**1.91**	1.68
– Diluted	*11*	**1.91**	1.68

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(All amounts in Renminbi thousand unless otherwise stated)
YEAR ENDED 31 DECEMBER 2017

	Note	**2017**	2016
Profit for the year		**7,868,176**	6,891,595
Other comprehensive income:			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Remeasurements of post-employment benefit obligations	*10*	**10,121**	10,110
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Available-for-sale investments:			
Change in fair value, net of tax	*10*	**(26,507)**	(7,613)
Exchange differences	*10*	**16,235**	(17,839)
Share of other comprehensive income of associates	*10*	**(645)**	(1,507)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**(10,917)**	(26,959)
Other comprehensive income for the year, net of tax		**(796)**	(16,849)
Total comprehensive income for the year		**7,867,380**	6,874,746
Attributable to:			
– Owners of the parent		**5,292,000**	4,630,998
– Non-controlling interests		**2,575,380**	2,243,748
		7,867,380	6,874,746

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(All amounts in Renminbi thousand unless otherwise stated)
31 DECEMBER 2017

	Note	**2017**	2016
ASSETS			
Non-current assets			
Prepaid land lease payments		**1,348,599**	1,328,555
Investment properties		**401,121**	407,552
Property, plant and equipment		**7,795,659**	6,752,464
Intangible assets		**6,674,179**	6,282,772
Investment in a joint venture		**12,893**	2,940
Investments in associates		**5,051,003**	3,327,990
Available-for-sale investments		**553,456**	461,980
Finance lease receivables		**-**	3,788,098
Deferred tax assets		**836,511**	791,208
Other non-current assets		**2,022,214**	1,808,312
Total non-current assets		**24,695,635**	24,951,871
Current assets			
Inventories		**26,768,692**	25,759,525
Trade receivables	*12*	**75,528,859**	69,245,421
Prepayments and other receivables		**8,675,478**	5,677,916
Available-for-sale investments		**516**	5,468
Finance lease receivables		**-**	1,480,990
Pledged deposits and restricted cash		**4,858,412**	5,017,640
Cash and cash equivalents		**29,011,436**	25,572,759
Total current assets		**144,843,393**	132,759,719
Total assets		**169,539,028**	157,711,590
EQUITY			
Equity attributable to owners of the parent			
Share capital		**2,767,095**	2,767,095
Treasury shares held for share incentive scheme		**(193,003)**	-
Reserves		**32,683,543**	29,043,833
		35,257,635	31,810,928
Non-controlling interests		**16,012,019**	12,721,508
Total equity		**51,269,654**	44,532,436

	Note	2017	2016
LIABILITIES			
Non-current liabilities			
Interest-bearing bank and other borrowings		**5,441,488**	11,135,299
Deferred tax liabilities		**666,872**	601,328
Post-employment benefit obligations		**358,895**	518,353
Other non-current liabilities		**925,815**	1,186,815
Total non-current liabilities		**7,393,070**	13,441,795
Current liabilities			
Trade payables	*13*	**66,612,779**	66,745,815
Accruals and other payables		**13,159,792**	9,679,585
Dividends payable		**54,892**	93,770
Tax payable		**885,933**	855,611
Interest-bearing bank and other borrowings		**30,162,908**	22,362,578
Total current liabilities		**110,876,304**	99,737,359
Total liabilities		**118,269,374**	113,179,154
Total equity and liabilities		**169,539,028**	157,711,590

NOTES:

(All amounts in Renminbi thousand unless otherwise stated)

1 GENERAL INFORMATION

The Company was incorporated in the People's Republic of China (the "**PRC**") on 8 January 2003 as a company with limited liability under the PRC Company Law.

On 6 October 2008, the Company was converted into a joint stock limited liability company under the PRC Company Law by converting its registered share capital and reserves as at 30 September 2007 with the proportion of 1: 0.8699 into 1,637,037,451 shares of RMB1 each. In September 2009, the Company issued overseas-listed foreign-invested shares ("**H Shares**"), which were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 23 September 2009.

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

The Group is mainly engaged in: (1) the distribution of medicines, medical device and pharmaceutical products to hospitals, other distributors, retail drug stores and clinics, (2) the operation of pharmaceutical chain stores, and (3) the distribution of laboratory supplies, manufacture and distribution of chemical reagents.

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

These financial statements are presented in Renminbi ("**RMB**") thousand, unless otherwise stated. These financial statements were approved for issue by the Board on 23 March 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the revaluation of available-for-sale investments which have been measured at fair value.

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

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

The adoption of the above revised standards has had no significant financial effect on these financial statements.

3 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the operating committee (comprising the CEO and the executives at the CEO office) that are used to make strategic decisions. The operating committee considers the business from a business type perspective. The reportable operating segments derive their revenue primarily from the following three business types in the PRC:

(i) Pharmaceutical distribution – distribution of medicine, medical instruments and pharmaceutical products to hospitals, other distributors, retail drug stores and clinics;

(ii) Retail pharmacy – operation of medicine chain stores;

(iii) Other business – distribution of laboratory supplies, manufacture and distribution of chemical reagents, production and sale of pharmaceutical products, and finance lease.

Although the retail pharmacy segment does not meet the quantitative thresholds required by HKFRS8 *Operating segments*, management has concluded that this segment should be reported, as it is closely monitored by the operating committee as a potential growth segment and is expected to materially contribute to group revenue in the future.

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment assets consist primarily of prepaid land lease payments, investment properties, property, plant and equipment, intangible assets, investments in associates and a joint venture, inventories, receivables and operating cash.

Segment liabilities are those operating liabilities that result from the operating activities of a segment. Segment liabilities do not include borrowings, deferred tax liabilities and other liabilities that are incurred for financing rather than operating purposes.

Unallocated assets mainly represent deferred tax assets. Unallocated liabilities mainly represent corporate borrowings and deferred tax liabilities.

