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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

The board (the "**Board**") of directors (the "**Directors**") of Shanghai Fosun Pharmaceutical (Group) Co., Ltd.* (the "**Company**") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2017 (the "**Reporting Period**").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	**2017** ***RMB'000***	2016 *RMB'000*
REVENUE	*3*	**18,361,608**	14,505,584
Cost of sales		**(7,608,953)**	(6,718,364)
Gross profit		**10,752,655**	7,787,220
Other income	*4*	**172,960**	261,753
Selling and distribution expenses		**(5,790,536)**	(3,704,056)
Administrative expenses		**(1,773,794)**	(1,626,415)
Research and development expenses		**(1,026,538)**	(714,749)
Other gains	*6*	**1,019,498**	753,431
Other expenses		**(145,534)**	(121,171)
Interest income		**79,224**	80,899
Finance costs	*7*	**(577,541)**	(488,171)
Share of profits and losses of:			
Joint ventures		**(15,525)**	1,127
Associates		**1,366,848**	1,341,681
PROFIT BEFORE TAX	*5*	**4,061,717**	3,571,549
Income tax expense	*8*	**(476,458)**	(350,207)
PROFIT FOR THE YEAR		**3,585,259**	3,221,342
Attributable to:			
Owners of the parent		**3,124,500**	2,805,837
Non-controlling interests		**460,759**	415,505
		3,585,259	3,221,342
Earnings per share attributable to ordinary equity holders of the parent:	*10*		
Basic		**RMB1.27**	RMB1.21
Diluted		**RMB1.27**	RMB1.20

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017	2016
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**3,585,259**	3,221,342
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**(265,565)**	100,700
Reclassification adjustments for gains included in the consolidated statement of profit or loss — Gain on disposal	**(285,841)**	(313,969)
Income tax effect	**63,389**	68,774
	(488,017)	(144,495)
Exchange differences on translation of foreign operations	**120,212**	(42,334)
Share of other comprehensive income of associates	**(98,164)**	114,689
Other comprehensive income not being reclassified to profit or loss in subsequent periods	**—**	—
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(465,969)**	(72,140)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**3,119,290**	3,149,202
Attributable to:		
Owners of the parent	**2,691,338**	2,716,707
Non-controlling interests	**427,952**	432,495
	3,119,290	3,149,202

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	**2017** ***RMB'000***	2016 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**8,352,848**	6,325,479
Prepaid land lease payments		**1,324,409**	1,030,485
Goodwill		**8,464,284**	3,473,110
Other intangible assets		**6,950,136**	2,620,078
Investments in joint ventures		**646,550**	248,421
Investments in associates		**17,747,138**	15,870,262
Available-for-sale investments		**2,673,249**	2,674,436
Deferred tax assets		**144,524**	129,551
Other non-current assets		**554,496**	574,771
Total non-current assets		**46,857,634**	32,946,593
CURRENT ASSETS			
Inventories		**2,750,517**	1,670,738
Trade and bills receivables	*11*	**3,825,549**	2,389,862
Prepayments, deposits and other receivables		**1,012,227**	659,188
Equity investments at fair value through profit or loss		**219,327**	48,489
Cash and bank balances		**7,248,867**	5,996,030
Total current assets		**15,056,487**	10,764,307
CURRENT LIABILITIES			
Trade and bills payables	*12*	**1,781,883**	1,149,379
Other payables and accruals		**4,054,058**	2,504,278
Interest-bearing bank and other borrowings		**10,472,013**	6,139,393
Tax payable		**292,518**	315,503
Total current liabilities		**16,600,472**	10,108,553
NET CURRENT (LIABILITIES)/ASSETS		**(1,543,985)**	655,754
TOTAL ASSETS LESS CURRENT LIABILITIES		**45,313,649**	33,602,347

	Notes	**2017** ***RMB'000***	2016 *RMB'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**9,814,896**	5,570,958
Deferred tax liabilities		**2,981,149**	1,786,427
Deferred income		**397,135**	346,706
Other long-term liabilities		**2,435,902**	704,817
Total non-current liabilities		**15,629,082**	8,408,908
Net assets		**29,684,567**	25,193,439
EQUITY			
Equity attributable to owners of the parent			
Share capital		**2,495,131**	2,414,512
Treasury shares		**(9,523)**	(26,819)
Reserves		**22,784,373**	19,745,636
		25,269,981	22,133,329
Non-controlling interests		**4,414,586**	3,060,110
Total equity		**29,684,567**	25,193,439

1.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following 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 nature and the impact of the amendments are described below:

(a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cashflows and non-cash changes.

(b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as the Group have no subsidiary classified as a disposal group held for sale as at 31 December 2017 and so no additional information is required to be disclosed.

1.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014–2016 Cycle	*Amendments to HKFRS 1 and HKAS 28*[1]
Annual Improvements 2015–2017 Cycle	*Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23*[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements are summarised as follows:

(a) Classification and measurement

HKFRS 9 requires that the Group classifies debt instruments based on the combined effect of application of business model (hold to collect contractual cash flow, hold to collect contractual cash flow and sell financial assets or other business models) and contractual cash flow characteristics (sole payments of principal and interest on the principal amount outstanding or not). Debt instruments not giving rise to cash flows that are sole payments of principal and interest on the principal amount outstanding would be measured at fair value through profit and loss. Other debt instruments giving rise to cash flows that are sole payments of principal and interest on the principal amount outstanding would be measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss, based on their respective business model.

Equity investments currently held as available for sale will generally be measured at fair value through profit or loss unless the Group elects to measure at fair value through other comprehensive income (without recycling, i.e. any gain/loss will be recorded in other comprehensive income and will not be reclassified to profit or loss, while the dividend is recognized through profit or loss) for equity investments that are not held for trading.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months.

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on opening balance of total equity as at 1 January 2018 in the consolidated financial statements of the Group.

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

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. During 2017, the Group has performed a detailed assessment on the impact of the adoption of HKFRS 15.

The Group's principal activities consist of the manufacture and sale of pharmaceutical products and medical equipment and the provision of consulting and investment management services. The expected impacts arising from the adoption of HKFRS 15 on the Group are summarised as follows:

(a) Presentation and disclosure

The presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by HKFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

HKFRS 16, issued in May 2016, replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases — Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will

also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. At 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB 247,717,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Amendments to HKAS 28 issued in January 2018 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and the amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial

statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

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

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

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

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

Year ended 31 December 2017

	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	13,043,250	2,086,652	3,203,656	—	28,050	—	18,361,608
Intersegment sales	43,874	3,446	16,375	—	72,715	(136,410)	—
Total revenue	13,087,124	2,090,098	3,220,031	—	100,765	(136,410)	18,361,608
Segment results*	1,860,298	289,721	479,866	—	39,723	(82,142)	2,587,466
Other income	103,629	10,024	15,688	—	—	—	129,341
Other gains	268,542	486	(91)	—	—	—	268,937
Interest income	36,221	14,570	11,112	—	268	(6,726)	55,445
Finance cost	(103,164)	(4,219)	(28,857)	—	(9,604)	97,970	(47,874)
Other expenses	(46,481)	(22,490)	24,983	—	(537)	—	(44,525)
Share of profits and losses of:							
Joint ventures	(19,695)	666	3,054	—	450	—	(15,525)
Associates	143,883	14,609	(30,383)	1,416,391	(177,652)	—	1,366,848
Unallocated other income, interest income and other gains							817,959
Unallocated finance cost							(529,667)
Unallocated expenses							(526,688)
Profit before tax	2,243,233	303,367	475,372	1,416,391	(147,352)	9,102	4,061,717
Tax	(405,386)	(80,145)	(87,889)	—	(165)	—	(573,585)
Unallocated tax							97,127
Profit for the year	1,837,847	223,222	387,483	1,416,391	(147,517)	9,102	3,585,259
Segment assets	30,273,422	8,913,568	6,209,538	10,344,380	3,134,225	(412,484)	58,462,649
Including:							
Investments in joint ventures	420,989	201,310	12,392	—	11,859	—	646,550
Investments in associates	1,686,143	2,737,611	517,315	10,344,380	2,461,689	—	17,747,138
Unallocated assets							3,451,472
Total assets							61,914,121
Segment liabilities	11,800,058	1,280,256	771,379	—	363,139	(4,793,840)	9,420,992
Unallocated liabilities							22,808,562
Total liabilities							32,229,554
Other segment information:							
Depreciation and amortisation	696,066	116,456	107,590	—	25,798	—	945,910
Provision for impairment of inventories	13,773	—	4,732	—	—	—	18,505
Provision for impairment of trade and other receivables	2,554	14,305	8,338	—	(2,000)	—	23,197
Capital expenditure**	1,521,960	262,760	113,142	—	444,446	—	2,342,308

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

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

Year ended 31 December 2016

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

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

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

Geographical information

(a) ***Revenue from external customers***

	2017	2016
	RMB'000	*RMB'000*
Mainland China	**15,010,824**	12,383,237
Overseas countries and regions	**3,350,784**	2,122,347
	18,361,608	14,505,584

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

(b) ***Non-current assets***

	2017	2016
	RMB'000	*RMB'000*
Mainland China	**33,337,200**	27,484,674
Overseas countries and regions	**10,702,661**	2,657,932
	44,039,861	30,142,606

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

Information about major customers

No revenue amounting to 10% or more of the Group's total revenue was derived from sales to a single customer for the years ended 31 December 2017 and 2016.

3. REVENUE

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

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

	2017	2016
	RMB'000	*RMB'000*
Sale of goods	**16,013,459**	12,550,232
Rendering of services	**2,334,830**	1,953,221
Sale of materials	**13,319**	2,131
	18,361,608	14,505,584

4. OTHER INCOME

	2017	2016
	RMB'000	*RMB'000*
Dividend income from available-for-sale investments	**31,176**	86,062
Government grants	**141,784**	175,691
	172,960	261,753

5. PROFIT BEFORE TAX

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

	2017	2016
	RMB'000	*RMB'000*
Cost of inventories sold	**5,996,714**	5,509,031
Cost of services provided	**1,612,239**	1,209,333
Staff costs (including Directors', Supervisors' and Chief Executive's remuneration)		
Salaries and other staff costs	**2,688,660**	2,037,455
Retirement benefits:		
Defined contribution fund	**198,375**	168,657
Accommodation benefits:		
Defined contribution fund	**91,565**	77,873
Share-based payment expense	**10,357**	37,118
	2,988,957	2,321,103
Research and development costs:		
Current year expenditure excluding amortisation of other intangible assets	**959,380**	666,375
Less: Government grants for R&D projects*	**(17,055)**	(33,755)
	942,325	632,620
Auditors' remuneration	**4,500**	4,350
Operating lease payments	**78,988**	56,756
Depreciation of items of property, plant and equipment	**723,470**	606,891
Amortisation of prepaid land lease payments	**26,534**	21,109
Amortisation of other intangible assets	**195,906**	111,234
Provision for impairment of property, plant and equipment	**—**	3,616
Provision for impairment of inventories	**18,505**	35,925
Provision for impairment of trade and other receivables	**23,197**	39,805
Provision for impairment of available for sale investments	**20,706**	—
Fair value gain on equity investments at fair value through profit or loss	**(44,072)**	(12,301)
Foreign exchange loss/(gain), net	**30,260**	(29,841)
(Gain)/loss on disposal of items of property, plant and equipment and other intangible assets	**(37,453)**	5,074
Donations	**11,139**	7,971

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

6. OTHER GAINS

	2017	2016
	RMB'000	*RMB'000*
Gain on disposal of interests in associates and joint ventures	**336,289**	76,663
Gain on disposal of available-for-sale investments	**567,983**	617,706
Gain on disposal of subsidiaries	**12,920**	2,162
Gain on disposals of items of property, plant and equipment	**37,453**	—
Fair value gains on equity investments at fair value through profit or loss	**44,072**	12,301
Foreign exchange gain, net	**—**	29,841
Others	**20,781**	14,758
	1,019,498	753,431

7. FINANCE COSTS

	2017	2016
	RMB'000	*RMB'000*
Interest on bank and other borrowings	**588,702**	491,341
Less: Interest capitalised	**(11,161)**	(3,170)
Interest expenses, net	**577,541**	488,171

8. INCOME TAX

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

Taxes on profits assessable elsewhere have been calculated at the tax rates prevailing in the jurisdictions in which the Group operates. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. The provision of current income tax of Alma Lasers Ltd., a subsidiary of the Company incorporated in Israel, is based on a preferential rate of 16%. The provision of current tax of Gland Pharma Limited ("Gland Pharma"), a subsidiary of the Group incorporated in India, is based on a statutory rate of 30%. The provision of current tax of Breas Medical Holdings AB ("Breas"), a subsidiary of the Group incorporated in Sweden, is based on a statutory rate of 22%. The provision of current tax of Tridem Pharma S.A.S ("Tridem Pharma"), a subsidiary of the Group incorporated in France, is based on a statutory rate of 33.33%.