Capital expenditure comprises mainly additions to prepaid land lease payments, investment properties, property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

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

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

(i) Years ended 31 December 2017 and 2016

	Pharmaceutical distribution	Retail pharmacy	Other business	Eliminations	Group
Year ended 31 December 2017					
Segment results					
External segment revenue	**261,635,713**	**12,341,779**	**3,739,526**	**-**	**277,717,018**
Inter-segment revenue	**2,716,520**	**50,427**	**222,074**	**(2,989,021)**	**-**
Revenue	**264,352,233**	**12,392,206**	**3,961,600**	**(2,989,021)**	**277,717,018**
Operating profit	**11,154,424**	**398,474**	**410,935**	**(57,867)**	**11,905,966**
Other gains – net	**338,032**	**6,070**	**15,132**	**-**	**359,234**
Share of profits and losses of associates and a joint venture	**8,038**	**2,781**	**430,604**	**-**	**441,423**
	11,500,494	**407,325**	**856,671**	**(57,867)**	**12,706,623**
Finance costs – net					**(2,533,619)**
Profit before tax					**10,173,004**
Income tax expense					**(2,304,828)**
Profit for the year					**7,868,176**
Other segment items included in in the statement of profit or loss					
(Reversal of provision)/provision for impairment of trade and other receivables	**(49,811)**	**2,666**	**9,839**		**(37,306)**
Provision for impairment of inventories	**39,282**	**116**	**2,537**		**41,935**
Provision for impairment of property, plant and equipment	**917**	**-**	**-**		**917**
Provision for impairment of finance lease receivables	**-**	**-**	**40,450**		**40,450**
Amortisation of prepaid land lease payments	**34,292**	**135**	**1,316**		**35,743**
Depreciation of property, plant and equipment	**585,488**	**100,464**	**32,143**		**718,095**
Depreciation of investment properties	**17,021**	**969**	**5,265**		**23,255**
Amortisation of intangible assets	**221,892**	**14,438**	**1,704**		**238,034**
Capital expenditures	**2,333,652**	**198,545**	**31,289**		**2,563,486**

(i) Years ended 31 December 2017 and 2016 (continued)

	Pharmaceutical distribution	Retail pharmacy	Other business	Eliminations	Group
Year ended 31 December 2016					
Segment results					
External segment revenue	243,883,443	10,201,689	4,302,557	-	258,387,689
Inter-segment revenue	2,575,373	36,821	138,319	(2,750,513)	-
Revenue	246,458,816	10,238,510	4,440,876	(2,750,513)	258,387,689
Operating profit	9,372,677	298,098	601,990	(59,045)	10,213,720
Other gains – net	35,510	8,671	366,551	-	410,732
Share of profits and losses of associates	13,807	2,500	215,883	-	232,190
	9,421,994	309,269	1,184,424	(59,045)	10,856,642
Finance costs – net					(1,931,820)
Profit before tax					8,924,822
Income tax expense					(2,033,227)
Profit for the year					6,891,595
Other segment items included in the statement of profit or loss					
Provision/(reversal of provision) for impairment of trade and other receivables	57,284	22	(1,142)		56,164
Provision/(reversal of provision) for impairment of inventories	946	(149)	7,789		8,586
Provision for impairment of intangible assets	25,850	-	-		25,850
Provision for impairment of finance lease receivables	-	-	33,746		33,746
Amortisation of prepaid land lease payments	40,577	51	6,175		46,803
Depreciation of property, plant and equipment	564,844	75,984	114,895		755,723
Depreciation of investment properties	11,497	2,454	2,660		16,611
Amortisation of intangible assets	214,651	14,537	19,436		248,624
Capital expenditures	1,190,886	175,441	98,167		1,464,494

(ii) As at 31 December 2017 and 2016

	Pharmaceutical distribution	Retail pharmacy	Other business	Eliminations	Group
As at 31 December 2017					
Segment assets and liabilities					
Segment assets	**154,352,095**	**7,176,658**	**9,499,578**	**(2,325,814)**	**168,702,517**
Segment assets include:					
Investments in associates and a joint venture	**198,771**	**23,589**	**4,841,536**	**-**	**5,063,896**
Unallocated assets – Deferred tax assets					**836,511**
Total assets					**169,539,028**
Segment liabilities	**77,779,995**	**4,835,357**	**1,775,599**	**(2,392,845)**	**81,998,106**
Unallocated liabilities – Deferred tax liabilities and borrowings					**36,271,268**
Total liabilities					**118,269,374**
As at 31 December 2016					
Segment assets and liabilities					
Segment assets	140,062,386	5,726,403	13,296,519	(2,164,926)	156,920,382
Segment assets include:					
Investments in associates and a joint venture	162,214	17,846	3,150,870	-	3,330,930
Unallocated assets – Deferred tax assets					791,208
Total assets					157,711,590
Segment liabilities	73,847,155	3,960,703	3,288,010	(2,015,919)	79,079,949
Unallocated liabilities – Deferred tax liabilities and borrowings					34,099,205
Total liabilities					113,179,154

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

4 REVENUE

Revenue mainly represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; and gross rental income received and receivable from investment properties during the year.

	2017	2016
Sales of goods	**275,885,083**	257,171,400
Consulting income	**530,313**	417,412
Franchise fee and other service fee from medicine chain stores	**66,474**	133,436
Operating lease income	**159,952**	164,591
Revenue from logistics service	**308,111**	160,466
Interest income from finance leases	**688,041**	270,464
Import agency income	**21,636**	22,949
Others	**57,408**	46,971
	277,717,018	258,387,689

5 OTHER INCOME

	2017	2016
Government grants *(i)*	**399,814**	272,285

Note:

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

6 OTHER GAINS – NET

	2017	2016
Write-back of certain liabilities	**100,124**	12,596
Gain on fair value re-measurement of existing equity in a subsidiary disposed of	-	35,080
Gain on fair value re-measurement of existing equity in business combinations not under common control	**35,239**	-
Gain on disposal of subsidiaries	-	110,377
Gain on deemed disposal of subsidiaries and on fair value re-measurement of existing equity in the subsidiaries	**219,114**	-
Loss on disposal of investment accounted for equity method	**(263)**	-
Gain on disposal of prepaid land lease payments, investment properties, plant and equipment and intangible assets	**45,429**	255,934
Gain on disposal of available-for-sale investments	**16,636**	470
Foreign exchange loss - net	**(2,804)**	(5,036)
Donation	**(47,877)**	(17,339)
Dividend from available-for-sale investments	**18,164**	13,727
Others - net	**(24,528)**	4,923
	359,234	410,732

7 EXPENSES BY NATURE

	2017	2016
Raw materials and trading merchandise consumed	**254,063,328**	236,797,833
Changes in inventories of finished goods and work in progress	**13,558**	29,325
Employee benefit expenses *(Note 8)*	**6,255,896**	5,855,887
(Reversal of provision)/provision for impairment of trade receivables	**(69,672)**	29,718
Provision for impairment of other receivables	**32,366**	26,446
Provision for impairment of inventories	**41,935**	8,586
Provision for impairment of intangible assets	**-**	25,850
Provision for impairment of property, plant and equipment	**917**	-
Provision for impairment of finance lease receivables	**40,450**	33,746
Operating lease rental in respect of land and buildings	**938,020**	897,185
Depreciation of property, plant and equipment	**718,095**	755,723
Depreciation of investment properties	**23,255**	16,611
Amortisation of intangible assets	**238,034**	248,624
Amortisation of prepaid land lease payments	**35,743**	46,803
Auditor's remuneration		
- statutory audit service	**22,879**	20,575
- non-statutory audit service	**774**	1,761
- non-audit service	**1,600**	5,625
Advisory and consulting fees	**198,789**	141,523
Transportation expenses	**999,297**	972,332
Travel expenses	**278,633**	288,193
Market development and business promotion expenses	**1,057,739**	921,930
Utilities	**137,912**	174,656
Others	**1,181,318**	1,147,322
Total cost of sales, selling and distribution expenses, and administrative expenses	**266,210,866**	248,446,254

8 EMPLOYEE BENEFIT EXPENSES

	2017	2016
Salaries, wages, allowances and bonuses	**4,899,797**	4,591,081
Contributions to pension plans *(i)*	**564,349**	463,149
Post-employment benefits	**(111,002)**	25,493
Housing benefits *(ii)*	**210,727**	189,578
Share incentive expenses	**26,949**	3,833
Other benefits *(iii)*	**665,076**	582,753
	6,255,896	5,855,887

Notes:

(i) As stipulated by the related regulations in the PRC, the Group makes contributions to state-sponsored retirement schemes for its employees in Mainland China. The Group also has also made contributions to another retirement scheme managed by an insurance company from 2011 for its employees of the Company and certain subsidiaries. The Group's employees make monthly contributions to the schemes at approximately 7% to 10% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 20% to 28% of such relevant income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. These retirement schemes are responsible for the entire post-retirement benefit obligations to the retired employees.

Contributions totalling RMB8,176,000 (2016: RMB5,781,000) were payable to the fund at the year end of 2017.

(ii) Housing benefits represent contributions to the government-supervised housing funds in Mainland China at rates ranging from 5% to 12% of the employees' basic salary.

(iii) Other benefits mainly represent expenses incurred for medical insurance, employee welfare, employee education and training, and for union activities.

9 FINANCE INCOME AND COSTS

	2017	2016
Interest expense:		
– Borrowings	**1,493,581**	1,240,172
– Discount of notes receivable	**321,831**	319,003
– Factoring of accounts receivable	**790,027**	489,476
– Net interest on net defined benefit liability	**16,266**	14,982
Gross interest expense	**2,621,705**	2,063,633
Bank charges	**242,920**	179,338
Less: capitalised interest expense	**(9,841)**	(20,141)
Finance costs	**2,854,784**	2,222,830
Finance income:		
– Interest income on deposits in banks or other financial institutions	**(258,798)**	(224,181)
– Interest income on long-term deposits	**(62,367)**	(66,829)
Net finance costs	**2,533,619**	1,931,820

10 TAXATION

Income tax expense

	2017	2016
Current income tax	**2,442,901**	2,314,064
Deferred income tax	**(138,073)**	(280,837)
	2,304,828	2,033,227

A reconciliation of the tax charge applicable to profit before tax using the applicable rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax charge at the effective tax rate is as follows:

	2017	2016
Profit before tax	**10,173,004**	8,924,822
Less: Share of profits and losses of associates and a joint venture	**(441,423)**	(232,190)
	9,731,581	8,692,632
Tax calculated at the applicable tax rate	**2,432,895**	2,173,158
Expenses not deductible for tax purposes	**76,053**	69,553
Income not subject to tax	**(49,298)**	(1,768)
Tax losses not recognised	**20,408**	25,817
Tax losses utilised from previous periods	**(10,585)**	(32,915)
Impact of change in the applicable income tax rate on deferred tax	**(23)**	4,834
Impact of lower tax rates enacted by local authority	**(95,570)**	(132,360)
Income tax refund	**(69,052)**	(73,092)
Income tax expense	**2,304,828**	2,033,227

Note:

(i) During 2017, enterprises incorporated in the PRC are normally subject to enterprise income tax ("**EIT**") at the rate of 25%, while certain subsidiaries enjoy preferential EIT at a rate of 15% as approved by the relevant tax authorities or due to their operations in designated areas with preferential EIT policies.

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

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

	2017			2016		
	Before tax	**Tax (charge)/ credit**	**After tax**	Before tax	Tax (charge)/ credit	After tax
Available-for-sale investments:						
Changes in fair value	**(35,343)**	**8,836**	**(26,507)**	(10,151)	2,538	(7,613)
Remeasurement of post-employment benefit obligations	**13,105**	**(2,984)**	**10,121**	12,495	(2,385)	10,110
Share of other comprehensive income of associates	**(645)**	**-**	**(645)**	(1,507)	-	(1,507)
Exchange differences	**16,235**	**-**	**16,235**	(17,839)	-	(17,839)
Other comprehensive income	**(6,648)**	**5,852**	**(796)**	(17,002)	153	(16,849)

11 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent excluding the cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future as at the end of the reporting period and the weighted average number of ordinary shares of 2,767,095,000 (2016: 2,767,095,000) in issue during the year excluding restricted shares at the end of the year.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation and included the number of restricted shares expected to be unlocked in the future.

The calculations of basic and diluted earnings per share are based on:

	2017	2016
Earnings		
Profit attributable to ordinary equity holders of the parent	**5,283,091**	4,647,344
Less: Cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future	**(3,170)**	(12,143)
Profit attributable to equity holders of the parent used in the basic earnings per share calculation	**5,279,921**	4,635,201
	Number of shares	
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation *('000)*	**2,760,755**	2,759,865
Effect of dilution – Restricted shares *('000)*	**6,340**	7,230
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation *('000)*	**2,767,095**	2,767,095
Basic earnings per share *(RMB per share)*	**1.91**	1.68
Diluted earnings per share *(RMB per share)*	**1.91**	1.68

12 TRADE RECEIVABLES

	2017	2016
Accounts receivable	**64,443,680**	60,688,999
Notes receivable	**11,825,305**	9,355,552
	76,268,985	70,044,551
Less: Provision for impairment	**(740,126)**	(799,130)
Trade receivables – net	**75,528,859**	69,245,421

The fair value of trade receivables approximates to their carrying amount.

Retail sales at the Group's medicine chain stores are usually made in cash or by debit or credit cards. For medicine distribution and medicine manufacture businesses, sales are made on credit terms normally ranging from 30 to 210 days. The ageing analysis of trade receivables (accounts receivable and notes receivable) based on the invoice date and net of provisions, as at the end of the reporting period, is as follows:

	2017	2016
Within 1 year	**75,217,475**	68,910,172
1 to 2 years	**263,405**	268,232
Over 2 years	**47,979**	67,017
	75,528,859	69,245,421

As at 31 December 2017, notes receivable of RMB658,333,000 (2016: RMB239,073,000) and accounts receivable of RMB373,924,000 (2016: RMB666,872,000) were pledged as collaterals for the Group's bank borrowings.

As at 31 December 2017, notes receivable of RMB235,345,000 (2016: RMB121,230,000) were pledged as collaterals for the Group's notes payable.