	2017	2016
	RMB'000	*RMB'000*
Current	**549,828**	385,234
Deferred	**(73,370)**	(35,027)
Total tax charge for the year	**476,458**	350,207

9. DIVIDENDS

Cash dividend

	2017	2016
	RMB'000	*RMB'000*
Proposed final dividend — RMB0.38 (2016: RMB0.35) per ordinary share	**948,150**	845,066

The Company proposed to distribute a cash dividend of RMB0.38 (inclusive of tax) for each ordinary share to all shareholders. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and the final dividend amount will be determined by the number of the ordinary shares on the record date of dividend payment.

The amount of the proposed final dividend of RMB948,150,000 is calculated based on the total number of ordinary shares of the Company of 2,495,131,045 shares on 26 March 2018.

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent excluding cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future as of the balance sheet date and the weighted average number of ordinary shares of 2,459,816,726 (2016: 2,327,341,402) in issue excluding restricted shares during the year.

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

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

	2017	2016
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent	**3,124,500**	2,805,837
Less: Cash dividends attributable to the shareholders restricted shares expected to be unlocked in the future	**(317)**	(985)
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**3,124,183**	2,804,852

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,459,816,726**	2,327,341,402
Effect of dilution — weighted average number of ordinary shares: Restricted shares	**2,246,656**	1,301,669
Weighted average number of ordinary shares in issue during the year used in the dilutive earnings per share calculation	**2,462,063,382**	2,328,643,071

11. TRADE AND BILLS RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**3,247,537**	1,965,005
Bills receivable	**578,012**	424,857
	3,825,549	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, based on the invoice date and net of provisions, as at the respective reporting dates is as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 1 year	**3,204,112**	1,973,372
1 to 2 years	**98,414**	48,656
2 to 3 years	**30,146**	34,136
Over 3 years	**50,319**	26,079
	3,382,991	2,082,243
Less: Provision for impairment	**(135,454)**	(117,238)
	3,247,537	1,965,005

12. TRADE AND BILLS PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**1,652,025**	1,024,791
Bills payable	**129,858**	124,588
	1,781,883	1,149,379

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

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

	2017	2016
	RMB'000	*RMB'000*
Within 1 year	**1,614,865**	1,009,582
1 to 2 years	**24,297**	7,832
2 to 3 years	**5,597**	1,747
Over 3 years	**7,266**	5,630
	1,652,025	1,024,791

13. EVENTS AFTER THE REPORTING PERIOD

Acquisition of equity interest in the Foshan City Chancheng District Central Hospital Co., Ltd.* ("Chancheng Hospital")

On 12 February 2018, Shanghai Fosun Hospital Investment (Group) Co., Ltd.* (''Fosun Hospital Investment''), a subsidiary of the Company, and Mr. Xie Da Zhi, a non-controlling shareholder of Chancheng Hospital, entered into an equity transfer agreement, pursuant to which Fosun Hospital Investment agreed to acquire approximately 21.43% equity interest owned by Mr. Xie Da Zhi in Chancheng Hospital at a consideration of RMB749,993,000. Chancheng Hospital completed the change of industrial and commerce registration on 24 February 2018. Fosun Hospital Investment holds an aggregate of 85.43% equity interest in Chancheng Hospital.

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

In 2017, amidst the situation that was full of challenges and uncertainties in the economies of the world and the PRC, there was ongoing further reform of the medical system in the PRC. The pharmaceutical manufacturing industry resumed growth at a slower pace, and the medical technology and medical services continued to benefit from the policies with opportunities for rapid development. During the Reporting Period, the Group adhered to its business philosophy of "Innovation for Good Health", focused on its core pharmaceutical and healthcare businesses, continued to develop product innovation and improve management as well as international development, actively promoted the strategies of organic growth, external expansion and integrated development, thereby maintaining the balanced growth of its principal businesses.

During the Reporting Period, the revenue of the Group increased by 26.58% as compared to 2016 to RMB18,362 million, and excluding the impacts of the contributions from the new acquisition of enterprises in 2017 and the acquisitions of enterprises in 2016 as comparable factors, the revenue would have increased by 20.09% on the same basis as compared to 2016. The revenue from pharmaceutical manufacturing and research and development (R&D) segment of the Group amounted to RMB13,043 million, representing an increase of 28.50% as compared to 2016, and 22.16% on the same basis as compared to 2016. The revenue from healthcare service business amounted to RMB2,087 million, representing an increase of 24.52% as compared to 2016, and 14.97% on the same basis as compared to 2016.

During the Reporting Period, the Group recorded revenue of RMB15,011 million in Mainland China, representing an increase of 21.22% as compared to 2016. The Group recorded revenue of RMB3,351 million in foreign countries or regions, representing an increase of 57.88% as compared to 2016. The proportion of the Group's overseas revenue was 18.25%, representing an increase of 3.68 percentage points as compared to 2016. Excluding the impacts of the new acquisitions and the acquisitions in 2016 as comparable factors and other factors, the Group recorded revenue of RMB2,581 million in foreign countries or regions, representing an increase of 21.59% as compared to 2016, on the same basis, accounting for 15.03% of our revenue in foreign countries or regions, representing an increase of 0.19 percentage points as compared to 2016.

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

Unit: million Currency: RMB

Business segment	**Revenue 2017**	Revenue 2016	Year-on-year increase/ decrease *(%)*
Pharmaceutical manufacturing and R&D *(Note 1)*	**13,043**	10,150	28.5
Healthcare services *(Note 2)*	**2,087**	1,676	24.52
Medical devices and medical diagnosis *(Note 3)*	**3,204**	2,653	20.77

Note 1: The revenue of pharmaceutical manufacturing and R&D segment increased by 22.16% on the same basis as compared to the corresponding period of 2016;

Note 2: The revenue of healthcare services segment increased by 14.97% on the same basis as compared to the corresponding period of 2016;

Note 3: The revenue of medical devices and medical diagnosis segment increased by 15.18% on the same basis as compared to the corresponding period of 2016.

During the Reporting Period, the Group recorded total profit of RMB4,062 million and net profit attributable to shareholders of the Company of RMB3,124 million, representing an increase of 13.72% and 11.36%, respectively, as compared to 2016. The increase in each of the total profit and net profit attributable to shareholders of the Company was mainly due to the steady growth maintained by businesses of the Group, the further optimized sales structure, the construction of the marketing system and the emergence of effects arising from supply chain integration and the steady growth in Sinopharm Group Co. Ltd.* ("**Sinopharm**"), an associated company. In 2017, the Group's operating profit (A share caliber: operating profit = revenue — cost of sales — taxes and surcharges — selling expenses — management fees — finance costs) increased by 19.87% as compared to 2016, due to the losses in previous investment phase in newly established joint ventures or associates such as Fosun Kite and the operating losses from other projects at early stage, as such profit from controlling companies was merely 0.63% higher than that of 2016.

During the Reporting Period, the net profit (after extraordinary gain or loss) of the Group kept increasing. The net profit (after extraordinary gain or loss) attributable to Shareholders of the Company amounted to RMB2,346 million in 2017, representing an increase of 12.10% as compared to 2016.

During the Reporting Period, net cash flow from operating activities of the Group continued to rise, increasing to RMB2,580 million in 2017, representing an increase of 22.28% as compared to 2016. The profitability and operational quality of the Group were further enhanced.

During the Reporting Period, the Group continued to increase its R&D investment. The total R&D investment amounted to RMB1,529 million, representing an increase of RMB423 million or 38.26% as compared to 2016. In particular, the R&D expenses amounted to RMB1,027 million, representing an increase of RMB312 million or 43.62% as compared to 2016.

Pharmaceutical Manufacturing and R&D

During the Reporting Period, the pharmaceutical manufacturing and R&D segment of the Group generated revenue of RMB13,043 million, representing an increase of 28.50% as compared to 2016. Excluding the impacts of the contributions from the new acquisition of enterprises in 2017, and the acquisition of enterprises in 2016 as comparable factors, during the Reporting Period, the revenue of the pharmaceutical manufacturing and R&D segment increased by 22.16% on the same basis as compared with 2016. The segment results and segment profit amounted to RMB1,860 million and RMB1,838 million, which increased by 17.73% and 12.05% as compared to 2016, respectively.

The Group consecutively completed the acquisitions of equity interests in Gland Pharma and Tridem Pharma, which continued to facilitate the industrial upgrade of the Group's pharmaceutical manufacturing business, and the construction of the international marketing platform selling pharmaceutical products, and accelerate the internationalization of the Group. In the fourth quarter of 2017, a total of 5 generic pharmaceutical products of Gland Pharma received U.S. FDA launching approval. In addition, during the Reporting Period, the Group acquired the product package from Sandoz Inc., in which about 90% of the formulation items involved are generic drugs currently sold in the U.S. market, covering various therapeutic areas such as the central nervous system, cardiovascular, and anti-infection. The aforementioned acquisitions of equity interests and addition to product line will help the Group in enhancing its innovation, product diversity and marketing capabilities during the internationalization process.