The maximum exposure to credit risk as at 31 December 2017 was the carrying value of each category of receivable mentioned above and other receivables.

As at 31 December 2017, outstanding accounts receivable of RMB20,164,459,000 (2016: RMB14,071,044,000) were derecognized under the accounts receivable factoring programs without recourse. The ageing of these derecognised accounts receivable was within one year. As at 31 December 2017, the collection of such accounts receivable on behalf of banks amounted to RMB2,566,588,000 (2016: RMB2,113,738,000) was recorded in other payables.

13 TRADE PAYABLES

	2017	2016
Accounts payable	**51,634,332**	50,257,200
Notes payable	**14,978,447**	16,488,615
	66,612,779	66,745,815

The trade payables are non-interest-bearing and are normally settled on 90-day terms. The fair value of trade payables approximates to their carrying amount.

The ageing analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017	2016
Below 3 months	**49,133,927**	49,532,985
3 to 6 months	**11,665,398**	12,878,192
6 months to 1 year	**3,945,713**	2,938,441
1 to 2 years	**1,207,793**	748,965
Over 2 years	**659,948**	647,232
	66,612,779	66,745,815

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

	2017	2016
RMB	**66,320,920**	66,276,986
USD	**291,676**	397,669
HKD	**11**	71,160
JPY	**172**	-
	66,612,779	66,745,815

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

During the year ended 31 December 2017, accounts payable of RMB3,381,485,000 (2016: RMB3,037,485,000) were repaid by the banks under this program with the equivalent amount drawn as borrowings. As at 31 December 2017, bank borrowings related to this program were RMB166,835,000 (2016:Nil).

14 DIVIDENDS

The final dividend for year 2016 of RMB0.5 per share (tax inclusive), amounting to RMB1,383,548,000 in total, was approved by the shareholders at the annual general meeting of the Company held on 30 June 2017. A final dividend for the year ended 31 December 2017 of RMB0.57 (tax inclusive) per ordinary share, totalling approximately RMB1,577,244,000 is to be proposed at the upcoming annual general meeting according to the resolution passed at the Board meeting held on 23 March 2018. These financial statements have not reflected this proposed dividend.

	2017	2016
Proposed final dividend	**1,577,244**	1,383,548

15 BUSINESS COMBINATIONS UNDER COMMON CONTROL

CNPGC, the Company's ultimate controlling shareholder, completed the acquisition of 100% equity interest in Shanghai Pudong New Area Medicines and Herbs Co., Ltd. (including its wholly-owned subsidiary Shanghai Yanghetang Pharmacy Chain Operation Co., Ltd.) ("Pudong Medicines and Herbs") from an independent third party on 28 February 2017. On 27 November 2017, the Company entered into the Equity Transfer Agreement with CNPGC in respect of the acquisition of 100% equity interest in Pudong Medicines and Herbs at a cash consideration of RMB217,473,000. Upon completion of the acquisition, Pudong Medicines and Herbs became a wholly-owned subsidiary of the Company. Since both Pudong Medicines and Herbs and the Company are subsidiaries of CNPGC, the acquisition was a business combination under common control. The business combination under common control was accounted for in accordance with Accounting Guideline 5 - *Merger Accounting for Common Control Combinations* issued by HKICPA. In applying merger accounting, financial statement items of the combining entity for the reporting period in which the common control combination occurs, and for any comparative periods disclosed, are included in the consolidated financial statements of the combined entity as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties.

The effect of the above acquisitions is summarised as follows:

Purchase consideration	
– Cash paid	217,473
Total purchase consideration	217,473

The details of the assets and liabilities acquired and cash flows relating to this acquisition is summarised as follows:

	Fair value at acquisition date
Cash and cash equivalents	51,854
Property, plant and equipment	111,679
Intangible assets	
– Trademarks and patent rights	26,372
– Favourable leasing rights	34,244
– Software	996
Deferred tax assets	2,156
Inventories	121,306
Trade and other receivables	94,215
Trade and other payables	(215,685)
Deferred tax liabilities	(40,608)
Other non-current liabilities	(34)
Interest-bearing bank and other borrowings	(35,000)
Net assets	151,495
Goodwill	65,978
	217,473
Total purchase consideration	217,473
Less: non-cash settled consideration	-
Cash consideration paid in 2017	217,473
Cash and cash equivalents in subsidiaries acquired	(51,854)
Cash outflow on acquisition	165,619

(i) The revenue and net profit of the newly acquired subsidiaries from the acquisition date to 31 December 2017 are summarised as follows:

	From acquisition date to 31 December 2017
Revenue	**586,802**
Net profit	**3,260**

(ii) The revenue and net profit of the newly acquired subsidiaries from 1 January 2017 to 31 December 2017 are summarised as follows:

	From 1 January 2017 to 31 December 2017
Revenue	**710,418**
Net profit	**4,318**

16 EVENTS AFTER THE REPORTING PERIOD

On 12 January 2018, the Board resolved to propose the issue of the corporate bonds with an issue size of no more than RMB10 billion (inclusive) in the PRC. The above proposed issue of corporate bonds was duly passed at the extraordinary general meeting of the Company held on 9 March 2018 as a special resolution.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

Stable economy with upward trend

In 2017, China's GDP grew by 6.9% which was slightly faster than that of 2016. The macro economy was performing in a reasonable range, demonstrating a pattern of stability with upward trend.

Growth of distribution industry slowed down

Due to influence of policies the growth of pharmaceutical distribution industry dropped slightly on a year-on-year basis, but still continued to exceed the growth of macroeconomy. The industry competition has become more intense, the pharmaceutical distribution and retail enterprises have accelerated the pace of merger, acquisition and expansion, highlighting the importance of scale advantage.

Opportunities and challenges co-existed

"Two-invoice system", drug tender and rigorous regulation of pharmaceutical distribution have brought challenges to the industry, but contributed to facilitate the survival of the fittest and consolidation within the industry, enabling large-scale enterprises with superior control and management to get better development, the concentration ratio of the industry is bound to increase in the future. The separation of medical treatment and drug sale has impacted hospitals, but will bring along enormous opportunities for the drug retail business. The enterprises with strong retail network and good operation capability will win out. Pharmaceutical e-commerce has challenged traditional models, but also brought along new growth drivers. The enterprises with strong platforms and advantages of offline resources will have competitive edge.

In the long run, driven by the aging population, urbanization, increase in chronic diseases, rise in household income and the wider coverage of medical insurance, we believe China's healthcare industry will become a fast-growing industry filled with opportunities. We believe that enterprises like us, relying on our leading network advantages, normative operations and superior corporate governance, will become the beneficiaries.

Business Review

Faced with unfavorable industry situation through 2017, the Group took "new thought, new structure, new momentum, new target" as strategic guidance, further integrated platform resources and gave play to the scale effect. The revenue continued to grow stably, profit growth continued to significantly exceed sales growth, which further consolidated the leading position and edges of the Group.

Solid leading position in the distribution business

In the pharmaceutical distribution sector, the Group has built an integrated pharmaceutical supply chain, established an advanced supply chain management mode, achieved steady adjustments in product structures, continuously optimized customer structure, continuously expanded and integrated national distribution network. As at 31 December 2017, the distribution network covered 31 provinces, municipalities and autonomous regions across China. The Group's direct customers included 15,032 hospitals (only referring to ranked hospitals, including 2,301 largest class-III hospitals with the highest rankings), 128,326 small end-customers (including primary health services institutions and others) and 87,246 retail pharmacy.

The Group continued its endeavors to promote integrated operation. Meanwhile, the Group continued to strengthen the construction of national integrated logistics platform, the plan for distribution network's vertical layout was successfully accomplished: the national pharmaceutical distribution logistics network includes 4 logistic hubs, 42 logistic centers at provincial level, 236 logistics outlets at municipal level, 26 retail logistics outlets, with a total number of logistics outlets reaching 308.

Leading position in the retail business

In respect of retail pharmacy, aiming to establish an integrated wholesale-retail pharmaceutical distribution model, the Group vigorously promoted the development of the retail business and strengthened its leading advantages. The Group has set up retail chain pharmacies that are either directly operated by the Group or through franchises in major cities throughout China. As at 31 December 2017, Sinopharm Holding Guoda Drug Store Co., Ltd., a subsidiary of the Group, has set up pharmacies covering 19 provinces, municipalities and autonomous regions across the country. The number of retail pharmacies was 3,834, among which 2,801 were directly operated by the Group and 1,033 were operated by franchisees. The sales amount grew rapidly on a year-on-year basis, and the scale continued to lead the industry.

"Integrated wholesale-retail" core strategy starts to have initial effect

The revenue of retail pharmacy grew rapidly, the Group's retail network continued to expand, covering 29 provinces and 167 prefectures. Direct sales to retail pharmacy grew fast and the coverage rate increased significantly.

Active promotion of innovative businesses

The Group vigorously promoted medical device distribution business with sales growth exceeding 30%, leading to the increase in the Group's revenue growth and gross profit margin. Based on alignment of pharmaceutical and medical device, the Group actively promoted hospital medical services such as cleaning, disinfecting and after-sale maintenance and its scale has grown rapidly. Financial services improved steadily, Sinopharm Holding (China) Financial Leasing Co., Ltd. ("Sinopharm Finance Lease") successfully introduced strategic investors, its assets under management exceeded RMB10 billion and net profit grew significantly. Adapting to the "Internet +" trend, the Group grabbed the developing opportunities of pharmaceutical e-commerce and promoted the integration of traditional businesses and the Internet. Sinopharm Health Online Co., Ltd., completed series A financing, and its sales achieved substantial growth. Capitalizing on the policy opportunity to actively promote national integrated cold-chain logistics service system, implementation relating to information of integrated cold-chain was fully launched and third-party cold-chain logistics service capability was substantially improved.

Further improvement in management and control

The Group strengthened its management and control of finance, human resources, diversified financing, operations management, informatization and procurement, etc., the gross profit margin was further increased, profitability was further improved, the operating efficiency was further optimized, the operating risks were further decreased, and the enterprise competitiveness was further enhanced.

Future Plan

Build smart service capability via technology innovation

Supported by technology innovation, the Group will build smart healthcare technology platform with "integrated wholesale-retail" as its core and advance the Group's transformation from traditional service-based enterprise to technology-based service enterprise, in order to achieve its goals of consolidated industry position, significant management advantage, comprehensive business system and leading innovation capability.

Continue to consolidate leading position in distribution business

The distribution business will remain an important strategic sector of the Group. The Group will continue to promote the vertical layout of distribution network and optimization of network layout, thereby further utilizing scale and network advantages to continuously solidify industry leading position. The Group will actively grab the policy opportunity to rapidly increase the market share in direct sales to hospitals. The Group will further advance regional integration with the aim to build regional enterprise groups with integrated management and control, various services, synergy and versatility, and high operation efficiency, so as to lay a foundation for a national integration.

Continue to promote rapid growth of retail business

The retail business still remains a strategic sector for the structural adjustment of the Group. The Group will actively learn from international advanced technology and experience, and will continue to expand its retail business to form an overall leading pharmaceutical terminal retail network with national layout, vertical development, reasonable structure, integration of wholesale and retail, various profit growth drivers, risk resistance capacity, and global perspective.

Continue to advance and foster innovative businesses

Innovative businesses based on main business are critical for optimizing the Group's revenue structure and profitability. The Group will continue to vigorously promote medical device business. Relying on existing advantage of resources in respect of hospital, the Group will continue to vigorously develop services provided to hospital such as cleaning, disinfecting and post-sale maintenance, etc.. The Group will continue to actively promote the development of e-commerce project with the aim to facilitate the deep online/offline integration. The Group will continue to strengthen financial services to increase customer loyalty. The Group will continue to promote national integrated cold-chain logistics service system with the aim to build "smart logistics" + "cold-chain brand".

Continue to control risk and maintain stable operation

The Group will continue to control risk and maintain stable operation through measures such as capital management and control, eliminating inefficient businesses, investment strategy adjustment and strengthening assessment, so as to achieve healthier sustainable development.

Looking forward, the industry is in a vastly volatile time with change and adjustment, bringing many challenges along with new opportunities. The Group will take advantage of the mixed ownership reform, take "new thought, new structure, new momentum, new target" as strategic guidance, advance the "integrated wholesale-retail" strategy, strengthen application of technology, promote transformation and innovation, with the aim to build a smart healthcare service ecosystem with international competitiveness.

Financial Summary

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

During the Reporting Period, the Group recorded a revenue of RMB277,717.02 million, representing an increase of RMB19,329.33 million or 7.48% as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded a net profit of RMB7,868.18 million, representing an increase of RMB976.58 million or 14.17% as compared with the corresponding period of last year. Profit attributable to owners of the parent amounted to RMB5,283.09 million, representing an increase of RMB635.75 million or 13.68% as compared with the corresponding period of last year.

During the Reporting Period, basic earnings per share of the Company amounted to RMB1.91, representing an increase of 13.69% as compared with the corresponding period of last year.

Revenue

During the Reporting Period, the Group recorded a revenue of RMB277,717.02 million, representing an increase of 7.48% as compared with RMB258,387.69 million for the twelve months ended 31 December 2016, which was primarily due to the increase in revenue from the Group's pharmaceutical distribution and retail pharmacy business. The Group's revenue grew faster than the average level of development of pharmaceutical market in China.