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 calcium tablets (Bang Zhi) and alprostadil in cardiovascular system therapeutic area, new compound aloe capsules (Ke Yi) and febuxostat tablets (You Li Tong) in metabolism and alimentary system therapeutic area and pemetrexed disodium for injection (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 2017, apart from the newly acquired Gland Pharma, there were 21 formulation items or series in the pharmaceutical manufacturing segment of the Group that each recorded revenue of over RMB100 million, among which deproteinized calf blood injection (Ao De Jin), reduced glutathione series (Atomolan injection and Atomolan tablets), alprostadil dried emulsion for injection (You Di Er), cefmetazole sodium injection series, potassium sodium dehydroandrographolide succinate for injection (Sha Duo Li Ka) recorded revenue of over RMB500 million. Sales of febuxostat tablets

(You Li Tong), pitavastatin calcium tablets (Bang Zhi) and new compound aloe capsules (Ke Yi) maintained rapid growth. Antimalarial series such as artesunate, anti-tuberculosis series, alprostadil dried emulsion for injection (You Di Er) and reduced glutathione series (Atomolan injection and Atomolan tablets) 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 in the following table:

Unit: million Currency: RMB

Pharmaceutical manufacturing and R&D *(Note 1)*	**2017**	2016	Year-on-year increase on the same basis *(%)*
Major products of cardiovascular system therapeutic area *(Note 2)*	**1,293**	1,200	7.70
Major products of central nervous system therapeutic area *(Note 3)*	**1,546**	1,076	43.66
Major products of blood system therapeutic area *(Note 4)*	**586**	357	64.16
Major products of metabolism and alimentary system therapeutic area *(Note 5)*	**2,451**	1,934 *(Note 5*)*	26.73 *(Note 5*)*
Major products of anti-infection therapeutic area *(Note 6)*	**2,274**	1,863	22.07
Major products of anti-tumor therapeutic area *(Note 7)*	**323**	305	6.16
Major products of APIs and intermediate products *(Note 8)*	**1,427**	1,197 *(Note 8*)*	19.22 *(Note 8*)*

Note 1: Gland Pharma was included in the consolidated financial statements since October 2017. The major products in the main therapeutic areas in 2017 did not include Gland Pharma's major products;

Note 2: 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 calcium tablets (Bang Zhi);

Note 3: Major products of central nervous system therapeutic area include deproteinized calf blood injection (Ao De Jin) and quetiapine fumarate tablets (Qi Wei);

Note 4: Major products of blood system therapeutic area include hemocoagulase for injection (Bang Ting) and Cobamamide for injection (Mi Le Ka);

Note 5: 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 for injection (CHO cells) (Yi Bao), new compound aloe capsules (Ke Yi) and Thioctic Acid Injection (Fan Ke Jia);

Note 5:* 2016 data is restated for comparison with the 2017 data on the same basis, i.e. the 2016 data including the revenue of Thioctic Acid Injection (Fan Ke Jia), a new core product;

Note 6: Major products of anti-infection therapeutic area include antimalarial series such as artesunate, anti-tuberculosis series, cefmetazole sodium for injection (Xi Chang and Cefmetazon), potassium sodium dehydroandrographolide succinate for injection (Sha Duo Li Ka), Piperacillin Sodium and Sulbactam Sodium for injection 0.75g/1.5g (Qiang Shu Xi Lin), Piperacillin Sodium and Sulbactam Sodium for injection 3g (Qin Shu), Piperacillin Sodium and Tazobactam Sodium for injection (Pai Shu Xi Lin) and Ceftizoxime Sodium for injection (Er Ye Bi);

Note 7: Major products of anti-tumor therapeutic area include Xihuang capsules (Ke Sheng), pemetrexed disodium for injection (Yi Luo Ze) and bicalutamide (Zhao Hui Xian);

Note 8: Major products of APIs and intermediate products include amino acid, tranexamic acid, clindamycin hydrochloride and heparin essence products; and

Note 8:* 2016 data is restated for comparison with the 2017 data on the same basis, i.e. the 2016 data including the revenue of heparin essence, a new core product.

The Group has focused on innovation and R&D in the long run and continued to increase investment in R&D. During the Reporting Period, the total R&D investment amounted to RMB1,529 million, representing an increase of RMB423 million or 38.26% as compared to 2016. In particular, the R&D expenses amounted to RMB1,027 million, representing an increase of RMB312 million or 43.62% as compared to 2016. The R&D investment in the pharmaceutical manufacturing segment amounted to RMB1,275 million, representing an increase of RMB312 million or 32.39% as compared to 2016, representing 9.7% of the revenue of the pharmaceutical manufacturing segment. In particular, R&D expenses amounted to RMB799 million, representing an increase of RMB227 million or 39.74% as compared to 2016, representing 6.1% of the revenue of the pharmaceutical manufacturing 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 China, the U.S., India and other countries, forming a globally-linked R&D team system. 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, apart from the newly acquired Gland Pharma, the Group had 171 pipeline drugs, generic drugs, biosimilars and consistency evaluation projects (including 10 small molecular innovative drugs, 8 biopharmaceutical innovative drugs, 14 biosimilars, 98 generic drugs with international standards, 39 consistency evaluation projects and 2 traditional Chinese medicine drugs). During the Reporting Period, research on monoclonal antibody products further accelerated. As at the end of the Reporting Period, the Group obtained approval of clinical trial for a total of 6 monoclonal antibody product types (including 1 biopharmaceutical innovative drug) 11 indications obtained approval of clinical trial in the mainland China. Another three monoclonal antibody items obtained approval of clinical trial both in the United States and Taiwan. Specific R&D progress of monoclonal antibody products are set out below:

			R&D stages in mainland China as at the end of the Reporting Period		R&D stages in other countries and regions as at the end of the Reporting Period	
No.	**Type**	**Name of R&D project on drugs (products)**	**R&D stage**	**Stage of clinical trial**	**R&D stage**	**Stage of clinical trial**
1	Biosimilars	Recombinant murine/human chimeric anti-CD20 monoclonal antibody injection	Clinical trial/Listing application	Phase I/III*(Note 1)*	—	—
2		Recombinant humanized anti-HER2 monoclonal antibody injection	Clinical trial	Phase III	Clinical trial*(Note 2)*	Phase III
3		Recombinant anti-TNF α fully human monoclonal antibody injection	Clinical trial	Phase I/III	—	—
4		Recombinant humanized anti-VEGF monoclonal antibody injection	Clinical trial	Phase I	—	—
5		Recombinant murine/human chimeric anti- EGFR monoclonal antibody injection	Approved for clinical trial	—	—	—
6	Biopharmaceutical innovative drugs	Recombinant anti-VEGFR2 fully human monoclonal antibody injection	Accepted the application for clinical trial	—	Approved for clinical trial*(Note 3)*	—
7		Recombinant humanized anti-EGFR monoclonal antibody injection	Approved for clinical trial	Phase I	Clinical trial*(Note 4)*	Phase I
8		Recombinant humanized anti-PD-1 monoclonal antibody injection	Accepted the application for clinical trial	—	Approved for clinical trial*(Note 3)*	—
9		Recombinant anti-PD-L1 fully human monoclonal antibody injection	Accepted the application for clinical trial	—	—	—

Note 1: Such drugs for rheumatoid arthritis indications and non-Hodgkin lymphoma indications were in phases I and III clinical trial, respectively as at the end of the Reporting Period;

Note 2: Such drugs for breast cancer indications were approved for phases III clinical trials in Ukraine, Poland and the Philippines, and phase III clinical trials were carried out in Ukraine as at the end of the Reporting Period;

Note 3: Such drugs were approved for clinical trials in the United States and Taiwan as at the end of the Reporting Period;

Note 4: Such drugs were approved for clinical trials in the United States and Taiwan, and phase I clinical trials were carried out in Taiwan as at the end of the Reporting Period.

During the Reporting Period, apart from Gland Pharma, a total of 84 patents had been applied for in the pharmaceutical manufacturing and R&D segment of the Group, including 13 U.S. patent applications, 1 Japanese patent application, 2 European patent applications and 10 PCT applications, and 25 licensed patents had been obtained, all of which are invention patents.

The Group has placed great emphasis on quality and risk management of the life cycle of its products and implemented stringent quality and safety control mechanisms and adverse reaction monitoring mechanisms at each stage of the production chain from R&D to pulling off shelf of products, so as to ensure the R&D, registration, production, sales, pulling off shelf and recall of

pharmaceutical products are conducted safely and properly. The Group's pharmaceutical manufacturing segment has fully implemented the concept of quality and risk management and focused on quality control mechanisms such as annual quality review, change management, deviation management, 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, all subsidiaries of the Group that engaged in pharmaceutical manufacturing business fulfilled the new GMP in China. While ensuring the production lines 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, four production plants of Gland Pharma were audited/certified under various drug regulations, and the audits/certifications conducted during the Reporting Period were successfully passed. In addition, 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, 3 production lines of injections and 5 production lines for APIs of Guilin South Pharma Company Limited* ("**Guilin Pharma**") obtained Prequalification from the WHO-PQ; and 1 production line of oral solid dosage formulation of Chongqing Yao Pharmaceutical Company Limited* ("**Yao Pharma**"), was recognized by Canada FDA and the U.S. FDA and its many formulations products were sold overseas.

Meanwhile, 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 2017, the Group continued to reinforce its primarily completed strategic deployment of healthcare services segment with high-end healthcare institutions in the more developed coastal cities and specialty and general hospitals in second-tier and third-tier cities in the PRC. It established regional medical centers and a supply chain spanning major health industries and explored models of cooperation with local large state-owned companies, public hospitals and university-affiliated hospitals to accelerate its internet medical development strategy and enhance operating capabilities and profitability. During the Reporting Period, the Group push forward the reconstruction and expansion projects including Suqian Zhongwu Hospital Co., Ltd.* ("**Zhongwu Hospital**"), Huaihai Medical Group and other projects. Wenzhou Geriatric Hospital Limited Company* ("**Wenzhou Geriatric Hospital**") was under smooth operation. Chancheng Hospital won the title of the nation's first five-star private medical institution. During the Reporting Period, the completion of the acquisition of controlling interest in Shenzhen Hengsheng Hospital*

("**Hengsheng Hospital**") and Zhuhai Yannian Hospital Company Limited* ("**Zhuhai Yannian**", now renamed into Zhuhai Chancheng Hospital Limited*) will play an important role in the extensive development of medical service of the Group in Southern China and further expand its business arrangements in developed coastal cities and regions to establish regional medical centers and a supply chain spanning major health industries. 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.

As at the end of the Reporting Period, the medical institutions controlled by the Group mainly include Chancheng Hospital, Hengsheng Hospital, Zhongwu Hospital, Wenzhou Geriatric Hospital, Yueyang Guangji Hospital Company Limited* ("**Guangji Hospital**"), Anhui Jimin Cancer Hospital* ("**Jimin Hospital**") and Zhuhai Yannian. During the Reporting Period, the healthcare services entities controlled by the Group realized total revenue of RMB2,087 million, representing an increase of 24.52% as compared to 2016. Excluding the impacts of the contributions from the new acquisitions in 2017 and the acquisition of enterprises in 2016 as comparable factors and other factors, revenue would have increased by 14.97% on the same basis as compared to 2016. The operating performance of the hospitals which commenced operation improved steadily. During the Reporting Period, segment results were RMB290 million, representing an increase of 25.38% as compared to 2016, and segment profit was RMB223 million, representing an increase of 49.93% as compared to 2016. As at the end of the Reporting Period, the total number of authorized beds available for the public in Chancheng Hospital, Hengsheng Hospital, Zhongwu Hospital, Wenzhou Geriatrics Hospital, Guangji Hospital, Jimin Hospital and Zhuhai Yannian, etc. controlled by the Group was 3,818 in aggregate.

During the Reporting Period, the Group continued to actively support and facilitate 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 2017, the United Family Hospital maintained its brand awareness and prominent positions in high-end healthcare segment in major cities such as Beijing, Tianjin and Shanghai. Qingdao United Family Hospital had commenced operation. The construction of Guangzhou United Family Hospital and Shanghai Pudong United Family Hospital was at full steam.

Medical Devices and Medical Diagnosis

In 2017, 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 RMB3,204 million from the medical devices and medical diagnosis segment, representing an increase of 20.77% as compared to 2016. Excluding the impacts of the contributions from the new acquisitions of enterprises in 2017 and the acquisition of enterprises in 2016 as comparable factors, the revenue would have increased by

15.18% on the same basis as compared to 2016. During the Reporting Period, the results and profit of the medical devices and medical diagnosis segment amounted to RMB480 million and RMB387 million, which increased by 10.21% and 20.01% as compared to 2016, respectively. In 2017, HPV diagnostic 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 28,000 in Mainland China and Hong Kong, representing year-on-year growth of approximately 46%.

The Group's medical devices and medical diagnosis segment has a total of six production or agency product lines with volume over RMB100 million, namely Da Vinci surgical robot devices and consumables, medical cosmetics devices Soprano series, Harmony series, Accent series, HPV diagnostic reagents and tuberculosis diagnostic products T-SPOT formulation kit.

In September 2017, Sisram Medical Ltd ("**Sisram**") was listed on the main board of the Hong Kong Stock Exchange and became the first Israeli company listed on the main board of the Hong Kong Stock Exchange. 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. During the Reporting Period, 2 products of Sisram passed the EU CE certification, and 3 products of Sisram were approved by the U.S. FDA. Following the acquisition of 30% equity interest in Chindex Medical Limited ("**CML**"), 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 Group 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.* ("**Intuitive Fosun**"), and completed the relevant business registration, which accelerates the development and popularization of high-end medical technology in China. In addition, the Group completed its investment in the 80% equity interest of Breas, a respiratory medical devices company in Sweden, which further expanded the product portfolio of respiratory medical business.

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 2017, Sinopharm realized revenue of RMB277,717 million, net profit of RMB7,868 million and net profit attributable to shareholders of the parent of RMB5,283 million, which represented an increase of 7.48%, 14.17% and 13.68% as compared to 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 15,032 hospitals (only referring to hospitals with ranking, including 2,301 of the tier-three hospitals, which are the largest and most highly-ranked hospitals). During the Reporting Period, Sinopharm's revenue from pharmaceutical distribution business increased by 7.26% as compared to 2016 to RMB264,352 million. Meanwhile, the pharmaceutical retail

business of Sinopharm also maintained growth with revenue of RMB12,392 million realized during the Reporting Period, representing an increase of 21.04% as compared to 2016, while its pharmaceutical retail network further expanded. As at the end of the Reporting Period, Sinopharm Holding GuoDa Drug Store Co., Ltd., a subsidiary of Sinopharm, had 3,834 retail pharmacies, including 2,801 direct-sale stores and 1,033 franchise stores, in 19 provinces or cities across China.

Internal Integration and Operation Enhancement

During the Reporting Period, the Group had updated its five-year strategic plan for the green supply chain, under which it was going to cooperate with subsidiaries to continue to promote the implementation of the project and conducts pilot EHS on-site audits of suppliers. Meanwhile, 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 subsidiaries in related regions.

In collective procurement and strategic procurement, in 2017, the Group further promoted the collective procurement projects in cross-business segments and sectors. As at the end of the Reporting Period, 21 collective procurement and strategic bidding projects for analytical instruments and consumables, medical equipment, industrial design, wire and cable, shuttle and information systems have been completed. The Group entered into procurement cooperation with Jingdong, a global leading Internet company and China's largest self-owned B2C e-commerce company. Through the advancement of the collective procurement project and strategic agreement, the Group exerts a platform effect, realizing cost reduction and efficiency. In the process of advancement of the collective procurement projects, the Group has gradually improved its procurement expert database. Experts from the expert database will participate in the whole process of the specific collective procurement projects with full consideration of the actual situation of each subsidiary business, to ensure the viability of collective procurement projects at later stage. They also traced the implementation of procurements under strategic agreements and collected all kinds of procurement information of the Group for comprehensive statistical analysis and analyzed cost reduction status, providing further basis for management to optimize procurement strategy.

In respect of compliance operation, the Group, by formulating and amending the policies, including the Anti-Corruption Regulation and the Management Rules on Operation with Integrity, to fully implement the open tendering and monitor 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 gradual implementation of the SAP system broke the data barriers for the pharmaceutical business and improved the master data management system including R&D, production, and marketing activities. At the same time, the Group established a standardized basic data standards and platforms for the healthcare services business through the Hospital Information Management Platform, and completed centralized management and control of key data such as medical operations information, operational indicators, and business processes.

Environment, Health and Safety

During the Reporting Period, the Group continued to proceed with the establishment and operation of the management of environment, health and safety (EHS). Leveraging the EHS management system to develop and establish a set of EHS system standards that aligned with the actual risk exposures of the Group, various management systems and requirements were enhanced for the implementation of system. Various EHS facilities were also upgraded to enhance the professional skills of EHS dedicated employees. As such, the EHS performance of the Group was improved in a practicable and effective manner.

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 substituting natural gas for coal and upgrading or renovating sewage treatment facilities. The Group made proactive effort into various environmental, energy saving and emission tasks properly. Disclosure of carbon emissions will be made in this report in response to the state's goal of sustainable development on environmental protection.

Meanwhile, aiming at "building a patient-centered, first-class and globally leading health management platform in China," and in response to the specific EHS risk and operation model of hospitals, the Group collaborated with third parties for the joint development of a hospital EHS management system framework and its scoring system to guide the EHS operation and management of its controlling medical institutions.

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.

The Group had established a regular review and management decision making mechanism for EHS, which provided organizational and resource protection for the EHS compliant operation and sustainable development of the Group in terms of organizational structure, human resources, management and control process and resource allocation.

Financing

During the Reporting Period, the Company completed the Placing of H Shares (as defined below). The total proceeds from the placing amounted to approximately HK$2,323 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 during the first half of 2017, which possesses an advantage in financing cost and consistently optimized debt structure. At the same time, the Group continued to strengthen its cooperation with PRC-funded banks in financing business and increased business contacts with foreign banks, and obtained short-term and medium-to-long-term preferential interest rate financing on the basis of cooperative relationship between Chinese and foreign-funded financial institutions. The further increase in credit facilities provided favorable conditions for the Group to strengthen the development of its principal business and implement internationalization strategy. As of the end of the Reporting Period, the Group received a total of RMB35,661 million in credit facilities from major cooperative banks.

Social Responsibility

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

For pharmaceutical enterprises, drug research and innovation is an important reflection of their social responsibilities. During the Reporting Period, the Group had continually increased investment in upgrading its technology, improved production process, focused on the establishment of product quality system, extended the life cycle of products and lowered the cost in order to offer safe, efficient, affordable products and services. Meanwhile, to care for patients and life, the Group continuously improved a long-term mechanism and contingency plan for monitoring adverse drug reaction.

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

With respect to social welfare, the Group undertook its social responsibilities and benefited the society by continuously investing in education, supporting scientific researches and community healthcare services, alleviating poverty by donations, and providing disaster assistances. In 2017, the accumulated global sales of artesunate for injection, an innovative drug whose independent intellectual property right is owned by the Group, exceeded 100 million, helping over 20 million of patients with severe malaria around the world to restore health.

With respect to targeted poverty alleviation, in 2017, adhering to and promoting the decision and planning of the central government with respect to ''targeted approach to alleviating poverty'', Fosun Pharma joined hands with its subsidiaries and Fosun Foundation, to conduct various forms of charity activities on poverty alleviation, education, patient care, etc.

2. MAJOR OPERATIONS IN THE REPORTING PERIOD

A Analysis on Principal Operations

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

Unit: million Currency: RMB

Items	Amount for the period	Amount for the corresponding period of last year	Year-on-year change *(%)*	Reasons
Revenue	18,362	14,506	26.58	
Cost of sales	7,609	6,718	13.26	
Selling and distribution expenses	5,791	3,704	56.33	*Note 1*
Administrative expenses	1,774	1,626	9.10	*Note 2*
Research and development expense	1,027	715	43.62	
Finance costs	578	488	18.44	*Note 3*
Net cash flow generated from operating activities	2,580	2,110	22.28	
Net cash flow generated from investment activities	–10,504	–2,447	–329.25	*Note 4*
Net cash flow generated from financing activities	9,909	1,446	585.23	*Note 5*
R&D expenditures	1,529	1,106	38.26	*Note 2*

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

Note 1: The increase in selling and distribution expenses was mainly due to market expansion in new and recent products, and the growth in sales of the major products during the Reporting Period;

Note 2: The increase in R&D expenditures and research and development expenses was mainly due to the continuous increase in the investment in generic biopharmaceutical drugs, innovative biopharmaceutical drugs, small molecular innovative drugs and concentrated investment in consistency evaluation during the Reporting Period;

Note 3: The increase in finance costs was mainly due to the increase in the interest rate on interest-bearing debts and the increase in total borrowings during the Reporting Period;

Note 4: The increase in net cash flow generated from investment activities was mainly due to the acquisitions of subsidiaries and increase in cash paid for foreign investment during the Reporting Period;

Note 5: The increase in net cash flow generated from financing activities was mainly due to the placing of H shares, listing of Sisram and new bank borrowings during the Reporting Period.

I. *Analysis of Revenue and Cost of Sales*

During the Reporting Period, revenue of the Group increased by 26.58% to RMB18,362 million from 2016.

The change in revenue was mainly attributable to the revenue growth of core products, expansion of healthcare services business and contributions from the newly acquired enterprises.

In 2017, the gross profit margin of the Group was 58.56%, representing an increase of 4.88 percentage points as compared to 2016 primarily due to the increase in sales proportion of high margin products, improvement in the sales structure, further optimized supply chain of raw materials and centralized procurement and economics of scale.

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

Unit: million Currency: RMB

Principal Operations by Segments

By segments	**Revenue**	**Cost of sales**	**Gross profit margin** *(%)*	**Year-on-year change in revenue** *(%)*	**Year-on-year change in cost of sales** *(%)*	**Year-on-year change in gross margin** *(%)*
Pharmaceutical manufacturing and R&D	13,043	4,431	66.03	28.50	8.01	increase of 6.45 percentage points
Healthcare services	2,087	1,506	27.84	24.52	21.58	increase of 1.77 percentage point
Medical devices and medical diagnosis	3,204	1,631	49.09	20.77	21.84	decrease of 0.44 percentage points

Principal Operations by Products

By Products	Revenue	Cost of sales	Gross profit margin (%)	Year-on-year change in revenue (%)	Year-on-year change in cost of sales (%)	Year-on-year change in gross margin (%)
Major products of cardiovascular system therapeutic area	1,293	264	79.55	7.70	3.92	increase of 0.74 percentage points
Major products of central nervous system therapeutic area *(Note 1)*	1,546	122	92.08	43.66	–8.25	increase of 4.48 percentage points
Major products of blood system therapeutic area *(Note 2)*	586	45	92.27	64.16	–27.64	increase of 9.81 percentage points
Major products of metabolism and alimentary system therapeutic area *(Note 3)*	2,451	503	79.49	26.73	–7.95	increase of 7.73 percentage points
Major products of anti-infection therapeutic area	2,274	640	71.85	22.07	–10.51	increase of 10.24 percentage points
Major products of anti-tumor therapeutic area *(Note 4)*	323	76	76.61	6.16	21.31	decrease of 2.92 percentage points
Major products of APIs and intermediate products	1,427	994	30.36	19.22	14.70	increase of 2.74 percentage point

Principal Operations by Geographical Locations

By Geographical Locations	Revenue	Cost of sales	Gross profit margin (%)	Year-on-year change in revenue (%)	Year-on-year change in cost of sales (%)	Year-on-year change in gross margin (%)
Mainland China	15,011	5,741	61.75	21.21	3.33	increase of 6.61 percentage points
Overseas countries or regions *(Note 5)*	3,351	1,867	44.27	57.88	60.60	decrease of 0.94 percentage points

Note 1: The revenue of major products of central nervous system therapeutic area recorded a year-on-year increase of 43.66%, which was mainly due to the adjustment of the product price;

Note 2: The revenue of major products of blood system therapeutic area recorded a year-on-year increase of 64.16%, which was mainly due to the adjustment of the product price;

Note 3: Thioctic Acid Injection (Fan Ke Jia) was added to the major products of metabolism and alimentary system therapeutic area in 2017, where the revenue and cost of Thioctic Acid Injection (Fan Ke Jia) were restated on the same basis for the revenue and cost of sales last year;

Note 4: Heparin essence product was added to the major products of APIs and intermediate products in 2017, where the revenue and cost of Heparin essence product were restated on the same basis for the revenue and cost of sales of last year.