- Pharmaceutical distribution segment: during the Reporting Period, the revenue from pharmaceutical distribution of the Group was RMB264,352.23 million, representing an increase of 7.26% as compared with RMB246,458.82 million for the twelve months ended 31 December 2016, which accounted for 94.17% of the total revenue of the Group. Such increase was primarily due to a remarkable development of the pharmaceutical distribution business and the further expansion of the pharmaceutical distribution network of the Group.

- Retail pharmacy segment: during the Reporting Period, the revenue from retail pharmacy of the Group was RMB12,392.21 million, representing an increase of 21.04% as compared with RMB10,238.51 million for the twelve months ended 31 December 2016. The increase was primarily due to the acquisition for expansion and business growth of the Group's existing pharmacies.

- Other business segments: during the Reporting Period, revenue from other business of the Group was RMB3,961.60 million, representing a decrease of 10.79% as compared with RMB4,440.88 million for the twelve months ended 31 December 2016.

Cost of Sales

During the Reporting Period, the cost of sales of the Group was RMB254,640.46 million, representing an increase of 7.12% as compared with RMB237,717.02 million for the twelve months ended 31 December 2016. The increase was primarily due to the increase in the sales revenue of the Group.

Gross Profit

As a result of the above-mentioned factors, the gross profit of the Group during the Reporting Period was RMB23,076.55 million, representing an increase of 11.64% as compared with RMB20,670.67 million for the twelve months ended 31 December 2016. The gross profit margin of the Group for the twelve months ended 31 December 2016 and 2017 were 8.00% and 8.31%, respectively.

Other Income

During the Reporting Period, other income of the Group was RMB399.81 million, representing an increase of 46.83% as compared with RMB272.29 million for the twelve months ended 31 December 2016. The increase was primarily due to the increase in subsidies obtained by the Group from the central and local governments.

Selling and Distribution Expenses

During the Reporting Period, the selling and distribution expenses of the Group were RMB7,383.26 million, representing an increase of 11.55% as compared with RMB6,618.86 million for the twelve months ended 31 December 2016. The increase in selling and distribution expenses was primarily attributable to the Group's enlarged operation scale, its business development and its expansion of distribution networks through new set-ups and acquisitions of companies and businesses, etc.

Administrative Expenses

During the Reporting Period, the administrative expenses of the Group were RMB4,187.14 million, representing an increase of 1.87% as compared with RMB4,110.38 million for the twelve months ended 31

December 2016. The increase in administrative expenses was primarily attributable to the increase in administrative costs incurred by the expansion of network scale and business growth of the Group.

During the Reporting Period, the proportion of the Group's administrative expenses to the total revenue of the Group decreased to 1.51% from 1.59% for the twelve months ended 31 December 2016, which was due to the implementation of cost control measures and the economies of scale of the Group.

Operating Profit

As a result of the above-mentioned factors, the operating profit of the Group during the Reporting Period was RMB11,905.97 million, representing an increase of 16.57% from RMB10,213.72 million for the twelve months ended 31 December 2016.

Other Gains – Net

The other gains of the Group net of other losses decreased from RMB410.73 million for the twelve months ended 31 December 2016 to RMB359.23 million for the Reporting Period. The decrease was primarily due to the decrease in gains from disposal of fixed assets by the Group.

Finance Costs – Net

During the Reporting Period, the finance costs of the Group was RMB2,533.62 million, representing an increase of 31.15% as compared with RMB1,931.82 million for the twelve months ended 31 December 2016. The increase was primarily due to the increase in financing costs of the Group.

Share of Profits and Losses of Associates

During the Reporting Period, the Group's share of profits and losses of associates was RMB431.47 million, representing an increase of 85.83% as compared with RMB232.19 million for the twelve months ended 31 December 2016.

Share of Profits and Losses of a Joint Venture

During the Reporting Period, the Group's share of profits and losses of a joint venture was RMB9.95 million, The Group had no share of profits and losses of a joint venture for the twelve months ended 31 December 2016.

Income Tax Expenses

During the Reporting Period, the Group's income tax expenses were RMB2,304.83 million, representing an increase of RMB271.60 million as compared with RMB2,033.23 million for the twelve months ended 31 December 2016. The increase was primarily due to the increase in profits of the Group, which led to a corresponding increase in income tax expenses. The Group's actual income tax rate decreased to 22.66% during the Reporting Period from 22.78% for the twelve months ended 31 December 2016.

Profit for the Year

As a result of the above-mentioned factors, the profit of the Group for the year of 2017 was RMB7,868.18 million, representing an increase of 14.17% as compared with RMB6,891.60 million for the twelve months ended 31 December 2016. The profit margin of the Group for the twelve months ended 31 December 2016 and 2017 were 2.67% and 2.83%, respectively.

Profit Attributable to Owners of the Parent

During the Reporting Period, profit or net profit attributable to owners of the parent was RMB5,283.09 million, representing an increase of 13.68% or RMB635.75 million from RMB4,647.34 million for the twelve months ended 31 December 2016. The Group's net profit margin for the Reporting Period and the corresponding period of 2016 were 1.90% and 1.80%, respectively.

Profit Attributable to Non-controlling Interests

Profit attributable to non-controlling interests for the Reporting Period was RMB2,585.09 million, representing an increase of RMB340.84 million from RMB2,244.25 million for the twelve months ended 31 December 2016.

Liquidity and Capital Resources

Working capital

During the Reporting Period, the Group had commercial banking facilities of RMB108,183.54 million, of which approximately RMB51,992.10 million were not yet utilized. Cash and cash equivalents of RMB29,011.44 million primarily comprise cash, bank savings and income from current operating activities.

Cash flow

The cash of the Group was primarily used for financing working capital, repaying credit interest and principal due, financing acquisitions and providing funds for capital expenditures, growth and expansion of the Group's facilities and operations. The table below sets out the cash flow of the Group from operating, investing and financing activities for the year ended 31 December 2016 and 2017, respectively:

	2017	2016
	RMB million	*RMB million*
Net cash generated from operating activities	**1,667.35**	9,257.96
Net cash used in investing activities	**(2,547.29)**	(1,606.45)
Net cash generated from/(used in) financing activities	**4,302.38**	(2,026.96)
Net increase in cash and cash equivalents	**3,422.44**	5,624.55
Cash and cash equivalents at the beginning of the year	**25,572.76**	19,966.05
Exchange differences	**16.24**	(17.84)
Cash and cash equivalents at the end of the year	**29,011.44**	25,572.76

Net cash generated from operating activities

The Group's cash inflow from operations primarily derives from collections from the sale of the products and services in its pharmaceutical distribution, retail pharmacy and other business segments. During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB1,667.35 million, representing a decrease of RMB7,590.61 million from RMB9,257.96 million for the twelve months ended 31 December 2016. The decrease was primarily attributed to the relatively large outflow of operating cash flow due to the expansion of financial leasing business of Sinopharm Finance Lease, the Group's previous subsidiary and the slowdown in collecting trade receivables.