Note 5: The increase in revenue and cost of sales from operations in overseas countries or regions was mainly due to the acquisitions of subsidiaries during the Reporting Period, resulting in changes in the scope of consolidation.

(2) *Analysis of Cost*

Unit: million Currency: RMB

		By Segments				
By Segments	**Cost**	**Amount for the period**	**Percentage of the total cost for the period** *(%)*	**Amount for the corresponding period of last year**	**Percentage of the total cost for the corresponding period of last year** *(%)*	**Ratio of change for the period as compared with the corresponding period of last year** *(%)*
Pharmaceutical manufacturing and R&D	Cost of products	4,431	58.24	4,103	61.06	8.01
Medical devices and medical diagnosis	Cost of products and goods	1,631	21.44	1,339	19.93	21.84
Healthcare services	Cost of services	1,506	19.79	1,239	18.44	21.58
Others	Other costs	41	0.54	38	0.57	6.19

Unit: million Currency: RMB

		By Therapeutic Areas				
By Therapeutic Areas	**Cost**	**Amount for the period**	**Percentage of the total cost for the period** *(%) (note)*	**Amount for the corresponding period of last year**	**Percentage of the total cost for the corresponding period of last year** *(%)*	**Ratio of change for the period as compared with the corresponding period of last year** *(%)*
Major products of cardiovascular system therapeutic area	Cost of products	264	5.97	254	6.20	3.92
Major products of central nervous system therapeutic area	Cost of products	122	2.76	133	3.25	–8.25
Major products of blood system therapeutic area	Cost of products	45	1.02	63	1.53	–27.64
Major products of metabolism and alimentary system therapeutic area	Cost of products	503	11.35	546	13.32	–7.95
Major products of anti-infection therapeutic area	Cost of products	640	14.44	715	17.43	–10.51
Major products of anti-tumor therapeutic area	Cost of products	76	1.71	62	1.52	21.31
Major products of APIs and intermediate products	Cost of products	994	22.42	866	21.12	14.70

Major Customers and Suppliers

Sales to the top 5 customers of the Group amounted to RMB2,628 million, representing 14.31% of the total sales revenue in 2017.

Purchases from the top 5 suppliers amounted to RMB1,090 million, representing 13.72% of the total purchases of the Group for 2017.

II. *Expenses*

During the Reporting Period, the selling and distribution expenses of the Group amounted to RMB5,791 million, representing an increase of 56.33% as compared to 2016. The change in selling and distribution expenses was mainly due to the market expansion in new and recent products, and the growth in sales of the major products during the Reporting Period.

The administrative expenses of the Group amounted to RMB1,774 million.

The R&D expenses of the Group amounted to RMB1,027 million, representing an increase of 43.62% from 2016. The change in R&D expenses primarily due to the continuous increase in the R&D investment in generic biopharmaceutical drugs, innovative biopharmaceutical drugs, small molecular innovative drugs and concentrated investment in consistency evaluation during the Reporting Period.

The finance costs of the Group amounted to RMB578 million, representing an increase of 18.44% as compared to 2016, mainly due to the increase in the interest rate of interest-bearing debts and the amount of total borrowings during the Reporting Period.

III. *R&D Expenditure*

R&D Expenditure

Unit: million Currency: RMB

R&D expenditures expensed for the period	1,027
R&D expenditures capitalized for the period	503
Total R&D expenditures	1,530
Percentage of total R&D expenditures on revenue (%)	8.3
Number of R&D staff in the Group (including QA and QC)	3,796
Percentage of number of R&D staff (including QA and QC) on total number of staff in the Group (%)	13.16
Percentage of R&D expenditures capitalized (%)	32.87

Descriptions

During the Reporting Period, the R&D investment in the pharmaceutical manufacturing segment amounted to RMB1,275 million, representing an increase of RMB312 million as compared to 2016, representing 9.7% of the revenue from the pharmaceutical manufacturing segment, mainly due to the continuous increase in the R&D investment in generic biopharmaceutical drugs, innovative biopharmaceutical drugs, small molecular innovative drugs and concentrated investment in consistency evaluation during the Reporting Period.

IV. *Cash Flows*

Unit: million Currency: RMB

Items	Amount for the period	Amount for the corresponding period of last year	Ratio of Change *(%)*	Reasons
Net cash flow generated from operating activities	2,580	2,110	22.28	Mainly due to the outstanding sales performance and operational enhancement of the Group during the Reporting Period
Net cash flow generated from investment activities	–10,504	–2,447	–329.25	Mainly due to the acquisitions of subsidiaries and increase in cash paid for foreign investment during the Reporting Period
Net cash flow generated from financing activities	9,909	1,446	585.23	Mainly due to the placing of H shares, H-share listing of Sisram and new bank borrowings during the Reporting Period;

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

Not applicable

C. Assets and liabilities analysis

Assets and liabilities

Unit: million Currency: RMB

Items	Amount as at the end of the period	Percentage of the amount as at the end of the period to the total assets *(%)*	Amount as at the end of last period	Percentage of the amount as at the end of last period to the total assets *(%)*	Ratio of change for the amount as at the end of the period as compared with the amount as at the end of last period *(%)*	Reasons
Property, plant and equipment	8,353	13.49	6,325	14.47	32.06	Mainly due to changes in the scope of consolidation during the Reporting Period
Goodwill	8,464	13.67	3,473	7.95	143.71	Mainly due to the acquisition of subsidiaries during the Reporting Period
Other intangible assets	6,950	11.23	2,620	5.99	165.27	Mainly due to changes in the scope of consolidation during the Reporting Period
Investment in joint ventures	647	1.04	248	0.57	160.89	Mainly due to the increase in joint ventures during the Reporting Period
Inventories	2,751	4.44	1,671	3.82	64.63	Mainly due to changes in the scope of consolidation during the Reporting Period
Trade and bills receivables	3,826	6.18	2,390	5.47	60.08	Mainly due to changes in the scope of consolidation and growth in sales during the Reporting Period
Prepayments, deposits and other receivables	1,012	1.63	659	1.51	53.57	Mainly due to changes in the scope of consolidation during the Reporting Period
Equity investments at fair value through profit or loss	219	0.35	48	0.11	356.25	Mainly due to new financial assets held for trading in the Reporting Period
Trade and bills payables	1,782	2.88	1,149	2.63	55.09	Mainly due to changes in the scope of consolidation during the Reporting Period
Other payables and accruals	4,054	6.55	2,504	5.73	61.90	Mainly due to changes in the scope of consolidation and unpaid transfer of equity payments and outstanding payables during the Reporting Period
Interest-bearing bank and other borrowings-current portion	10,472	16.91	6,139	14.05	70.58	Mainly due to the new borrowings during the Reporting Period
Interest-bearing bank and other borrowings-non-current portion	9,815	15.85	5,571	12.75	76.18	Mainly due to the new borrowings during the Reporting Period
Deferred tax liabilities	2,981	4.81	1,786	4.09	66.91	Mainly due to the deferred tax liabilities accrued from the valuation of the acquisition of subsidiaries during the Reporting Period
Other long-term liabilities	2,436	3.95	705	1.61	245.53	Mainly due to the share put options granted to non-controlling shareholders of subsidiaries during the Reporting Period

D. Analysis on investments

Major Subsidiaries and Investees

(1) *Operation and Results of Subsidiaries*

① Operation and Results of Major Subsidiaries

Unit: million Currency: RMB

Name of subsidiary	Nature of business	Major products or services	Registered capital	Total assets	Net assets	Revenue	Operating profit	Net profit
Yao Pharma	Pharmaceutical manufacturing	Atomolan, You Di Er, Shaduolika, Xi Chang, Cefmetazon, etc.	197	3,156	1,861	3,857	530	464
Jiangsu Wanbang Biopharmaceutical Group Co., Ltd ("**Jiangsu Wanbang**")	Pharmaceutical manufacturing	You Li Tong, Yi Bao, Xihuang capsules, Wan Su Ping enoxaparin sodium series, etc.	440	3,215	1,723	3,148	397	341
Jinzhou Aohong Pharmaceutical Co., Ltd ("**Aohong Pharma**")	Pharmaceutical manufacturing	Ao De Jin, Bang Ting	108	2,132	1,557	1,638	427	376
Gland Pharma	Pharmaceutical manufacturing	Heparin sodium, vancomycin, rocuronium bromide, etc.	N/A	6,218	4,695	455	91	63

Note 1: The data of Aohong Pharma and Gland Pharma include appreciation of asset evaluation and amortization of appreciation of asset evaluation

Note 2: The data of revenue, operating profit and net profit of Gland Pharma is collected from the date of acquisition to the end of the Reporting Period.

② Status of Other Major Subsidiaries

Unit: million Currency: RMB

Name of subsidiary	Nature of business	Major products	Registered capital	Total assets	Net assets	Revenue	Net profit
Chancheng Hospital *(Note 1)*	Healthcare services	Healthcare services	50	1,770	1,279	1,335	186
Sisram *(Note 2)*	Medical devices	Medical cosmetics devices, medical devices	N/A	2,265	1,914	924	75

Note 1: The data of Chancheng Hospital include appreciation of asset evaluation and amortization of appreciation of asset evaluation.

Note 2: The data of Sisram is prepared in accordance with Hong Kong Financial Reporting Standards.

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

Unit: million Currency: RMB

Name of investee	Nature of business	Principal activities	Registered capital	Total assets	Net assets	Revenue	Operating profit	Net profit
Sinopharm Industrial Investment Co., Ltd.*	Pharmaceutical investment	Pharmaceutical investment	100	169,500	51,516	277,060	9,993	7,798

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

① Acquisition of Subsidiaries in 2017

On 25 January 2017, Fosun Industrial Co., Limited ("**Fosun Industrial**") a subsidiary, Fosun Industrial Holdings Limited ("**FIHL**"), a connected person of the Company, PBM RESP Holdings, LLC, PBM Capital Investments, LLC and Breas entered into an Equity Purchase and Contribution Agreement, pursuant to which Fosun Industrial agreed to contribute no more than US$49.5 million for the joint investment with FIHL for the establishment of Fosun Medical Holdings AB ("**Fosun Medical**") (of which Fosun Industrial accounts for 55% of registered capital of Fosun Medical), and Fosun Medical will acquire 80% of equity interests in Breas through share transfer and subscription of additional shares. As at the end of the Reporting Period, Fosun Medical held 80% of equity interests in Breas.

On 18 March 2017 and 6 April, 2017, Shenyang Wanbang Tiansheng Biological Technology Co., Ltd. ("**Wanbang Tiansheng**"), a subsidiary of the Company, entered into an equity transfer agreement with Germany Bremen Import & Export Co., Ltd. and Shenzhen Tiansheng Trading Co., Ltd., pursuant to which Wanbang Tiansheng acquired 100% of equity interests in Far-Eastern Casing Co., Ltd. ("**Fareast Casings**"). As at the end of the Reporting Period, Wanbang Tiansheng held 100% of equity interests in Fareast Casings.

On 28 July 2016, the Company, Fosun Pharma Industrial Pte. Ltd., a subsidiary of the Company, Fosun Industrial and its holding subsidiaries (hereinafter collectively referred to as the "**Acquirer**") entered into the Share Purchase Agreement, Subscription Agreement and other documents with KKR Floorline Investments Pte. Ltd ("**KKR**"), founding shareholders (mainly comprised of the family of Dr. P. Ravindranath, companies under their control and the trusts they manage), the Vetter family of 6 natural persons and Gland Pharma, pursuant to which the Acquirer agreed to contribute no more than US$1,261.37 million for the acquisition of approximately 86.08% in Gland Pharma. On 15 September 2017, the parties concerned further entered into the Amendment NO.3 to the Share Purchase

Agreement and other agreements for the transaction, pursuant to which it is agreed that the transaction will be adjusted in the following manner: the Acquirer will contribute no more than US$1,091.3 million for the acquisition of approximately 74% of equity interests in Gland Pharma. As at the end of the Reporting Period, the Group held in aggregate approximately 74% of equity interests in Gland Pharma.