Net cash used in investing activities

During the Reporting Period, the net cash used in investment activities of the Group was RMB2,547.29 million, representing an increase of RMB940.84 million as compared with RMB1,606.45 million for the twelve months ended 31 December 2016.

Net cash generated from/(used in) financing activities

During the Reporting Period, the net cash generated from financing activities of the Group was RMB4,302.38 million, which was primarily attributable to the proceeds from borrowings from banks and others financial institutions. The net cash used in financing activities of the Group for the twelve months ended 31 December 2016 was RMB2,026.96 million.

Capital Expenditure

The Group's capital expenditures were primarily utilized for the development and expansion of distribution channels, upgrading of its logistic delivery systems and the improving of the level of informatization. The Group's capital expenditures amounted to RMB1,464.49 million and RMB2,563.49 million for the year ended 31 December 2016 and the Reporting Period, respectively.

The Group's current plans with respect to its capital expenditures may be modified according to the progress of its operation plans (including changes in market conditions, competition and other factors). As the Group continues to develop, it may incur additional capital expenditure. The Group's ability to obtain additional funding in future is subject to a variety of factors, including its future operational results, financial condition and cash flows, economic, political and other conditions in the mainland China and Hong Kong, and the PRC Government's policies relating to foreign currency borrowings, etc.

Capital Structure

Fiscal resources

During the Reporting Period, the Group made certain improvement and adjustments to its capital structure, so as to relieve fiscal risks and reduce finance costs. Through issuance of corporate bonds and super & short-term commercial papers, the Group obtained approximately RMB1,000 million and RMB3,000 million respectively for the purpose of replenishing working capital, facilitating the adjustment of the debt structure of the Group and reducing financing costs.

The Group's borrowings are mainly denominated in RMB.

As at 31 December 2017, the cash and cash equivalents of the Group were mainly denominated in RMB, with certain amount denominated in Hong Kong Dollars ("**HKD**") and small amount denominated in USD ("**USD**") and Euro ("**EUR**") and AUD ("**AUD**").

Indebtedness

As at 31 December 2017, the Group had aggregated banking facilities of RMB108,183.54 million, of which RMB51,992.10 million were not utilized and are available to be drawn down at any time. Such banking facilities are primarily short-term loans for working capital. Among the Group's total borrowings as at 31 December 2017, RMB30,162.91 million will be due within one year and RMB5,441.49 million will be due after one year. During the Reporting Period, the Group did not experience any difficulties in renewing its bank loans with its lenders.

Gearing ratio

As at 31 December 2017, the Group's gearing ratio was 69.76% (31 December 2016: 71.76%), which was calculated based on the net liabilities divided by the aggregate of its total equity and net liabilities as at 31 December 2017.

Foreign Exchange Risks

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

Pledge of Assets

As at 31 December 2017, part of the Group's borrowings and notes payable were secured by bank deposits of RMB4,835.72 million, prepaid land lease payments with book value of RMB56.37 million, investment properties with book value of RMB0.07 million, properties, plant and equipment with book value of RMB113.46 million, and trade receivables with book value of RMB1,267.60 million.

Major Acquisitions and Disposals

On 27 November 2017, the Company entered into the equity transfer agreement with China National Pharmaceutical Group Co., Ltd., the ultimate controlling shareholder of the Company, in respect of the acquisition of 100% equity interest in Shanghai Pudong New Area Medicines and Herbs Co., Ltd. (including its wholly-owned subsidiary Shanghai Yanghetang Pharmacy Chain Operation Co., Ltd.) at a cash consideration of RMB217,473,000. Upon completion of the acquisition, Shanghai Pudong New Area Medicines and Herbs Co., Ltd. became a wholly-owned subsidiary of the Company. For details, please refer to the announcement of the Company published on the websites of the Company and the Hong Kong Stock Exchange on 11 November 2017.

Save as disclosed above, during the Reporting Period, the Company had no major acquisitions and disposals with respect to subsidiaries, associated and jointly-owned companies.

Major Investment

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

Going Concern

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

Contingent Liabilities and Material Litigations

As at 31 December 2017, the Group neither had any material contingent liability, nor had any material litigation.

Human Resources

As at 31 December 2017, the Group had a total of 61,694 employees. In order to meet the development needs and support and promote the realization of its strategic objectives, the Group has integrated existing human resources, made innovations in management model and optimized management mechanism in accordance with the requirements of specialized operation and integrated management, so as to actively advance the organizational reform and accelerate the cultivation and recruitment of talents. The Group has established a strict selection process for recruitment of employees and adopted a number of incentive mechanisms to enhance their efficiency. The Group conducted periodic performance reviews on its employees and adjusted their salaries and bonuses accordingly. In addition, the Group has provided training programs to employees with different functions.

DIVIDENDS

Relevant resolution was passed at a meeting of the Board held on 23 March 2018 to propose to distribute a final dividend of RMB0.57 per share (tax inclusive) for the year ended 31 December 2017 (the "**Final Dividend**"), totalling approximately RMB1,577,244,000. If the proposal of profit distribution is approved by shareholders at the 2017 annual general meeting to be held on Thursday, 28 June 2018 (the "**AGM**"), the Final Dividend will be distributed to the shareholders whose names appear on the register of members of the Company on Wednesday, 11 July 2018 no later than 28 August 2018.

According to the articles of association of the Company, the Final Dividends will be denominated and declared in Renminbi. Final Dividend on domestic shares of the Company and for investors investing in the H shares of the Company through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect (the "**Southbound Trading**") (the "**Southbound Trading Shareholders**") will be paid in Renminbi, and the Final Dividend for other holders of H shares of the Company will be paid in Hong Kong dollars. The amount of the Final Dividend payable in Hong Kong dollars shall be calculated based on the average exchange rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the calendar week prior to 28 June 2018 (being the date of declaration of the Final Dividend).

For the Southbound Trading Shareholders, the Company will enter into the Agreement on Distribution of Cash Dividends of H Shares for Southbound Trading (港股通H股股票現金紅利派發協議) with China Securities Depository and Clearing Corporation Limited, pursuant to which, the Shanghai Branch and Shenzhen Branch of China Securities Depository and Clearing Corporation Limited, each of which as a nominee of the holders of H shares for Southbound Trading, will receive all the Final Dividend distributed by the Company and distribute the Final Dividend to the relevant Southbound Trading Shareholders through their depositary and clearing systems.