On 25 September 2017, Shanghai Fosun Long March Medical Science Co., Ltd. ("**Fosun Long March**"), a subsidiary of the Company, entered into an investment agreement with Wang Yumei (汪玉美) and He Zongping (何宗平), pursuant to which Fosun Long March invested in Hefei Yuntao Photoelectronics Technology Company Limited ("**Yuntao Optoelectronics**") through equity transfer and capital contribution. As at the end of the Reporting Period, Fosun Long March held 69.81% of equity interests in Yuntao Optoelectronics.

On 27 September 2017, Guangzhou Fosun Huanan Medical Investment Company Limited ("**Fosun Huanan**"), a subsidiary of the Company, entered into an equity transfer agreement and a shareholders agreement with Peng Haibin (彭海濱), Zheng Xionghui (鄭雄輝), Peng Yongsheng (彭永生) and Zhuhai Jiqun Logistics Warehousing Company Limited ("**Zhuhai Jiqun**") respectively, pursuant to which Fosun Huanan invested in Zhuhai Jiqun through equity transfer and capital contribution. As at the end of the Reporting Period, Fosun Huanan held 51% of equity interests in Zhuhai Jiqun.

On 12 November 2017, Shanghai Fosun Hospital Investment (Group) Co., Ltd. ("**Fosun Hospital Investment**"), a subsidiary of the Company, entered into an equity transfer agreement with Shenzhen Hangsheng Industrial Group Co., Ltd., Shenzhen Yinxun Investment Consulting Enterprise (General Partnership), Shenzhen Fengcheng Investment Consulting Enterprise (Limited Partnership) and Hengsheng Hospital, pursuant to which Fosun Hospital Investment acquired 60% of equity interests in Hengsheng Hospital. As of the end of the Reporting Period, Fosun Hospital Investment. held 60% of equity interests in Hengsheng Hospital.

On 27 October 2017, Fosun Pharmaceutical AG, a subsidiary of the Company and Fosun Industrial, entered into a Securities Purchase Agreement with the shareholders of Tridem Pharma S.A.S. ("**Tridem Pharma**"), pursuant to which Fosun Pharmaceutical AG shall acquire 100% of equity interests in Tridem Pharma. The transaction includes: (i)the acquisition of approximately 82% of equity interests in Tridem Pharma through capital contribution of no less than EUR46 million in aggregate during the first phase, and (ii) the acquisition of approximately 18% of remaining equity interests in Tridem Pharma during the second phase. The first phase of this transaction was completed on 12 December 2017. As at the end of the Reporting Period, Fosun Pharmaceutical AG. held 82% of equity interests in Tridem Pharma.

The acquisitions of the subsidiaries in 2017 have the following effect on the Group's production and results:

Unit: million Currency: RMB

Name of subsidiary	Acquired through	Net assets (as at 31 December 2017)	Net profit (from date of acquisition/ merger up to 31 December 2017)	Date of acquisition/ merger
Breas	Equity transfer and capital contribution	270	5	15 March 2017
Fareast Casings	Equity transfer	8	2	23 March 2017
Gland Pharma	Equity transfer	4,695	63	3 October 2017
Yuntao Optoelectronics	Equity transfer and capital contribution	12	–0	10 November 2017
Jiqun Logistics	Equity transfer and capital contribution	57	–1	17 November 2017
Hengsheng Hospital	Equity transfer	462	9	30 November 2017
Tridem Pharma	Equity transfer	209	2	12 December 2017

Note: The above data include appreciation of asset evaluation and amortization of appreciation of asset evaluation.

② Disposal of Subsidiaries in 2017

On 24 October 2017, Guilin Pharma, a subsidiary. entered into an equity transfer agreement with Yang Yong (楊永) and Wang Hongli (王宏利), pursuant to which Guilin Pharma transferred 55% of equity interests in Fenghuang County Jiangshan Technology Development Company Limited ("**Phoenix Jiangshan**") to Yang Yong and Wang Hongli. As of the end of the Reporting Period., Guilin Pharma no longer held any equity interests in Phoenix Jiangshan.

The disposals of the subsidiaries in 2017 have the following effect on the Group's production and results:

Unit: million Currency: RMB

Name of subsidiary	Disposed through	Net assets as at date of disposal	Net profit from beginning of Reporting Period to date of disposal	Date of disposal
Phoenix Jiangshan	Equity transfer	–4	3	24 October 2017

E. Core Competence Analysis

I. *Overview*

The Group has formed a relatively complete product portfolio in the six major therapeutic areas (being areas of cardiovascular system, metabolism and alimentary system, central nervous system, blood system, anti-infection and anti-tumor) which are areas with the greatest potential to grow in China's pharmaceutical market. Each of the major pharmaceutical products of the Group has its own competitive advantages in their respective segments. In 2017, apart from Gland Pharma, there were 21 formulation items or series in the pharmaceutical manufacturing segment of the Group that each recorded revenue of over RMB100 million, of which there are 11 formulation items or series recorded sales of over RMB300 million (including 5 formulation items or series recorded sales of more than RMB500 million).

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, the U.S., India and other countries. 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 continued to strengthen its presence in the production of anti-tumor drugs. As at the end of the Reporting Period, the Group

obtained approval of clinical trial for a total of 6 monoclonal antibody product types (including 1 innovative monoclonal antibody items) 11 indications obtained approval of clinical trial in the PRC, 3 products were in the phase III clinical trial, 1 product applied for production (i.e. rituximab monoclonal antibody injection) and was included in the registration application list for drugs to be included in the priority review process. Another three innovative monoclonal antibody items (recombinant anti-VEGFR2 fully human monoclonal antibody injection, recombinant humanized anti-EGFR monoclonal antibody injection, recombinant humanized anti-PD-1 monoclonal antibody injection) obtained approval of clinical trial both in the United States and Taiwan. Recombinant humanized anti-HER2 monoclonal antibody injection obtained approval of clinical trial in China and Europe. As at the end of the Reporting Period, apart from the newly acquired Gland Pharma, there were 171 pipeline drugs, generic drugs, biosimilars and consistency evaluation projects (including 10 small molecular innovative drugs, 8 biopharmaceutical innovative drugs, 14 biosimilars, 98 generic drugs with international standards, 39 consistency evaluation projects and 2 traditional Chinese medicine drugs), 9 projects under clinical trial applications, 29 projects under clinical trial, and 27 projects awaiting official approval for sales. At the beginning of 2018, amlodipine besylate tablets passed the consistency evaluation of generic drugs, which helped the Group in continuously improving product quality. It is expected that these pipeline products will provide a solid foundation to maintain sustainable development of the Group in the future. As at the end of the Reporting Period, there were nearly 1,500 staff members in the R&D team, representing approximately 5% of the total number of employees in the Group. 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 exploring innovative research and development of companies under partnership and adopting technology introduction, patent licensing, "deep incubation" and value management models to access the global innovative advanced technology and facilitate the global development of advanced products 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.

While continuously improving the level of research and development and product competitiveness, the Group continued to strengthen the construction of domestic and foreign marketing systems and has established a marketing team of nearly 5,000 people at home and abroad, including overseas marketing teams of nearly 1,000 people. In terms of construction of domestic marketing, during the Reporting Period, the Group constantly explored and improved the domestic marketing system based on the industry environment, and innovated new marketing model to achieve marketing compliance and sustainable development. In terms of market, capacity building in high-end medical services, primary healthcare, retail chains, and other markets has been further improved. The Group used C2M as the strategic core to establish an internet innovation platform for marketing transformation, so as to carry out digital marketing. At the same time, the

Group strengthened tender, market access and key account management, laying a foundation for the marketing of subsequent listed products. In addition, by virtue of the cooperation and linkage with Sinopharm, the Group also fully utilized Sinopharm's advantages in distribution network and logistics to facilitate the expansion of the drug sales channels of the Group. In terms of construction of international marketing team, with the acquisition of controlling interests in Tridem Pharma, the Group will further leverage on Tridem Pharma's established sales network and upstream and downstream client resources in Francophone countries and regions in Africa which will further improve the Group's international pharmaceutical marketing platform on top of its existing international marketing channels. As such, in-depth cooperation with pharmaceutical companies in Europe and the United States were initiated and the Group's sales volume of drugs in the international market was enhanced.

Meanwhile, the Group is also one of the first enterprises in the PRC pharmaceutical industry to develop internationally. Its production has expanded overseas, Apart from the newly acquired Gland Pharma, several production lines of the Group were recognized by relevant international certifications, and some of the formulations and APIs have also entered into the international markets in a considerable scale. The Group is the leading provider of anti-malaria medicines. As of 2017, the global sales volume of the Group in respect of innovative drug artesunate for injection with proprietary intellectual property rights has exceeded 100 million. With the completion of the acquisition of Gland Pharma, the industrial upgrading of the pharmaceutical manufacturing business of the Group will be carried forward, and the internationalization process will be accelerated to increase the market share in the injection market. In the fourth quarter of 2017, a total of 5 generic drugs of Gland Pharma received U.S. FDA listing approval.

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 framework system 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 operates in pharmaceutical manufacturing and R&D as well as healthcare services segments. It also maintains its long-term investment in Sinopharm. The pharmaceutical manufacturing and R&D as well as medical devices and medical diagnosis businesses of the Group are in leading positions in the industry. According to the statistics of IQVIA, the Group was ranked 7th in terms of the sales revenue generated from the prescription drugs for hospitals that produced by the Group in 2017, whilst the Da Vinci surgical robotic system of the distribution of medical devices of the Group had no similar competing products in the market. Meanwhile, the healthcare services business of the Group also takes the lead in terms of business development and integration capability in the industry.

The core competitiveness of the Group can be reflected in the increasingly extensive product lines, strong R&D capability, highly standardized production management, high quality services, professional marketing teams and international business development capability. Apart from the newly acquired Gland Pharma, with respect to the pharmaceutical manufacturing and R&D businesses of the Group, there were 21 formulation items or series that each recorded revenue of over RMB100 million in 2017, of which there are 11 formulation items or series recorded sales of over RMB300 million, (including 5 formulation items or series recorded sales of more than RMB500 million). These key products constitute the major sources of income of the pharmaceutical manufacturing and R&D businesses of the Group and support the rapid development of the pharmaceutical manufacturing and R&D segment. 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 continue to follow the direction of China's Thirteenth Five-year Plan in relation to the pharmaceutical industry, take advantage of its competitive strengths and adhere to the strategies of organic growth, external expansion and integrated development.

F. Employees and Remuneration Policies

As at the end of the Reporting Period, the Group had a total of 28,848 employees. The employee's remuneration policies of the Group are formulated on the basis of the results, work experience and salary level prevailing in the market.

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

A. Competition and Development Trends of the Industry

In 2018, the pharmaceutical and healthcare industry will maintain stable growth. For the market demand, the quickening aging process and liberalization of two-child policy, the further increased investment in the medical and healthcare industry from the government and the increase in per capita disposable income in China will become three major drivers for the further development of pharmaceutical industry in China. Besides, with the continual growth in morbidity rate of geriatric, chronic diseases and tumors, these drivers will persist and further encourage industry development at a speed faster than the GDP growth in the near future. With respect to industry structure, the domestic economy will sustain stable growth while the government will guide and encourage the strategically emerging industries to proceed with industry upgrading and structure optimization, thereby supporting the development of the innovation-driven pharmaceutical industry. In terms of national policies, the promulgation of "Healthy China 2030" has devised a brighter future for the major health industries in China. The implementation of "paying for pharmaceutical products and medical insurance with benchmark price" policy, amendments to the "National List of Essential Drugs", "consistency evaluation" and other policies will lay a relatively more stable business foundation for domestic pharmaceutical enterprises. Upon the formulation and promulgation of China's Thirteenth Five-year Plan for the pharmaceutical industry, there will be more demanding requirements in respect of the overall industry structure. Pharmaceutical enterprises with advantages in size, technology, brand and marketing will embrace rare opportunities. In view of the specific industry environment, the coexistence of challenges and opportunities will remain in future.