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

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

Pursuant to *the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of GuoShui Fa [1993] No. 045 Document* (the "**Notice**") issued by the State Administration of Tax on 28 June 2011, the dividend to be distributed by the PRC non-foreign invested enterprises which has issued shares in Hong Kong to the overseas resident individual shareholders, is subject to the individual income tax with a tax rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries of their residence and Mainland China. Thus, 10% personal income tax will be withheld by the Company from the Final Dividend payable to the individual H-share shareholders whose names appear on the register of members of the Company on Wednesday, 11 July 2018, unless otherwise stated in the relevant taxation regulations, taxation agreements or the Notice.

Pursuant to the "Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets" (Cai Shui [2014] No.81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)) and the "Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets" (Cai Shui [2016] No.127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)) jointly promulgated by the Ministry of Finance, the State Administration of Taxation and the China Securities Regulatory Commission, for dividends derived by Mainland individual investors from investing in H-share listed on the Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect, H-share companies shall withhold individual income tax at a tax rate of 20% for the investors. For Mainland securities investment funds investing in shares listed on Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect, the above rules also apply and individual income tax shall be levied on dividends derived therefrom. Dividends derived by Mainland enterprise investors from investing in shares listed on Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect shall be reported and paid by the enterprise investors themselves. H-share companies will not withhold or pay enterprise income tax on their behalf in the distribution of dividends.

The Company will have no liability in respect of any claims arising from any delay in, or inaccurate determination of the status of the shareholders or any disputes over the mechanism of withholding.

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 29 May 2018 to Thursday, 28 June 2018 (both days inclusive). In order to qualify to attend the AGM and to vote at the meeting, all instruments of transfer of the holders of H-shares of the Company must be lodged at the H-shares registrar of the Company at Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 28 May 2018. Shareholders whose names appear on the register of members of the Company on Tuesday, 29 May 2018 shall be entitled to attend the AGM.

The register of members of the Company will be closed from Friday, 6 July 2018 to Wednesday, 11 July 2018 (both days inclusive). In order to qualify to receive the Final Dividend, all instruments of transfer of the holders of H-shares of the Company must be lodged at the H-shares registrar of the Company at Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell

Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, 5 July 2018. Shareholders whose names appear on the register of members of the Company on Wednesday, 11 July 2018 shall be entitled to receive the Final Dividend.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the Reporting Period, the trustee (the "**Trustee**") of the share award scheme effective on 18 October 2016 (the "**Scheme**"), pursuant to the rules of the Scheme, purchased on the open market a total of 6,570,000 H shares of the Company at a total consideration of approximately RMB203.29 million. In addition, as three incentive recipients resigned from the Group, making them unqualified for the Scheme, the Trustee sold 230,000 H shares of the Company to the secondary market during the second half of 2017. Save as disclosed above, during the Reporting Period, the Company and its subsidiaries had not purchased, sold or ransomed any of the listed shares of the Company.

AUDIT COMMITTEE

As at the date of this announcement, the audit committee of the Company currently consists of five Directors: including three independent non-executive Directors being Mr. Tan Wee Seng, Mr. Liu Zhengdong, Mr. Zhuo Fumin and two non-executive Directors being Ms. Rong Yan and Mr. Wu Yijian. Mr. Tan Wee Seng currently serves as the chairman of the audit committee. The primary responsibilities of the Company's audit committee are to inspect, review and supervise the Company's financial information, reporting process for financial information and risk management and internal control system. The audit committee has reviewed the audited annual results of the Group for the year ended 31 December 2017.

SCOPE OF WORK OF ERNST & YOUNG

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2017 have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2017. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE (THE "CORPORATE GOVERNANCE CODE") SET OUT IN APPENDIX 14 TO THE LISTING RULES

The Company has adopted all code provisions of the Corporate Governance Code as the code of corporate governance of the Company.

During the Reporting Period, the Company had complied with the code provisions as set out in the Corporate Governance Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE") SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Board has adopted the Model Code as the code of practice for directors and supervisors in respect of their trading in the listed securities of the Company. After making specific enquires with the directors and supervisors, all of them confirmed that they had complied with the requirements set out in the Model Code during the Reporting Period.

SUBSEQUENT EVENTS

To satisfy the operation needs of the Company and lower the financial costs, on 12 January 2018, the Board resolved to propose the issue of the corporate bonds with an issue size of no more than RMB10 billion (inclusive) in the PRC ("**Proposed Issue of Corporate Bonds**"). The Proposed Issue of Corporate Bonds was duly passed at the extraordinary general meeting of the Company held on 9 March 2018 as a special resolution. For details, please refer to the announcements of the Company published on the websites of the Company and the Hong Kong Stock Exchange on 12 January 2018 and 9 March 2018.

On 23 March 2018, the Company entered into the factoring services framework agreement with Sinopharm Puxin Commercial Factoring Company Limited ("**Factoring Company**"), a subsidiary of the ultimate controlling shareholder, pursuant to which the Factoring Company has agreed to provide commercial factoring services to the Group. The annual caps of the interests/fees paid by the Group for commercial factoring services provided by the Factoring Company for the nine months ending 31 December 2018 and the two years ending 31 December 2020 shall be RMB75 million, RMB100 million and RMB100 million respectively. For details, please refer to the announcement of the Company published on the websites of the Company and the Hong Kong Stock Exchange on 23 March 2018.

On 23 March 2018, the Board resolved to propose to make certain amendments to the articles of association and the Rules of Procedure of the Board of Directors of the Company. The proposed amendments to the articles of association and the Rules of Procedure of the Board of Directors of the Company are subject to the approval by the shareholders at the general meeting of the Company. On the same day, the Board also resolved to establish a legal and compliance committee under the Board and has elected Mr. Liu Zhengdong, Mr. Li Zhiming and Ms. Rong Yan as the committee members. For details, please refer to the announcement of the Company published on the websites of the Company and the Hong Kong Stock Exchange on 23 March 2018.

DISCLOSURE OF INFORMATION

The 2017 annual report of the Company will be duly dispatched to the shareholders of the Company, and published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://ir.sinopharmgroup.com.cn).

By order of the Board of
Sinopharm Group Co. Ltd.
Li Zhiming
Chairman

Shanghai, the PRC
23 March 2018

As at the date of this announcement, the executive directors of the Company are Mr. Li Zhiming and Mr. Liu Yong; the non-executive directors of the Company are Mr. Chen Qiyu, Mr. She Lulin, Mr. Wang Qunbin, Mr. Ma Ping, Mr. Deng Jindong, Mr. Wen Deyong, Ms. Rong Yan and Mr. Wu Yijian; and the independent non-executive directors of the Company are Ms. Li Ling, Mr. Yu Tze Shan Hailson, Mr. Tan Wee Seng, Mr. Liu Zhengdong and Mr. Zhuo Fumin.

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