In terms of challenges, on the one hand, the consistent concern about the drug quality, system standards and standardized operation of pharmaceutical enterprises from the government, especially the increasingly demanding planning and requirements on pharmaceutical distribution channels and marketing environment, have procured the industry to be more regulated, standardized and efficient, which may bring great pressure and challenges for certain enterprises in China in short term. However, in the long run, such efforts will facilitate the upgrading of the entire industry structure and the further concentration of industry. The accelerated implementation of regulation and control over prices and classification of pharmaceutical products, and further improvement in the centralized tender system for procurement of pharmaceutical products will facilitate and accelerate the consolidation in the domestic pharmaceutical industry. The level of industrial concentration will rapidly increase by way of acquisition and reorganization. On the other hand, under the influence of slow recovery in the global economy, the trend of anti-globalization and populism, unbalanced development between different regions, exchange rate risk and other factors, the international expansion of domestic enterprises will be subject to various challenges. However, it will be difficult for the trend of transnational information, technology, talents and capital flows to

change in the long run. The expiration of patents of pharmaceutical products in major markets such as Europe and the U.S. will present opportunities for the rapid development of PRC companies with capabilities to innovate and carry out international expansion. While facing with favorable capital market conditions and product market opportunities, the international expansion of PRC pharmaceutical enterprises is also consistent with the policy directions of the government's industry plans.

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

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

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

B. Development Strategies

In 2018, the Group will continue to be committed to its mission of improving human health, adhere to its corporate philosophy of "Innovation for Good Health", and endeavor to capture the opportunities presented by the broad pharmaceutical market in China, the rapid growth of

generic drugs in mainstream markets such as Europe and the U.S as well as the continuous research and development in innovative drugs. It will uphold the "4IN (Innovation, Internationalization, Integration and Intelligentization)" Strategy and adhere to the development model of organic growth, external expansion and integrated development, and further its efforts in acquiring quality companies in the international pharmaceutical industry. By continuing to optimize and integrate resources in the pharmaceutical industry chain, strengthening product innovation and product marketing systems, positively implementing internationalization and enhancing the core competence of the Group, the Group strives to further enhance its operating results. Meanwhile, the Group will continue to actively explore financing channels domestically and internationally and create favorable conditions for the continuous development of the Group.

C. Operation Plan

In 2018, the development of the pharmaceutical industry will be presented with both opportunities and challenges. The Group will endeavor to develop its product-oriented strategy and further enhance its investments in R&D activities, and strengthen its marketing efforts for major products. In addition, the Group will continue to increase investment in the healthcare services segment to expand the operating scale in the segment and improve its operation management and ability of internationalization. Meanwhile, the Group will accelerate its mergers and acquisitions as well as integration of quality domestic and overseas pharmaceutical companies, medical enterprises and innovative companies, and promote the consolidation of Sinopharm in the pharmaceutical distribution and retail segment.

In 2018, the Group plans to achieve rapid growth and aim to make revenue of not less than RMB22 billion. Meanwhile, the Group will strive to control costs and various expenses. As a result, the increase in costs will not be greater that the growth in revenue and the cost of sales ratio and management expense (excluding R&D expenses) ratio will be relatively stable. Also, the percentage of R&D expenditure on pharmaceutical manufacturing segment to the total sales revenue from the pharmaceutical business will not be less than 5% so as to enhance profit margin and profitability of the major products.

The above operation objectives do not represent the profit forecast and performance commitment of the Group for 2018. The achievement of the objectives is subject to various internal and external factors with uncertainty. Investors should pay attention to the investment risk.

The Group will continue to optimize its control throughout operation and enhance the efficiency of asset operations. Specific strategies and actions include:

(1) 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-infection and anti-tumor , so as to maintain and further improve the leading position in their respective

market segments. Meanwhile, the Group will increase its investments in R&D in an effort 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, in order to solidify the core competence of its pharmaceutical manufacturing business.

(2) 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 in an effort to expand the scale of our healthcare services business. The healthcare institutions controlled by the Group will further strengthen their disciplines and quality management, enhance operational efficiency and accelerate the business development. The Group will also promote the implementation of the Taizhou Zhedong Hospital, Huaihai Medical Group and other projects and the reconstruction and expansion of Zhongwu Hospital and Guangji Hospital as well as the cooperation with Huai'an Second Hospital and positively seek new opportunities for merger and acquisition of healthcare services.

(3) The Group will continue to develop and introduce devices and products, launch new products and enrich new product lines for its diagnostic business. The Group will continue to enhance the development of domestic and overseas sales network and its professional sales team, strive to increase the market share of its devices and diagnostic products, and actively seek opportunities to invest in quality companies both domestically and internationally.

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

Pharmaceutical Manufacturing and R&D

In 2018, the Group will continue to focus on innovation and international development, and strive to develop strategic products. Whilst actively seeking opportunities for mergers and acquisitions as well as consolidation in the industry, the Group seeks to achieve continuous and rapid growth of its revenue and profit.

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

dobesilate (Ke Yuan), new compound aloe capsules (Ke Yi), pitavastatin calcium tablets (Bang Zhi) and amlodipine besylate tablets so as to maintain and further improve the leading position in their respective market segments.

The Group will continue to adopt the strategy to integrate imitation with innovation to combine international technology licenses with domestic industry-university-research cooperation, and increase its investments in R&D driven by the cooperation tie of ''project plus technology platform''. Project approval process for new products will continue to be strictly implemented by the Group in order to enhance the efficiency of research and development. The Group will strengthen the development of the teams for the registration of pharmaceutical products in order to accelerate the approval process of existing products as well as to support innovation. The Group will actively facilitate the R&D and registration processes for products including monoclonal antibody products and small molecular innovative drugs and ensure that the development and registration processes will be completed on schedule. The Group will also accelerate its efforts to link its R&D with the market situation so that demand and supply are better matched. The Group will fully take advantage of the benefits of various R&D platforms, and strive to develop strategic product lines as well as R&D systems that are in line with international standards for new pharmaceutical products, and accelerate the development and reserve for follow-on strategic products.

At the same time, the Group will seize such opportunity of consistency evaluation on generic drugs, to maintain and expand its market position in advantage types and make a new deployment in the market for the Group's products. At the beginning of 2018, as amlodipine besylate tablets have passed the consistency evaluation on generic drugs, the Group plans to select nearly 40 types in cardiovascular system, metabolism and alimentary system, central nervous system, anti-infection and other therapeutic areas to commence consistency evaluation and related works are proceeding properly. At the beginning of 2018, the industrial development of the subsidiary of the Company was awarded the "Approval Document for Supplementary Application of Drugs" issued by the Food and Drug Administration of PRC and became the first holder of drug listing license in the pharmaceutical market in Shanghai. The Group will develop and continuously improve the management model of the drug listing license holder system by participating in pilot system for holder of listing license, and exert quality control over the entire life cycle of drugs.

In addition, the Group will also further expand and intensify its cooperation with the leading pharmaceutical companies in the world in order to give full play to the advantages of connecting momentum in China to global resources, making innovations in cooperation model and searching for new momentum. In 2018, the Group will proceed to make use of the industry experience of the Group and the leading research and development in the world for the purpose of active cooperation among pharmaceutical manufacturing enterprises, in order to solidify the core competence of its pharmaceutical manufacturing business.

Healthcare Services

In 2018, the Group will continue to seize the business and investment opportunities arising from the opening up of the healthcare services segment to social enterprises. The Group will continuously increase its investments in the healthcare services segment, and strengthen the established strategic deployment of its healthcare services business which integrates high-end healthcare services in coastal developed cities and specialty hospitals and general hospitals in second-tier and third-tier cities in an effort to expand the scale of our healthcare services business. The healthcare institutions controlled by the Group will further strengthen their disciplines and quality management, enhance operational efficiency and accelerate the business development. Chancheng Hospital gained JCI international certification and the Group further increased its shareholdings in Chancheng Hospital, which will benefit the further expansion of radiation coverage and regional influence of medical services of Chancheng Hospital and the improvement in the layout of the Group's medical services industry in Southern China. The Group will also promote the implementation of the Taizhou Zhedong Hospital, the construction of Huaihai Medical Group and the reconstruction and expansion of Zhongwu Hospital and Guangji Hospital as well as the cooperation with Huai'an Second Hospital, and positively seek new opportunities for merger and acquisition of healthcare services. Furthermore, the Group will continue to support and promote the development of "United Family Hospital", a high-end brand for healthcare services under Chindex, and in particular the establishment and business expansion of hospitals in Guangzhou and Pudong, Shanghai in order to accelerate the development of its high-end healthcare services characterized by multiple levels, diversification and extensibility.

Medical Devices and Medical Diagnosis

In 2018, the Group will increase its investments in R&D, manufacturing and sales of medical devices. The listing of Sisram on the Hong Kong Stock Exchange will assist in further stimulating the R&D and sales of medical devices and actively explore 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. The Group will establish a strategic platform covering the early diagnosis of lung cancer and asthma as well as the medical devices for treatment of common respiratory diseases in the field of respiratory medical business so as to form a closed circuit for the respiratory segment of the Group.

In 2018, the Group will continue to develop and introduce products, launch new products and enrich new product lines for its diagnostic business. The Group will continue to enhance the development of domestic and overseas sales network and its professional sales team, strive to increase the market share of its diagnostic products including those newly introduced and registered, and actively seek opportunities to invest in quality companies both domestically and internationally.

Pharmaceutical Distribution and Retail

In 2018, the Group will continue to facilitate consolidation and rapid development of Sinopharm in its pharmaceutical distribution business, and the continued expansion of the competitive advantages of Sinopharm in the pharmaceutical distribution and retail sector.

Financing

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

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

With the organic growth of the Group and the steady growth in the industry consolidation, the Group expects to invest approximately RMB2,200 million for production capacity expansion, plant relocation and the development of cGMP and reconstruction and expansion of hospitals in 2018. Primary sources of funding include, among others, the Group's own capital, cash flow from operating activities, and proceeds from debt and equity financing.

E. Potential Risks

I. *Risks in relation to industry policies and system reforms*

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

official launch of reform of drugs and pharmaceutical system, industry consolidation and transformation in business models are inevitable. The exploring medical reform in the PRC will directly affect the development trend of the entire pharmaceutical industry. Implementation of policies and measures regarding drug price reduction, production quality regulations and environmental protection practice will also directly affect the profitability and production cost of pharmaceutical enterprises, which in turn affect the production and operation of the Group.

In the field of healthcare services, uncertainties remained in the reforms of public hospitals, which accounted for the mainstay of medical services. They proposed a variety of strategic options for the entry of social forces, and were of the view that social forces might contribute greatly if state-owned enterprises in medical institutions were given policy opportunities.

II. ***Market risks***

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

With respect to the overseas regulatory markets dominated by the United States, which had been entered into through acquisitions, the competition for generic drugs was fierce, the price of which continued to fall, and drug regulatory agencies implemented increasingly stringent requirements on production quality. These factors constituted unavoidable risks during the deepening of internationalization. In emerging markets such as Africa, with the continuous entry of generic pharmaceutical companies such as India, the Group was also under pressure from government tenders. In some resource-based countries, there are also potential payment risks brought about by currency/foreign exchange instability.

III. ***Business and operating risks***

Being a special commodity, pharmaceutical products are directly related to life and health. The quality issues arising from raw materials, production, transportation, storage and usage of pharmaceutical products may have adverse impact on the production, operation and market reputation of the Group. On the other hand, in the event that the new drugs of the Group do not align with the changing market demand, or the Group

fails to develop new products or the Group's new products do not receive positive market response, the operating costs of the Group will increase, which adversely affected the Group's profitability and future development.

Pharmaceutical manufacturing companies are exposed to environmental risks during the production process. Residue, waste gas, waste liquid and other pollutant produced will be harmful to the nearby environment if they are not treated properly, which in turn affect the normal production and operation of the Group. Despite the strict compliance by the Group of the relevant environmental protection laws, regulations and standards for its waste treatment and emission of residue, waste gas and waste liquid, the environmental protection costs incurred by the Group may increase in light of the enhanced social awareness on environmental protection over time, and the potential implementation of more stringent environmental protection laws and regulations by central and local government.

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

IV. ***Management risks***

(1) *Management risks in relation to business expansion*

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

(2) *Risks arising from acquisitions and reorganizations*

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

V. ***Force majeure risks***

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

Other Events

1. ***The Restricted A Share Incentive Scheme***

On 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 of the Company ("**Restricted A Share**") in respect of the Restricted A Share Incentive Scheme, and the conditions for unlocking the Restricted A Shares were satisfied by 24 grantees. As a result, a total of 1,259,360 Restricted A Shares were unlocked, and trading of such Restricted A Shares commenced on 19 January 2017.

2. ***The Restricted A Share Incentive Scheme II***

As two of the grantees of the Restricted A Share Incentive Scheme II, namely Mr. Bai Huan and Mr. Chen Yi, had resigned from the Company and terminated their employment contracts with the Company, they no longer fulfilled the conditions for incentives. Pursuant to the Restricted A Share Incentive Scheme II, the Board considered and approved the buyback and cancellation of 37,500 Restricted A Shares which were granted to Mr. Bai Huan and Mr. Chen Yi which had not been unlocked at a price of RMB10.54 per share for the buyback. The total consideration for the buyback amounted to RMB395,250. The number of grantees of the Restricted A Share Incentive Scheme II reduced to 43 from 45. Such portion of shares was cancelled on 24 February 2017.

As (1) two of the grantees of the Restricted A Share Incentive Scheme II, namely Mr. Dong Zhichao and Mr. Wang Shuhai, had resigned from the Company and terminated their employment contracts with the Company or its subsidiaries; (2) the 2016 performance appraisal results of Mr. Deng Jie, a grantee of the Restricted A Share Incentive Scheme II, was unsatisfactory, and he no longer fulfilled the conditions for incentives. On 30 October 2017, the Board considered and approved the buyback and cancellation of 70,150 Restricted A

Shares which were granted to Mr. Dong Zhichao, Mr. Wang Shuhai and Mr. Deng Jie which had not been unlocked at a price of RMB10.54 per share for the buyback. The total consideration for the buyback amounted to RMB739,381. The number of grantees of the Restricted A Share Incentive Scheme II was reduced to 40 from 43. Such portion of shares bought back by the Company will be cancelled.

On 20 November 2017, the Board considered and approved, the resolution in relation to the fulfillment of the conditions for unlocking the second tranche of the Restricted A Shares in respect of the Restricted A Share Incentive Scheme II, and the conditions for unlocking the Restricted A Shares have been satisfied by 40 grantees. As a result, a total of 835,725 Restricted A Shares were unlocked, and trading of such Restricted A Shares commenced on 29 November 2017.

3. ***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 ("**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 issuance of the First Tranche of the Corporate Bonds in 2016 was completed by the Company on 4 March 2016 and the issuance size was not more than 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 issued is 14 March 2017, with the final coupon rate at 4.50%.

4. ***Issuance of H Shares under General Mandate***

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

On 30 November 2016, the Company received the Reply in Relation to the Issuance of Overseas Listed Foreign Shares of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (Zheng Jiang Xu Ke 2016 No. 2680) (《關於核准上海復星醫藥(集團)股份有限公司增發境外上市外

資股的批覆》) from the CSRC, approving the Company to issue not more than 80,656,800 shares of overseas listed foreign shares with a nominal value of RMB1 each and all shares to be issued would be ordinary shares.

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 (as defined below) were approximately HK$2,322.91 million.

5. ***Proposed Overseas Listing of Sisram***

The shareholders of the Company approved, among other things, the proposed spin-off and overseas listing of Sisram on 31 August 2016. The Company intended to conduct the spin-off of Sisram and listing overseas on the Hong Kong Stock Exchange. The CSRC issued the no objection letter for spin-off in relation to the overseas listing of Sisram on 22 December 2016. On 6 June 2017, Sisram submitted, through its joint sponsors, the listing application (Form A1) to the 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. On 19 September 2017, the Sisram shares were listed and commenced trading on the Main Board of the Hong Kong Stock Exchange. Sisram was offered at a price of HK$8.88 per share and the total number of shares offered for sale was 110,000,000 shares. Total proceeds raised amounted to approximately HK$977 million. On 8 October 2017, Sisram allotted and issued a total of 2,155,600 over-allotment shares at a price of HK$8.88 per share, total proceeds raised amounted to approximately HK$20 million.

6. ***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 close of 2 January 2018, the share increase plan of Mr. Wu Yifang expired. From 3 January 2017 to 2 January 2018, Mr. Wu Yifang acquired a total of 755,900 shares of the Company (including 443,900 A shares and 312,000 H shares) in a cumulative amount of approximately RMB20.90 million, representing approximately 0.030% of total issued shares of the Company as at the end of the Reporting Period.

7. ***2016 Shareholding Increase Plan of the Controlling Shareholder***

As notified by Fosun High Tech, the controlling shareholder of the Company, in writing on 28 January 2016, 1 February 2016, 3 February 2016 and 10 November 2016, Fosun High Tech 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 High Tech 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, 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 High Tech 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.

8. ***2017 Shareholding Increase Plan of the Controlling Shareholder***

On 9 May 2017 and 24 May 2017, the Company was notified by Fosun High Tech in writing that Fosun High Tech 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 High Tech 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 (as defined below) (i.e. 2,414,474,545 shares, see below).

As at the end of the Reporting Period, Fosun High Tech acquired a total of 8,852,710 shares (including 4,036,710 A shares and 4,816,000 H shares) of the Company in a cumulative amount of approximately RMB245.08 million since the implementation of the shareholding increase plan, representing approximately 0.37% of total issued shares of the Company prior to the Placing of H Shares (below the same).

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

On 28 July 2016, the Company entered into, among other things, the share purchase agreement with the relevant parties to the acquisition of the controlling interest in Gland Pharma. The shareholders of the Company approved, among other things, the resolution in relation to the acquisition of the controlling interest in Gland Pharma on 29 September 2016. On 15 September 2017, the Company agreed that the plan in relation to the acquisition of controlling interests in Gland Pharma was adjusted.

On 3 October 2017, the acquisition of the controlling interest in Gland Pharma was completed. Gland Pharma became a subsidiary of the Company upon completion of this acquisition of controlling interest in Gland Pharma.

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

(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, had resigned from the Company and terminated their employment contracts with the Company, they no longer fulfilled the conditions for unlocking. Pursuant to the Restricted A Share Incentive Scheme II, the Board considered and approved the buyback and cancellation of 37,500 Restricted A Shares which were granted to Mr. Bai Huan and Mr. Chen Yi which had not been unlocked at a price of RMB10.54 per share for the buyback. The total consideration for the buyback amounted to RMB395,250. Such portion of shares was cancelled on 24 February 2017.

As (1) two of the grantees of the Restricted A Share Incentive Scheme II, namely Mr. Dong Zhichao and Mr. Wang Shuhai, had resigned from the Company and terminated their employment contracts with the Company and its subsidiaries; (2) the 2016 performance appraisal results of Mr. Deng Jie, a grantee of the Restricted A Share Incentive Scheme II, was unsatisfactory, and he no longer fulfilled the conditions for unlocking. The Board considered and approved the buyback and cancellation of 70,150 Restricted A Shares which were granted to Mr. Dong Zhichao, Mr. Wang Shuhai and Mr. Deng Jie which had not been unlocked at a price of RMB10.54 per share for the buyback. The total consideration for the buyback amounted to RMB739,381. Such portion of shares bought back by the Company will be cancelled.

(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 (the "**Placing of H Shares**").

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 H share placing 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 ANNUAL CG CODE

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

The Group's annual results for the year ended 31 December 2017 have been reviewed by the Audit Committee of the Company.

FINAL DIVIDEND

The final dividend for the year ended 31 December 2017 (the "**2017 Final Dividend**") as proposed by the Board, inclusive of tax, amounted to RMB0.38 per share, and is subject to the approval of the Company's shareholders (the "**Shareholders**") at the forthcoming annual general meeting (the "**AGM**"). Subject to the approval of the Shareholders at the AGM, the 2017 Final Dividend is expected to be paid to the eligible Shareholders by no later than 31 August 2018.

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

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

The Company will arrange the time of convening the forthcoming AGM as soon as practicable, and the notice of the AGM will be published and dispatched to the Shareholders in a timely manner in accordance with the requirements of the Hong Kong Listing Rules and the articles of association of the

Company. Once the date of the AGM is finalized, the Company will publish the period of closure of register of members of H shares of the Company in a separate announcement and in the notice of the AGM.

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

According to the requirements of the PRC Enterprise Income Tax Law effective from 1 January 2008 and the implementation rules thereof and the Notice on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders which are Overseas Non-resident Enterprises (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (Guo Shui Han [2008] No. 897) issued by the State Administration of Taxation on 6 November 2008, the 2017 Final Dividend payable to the non-resident enterprise shareholders whose names appear on the registers of members of H shares of the Company is subject to a withholding tax at a rate of 10%.

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

According to the Notice on Matters Concerning the Levy and Administration of Individual Income Tax after the Repeal of Guo Shui Fa [1993] No. 045 (《關於國税發[1993]045號文件廢止後有關個人所得税徵管問題的通知》) (Guo Shui Han [2011] No. 348) issued by the State Administration of Taxation on 28 June 2011 and the Letter on the Tax Arrangements on Dividends Paid to Hong Kong Residents by Mainland Companies issued by the Hong Kong Stock Exchange on 4 July 2011, when domestic companies other than foreign invested enterprises which issue shares in Hong Kong distribute dividends to their shareholders, the individual shareholders in general will be subject to a withholding of individual income tax at a rate of 10%. When the Company distributes the 2017 Final Dividend to the individual holders of H Shares, such dividend will be subject to the withholding of individual income tax at a rate of 10%. However, if otherwise provided by tax laws, relevant tax treaties or notices, the tax will be withheld in accordance with the relevant requirements and tax levy and administration requirements.

The arrangement relating to withholding tax, if any, in respect of the 2017 Final Dividend to be paid by the Company to the investors who invest through the Shanghai Stock Exchange in the H Shares of the Company listed on the Main Board of the Hong Kong Stock Exchange will be finalized with the relevant PRC authorities prior to the payment of the 2017 Final Dividend.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the websites of the Company (http://www.fosunpharma.com) and the Hong Kong Stock Exchange (http://www.hkexnews.hk). The 2017 Annual Report will be dispatched to the Shareholders and will be made available on the websites of the Company and the Hong Kong Stock Exchange as and when appropriate.

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

Shanghai, the PRC
26 March 2018

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. Wang Qunbin 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*