国药集团
SINOPHARM

國藥控股股份有限公司
SINOPHARM GROUP CO. LTD.*

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

(Stock Code: 01099)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The board of directors (the "**Board**") of Sinopharm Group Co. Ltd. (the "**Company**" or "**Sinopharm**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") prepared under the Hong Kong Financial Reporting Standards ("**HKFRSs**") for the year ended 31 December 2018 (the "**Reporting Period**").

CHAIRMAN'S STATEMENT

I would like to express my heartfelt gratitude to the shareholders and the community for your great support and encouragement to Sinopharm. 2018 was a year full of challenge for the Group, but the Board, the management and all the staff took new strategy as guidance and "high-quality development" as the goal, closely focused on our development strategies such as wholesale-retail integration, drug-device linkage, technology guidance and service transformation, achieved innovation and breakthrough, fought hard, and attributed to the shareholders with sustained and stable growth in operation again for their support and caring for the growth of the Group.

Stable performance in economy while securing progress and stable growth in the industry

In 2018, China generally achieved a stable economic performance while at the same time securing progress, maintained continuous and healthy development. It is expected that the Chinese economy would still be able to maintain high-quality growth during the "13th Five-Year" period and continue to be an important driver to the growth of the world economy.

In 2018, the Chinese government continued to release various healthcare policies, push forward the healthcare reform, increase investments in the healthcare industry and enhance healthcare quality, aiming to establish a "Healthy China" that can satisfy the basic healthcare needs of the masses. As for the pharmaceutical distribution industry, the competition pressure further increased, the industry's sales growth dropped slightly on a year-on-year basis, but was still better than GDP growth. The whole industry faced challenges such as various healthcare policies and increase of accounts receivable turnover days, but the rigid demand continued to be seen, and the industry concentration ratio continued to increase.

Sustained and Stable Growth in the Results

During the Reporting Period, the Group recorded a revenue of RMB344,525.82 million, representing an increase of RMB36,172.24 million or 11.73% as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded a net profit of RMB9,404.48 million, representing an increase of RMB739.50 million or 8.53% as compared with the corresponding period of last year. Profit attributable to owners of the parent of the Company amounted to RMB5,835.84 million, representing an increase of RMB260.26 million or 4.67% as compared with the corresponding period of last year.

During the Reporting Period, basic earnings per share of the Company amounted to RMB1.97, representing an increase of 4.79% as compared with the corresponding period of last year.

Compared to 2017, total assets of the Group increased from RMB190,693.40 million to RMB235,771.08 million, net assets increased from RMB57,947.19 million to RMB68,275.77 million, and gearing ratio increased from 69.61% to 71.04%.

For the year of 2018, total capital expenditure of the Group amounted to RMB3,865.87 million, which was primarily used for the expansion and development of distribution channels, upgrading the logistic delivery system and improving the level of informatisation, so as to increase the Group’s market share and improve delivery efficiency.

Formation of new strategy

In 2018, the Group responded to the changes in the market and formed a new strategy under the Board’s guidance, namely, vigorously developing pharmaceutical distribution business, retail business and medical device trading and service business. The new strategy will become the Group’s future growth driver and lay a solid foundation for the Group’s future high-quality development.

Further improvement of corporate governance

The functions of the Board were further enhanced and enriched, the normative operation of the Board was further strengthened, the work of Board committees was further specialized, the corporate governance of the subsidiaries was further optimized, and the overall corporate governance system was further improved.

Awards-winning and highly recognition in the market

In 2018, the Group ranked 42nd in the list of Chinese listed companies by brand value, ranked 1st among pharmaceutical companies on the list, and the brand value reached RMB65.6 billion. The Group ranked 25th in the 2018 “Fortune” China’s 500 list, and was listed on the 2018 Forbes World's Best Employers List. These awards demonstrated the market’s high recognition for the Group’s brand and strength.

Prospects

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

As the largest and most powerful pharmaceutical distributor and retailer in China, Sinopharm will continue to conform to the “new normal” of the development of the pharmaceutical healthcare industry, seize the opportunities brought by supply-side structural reforms, further stimulate corporate vitality and creativity, and continue to promote the high-quality development of the Group under the guidance of the new strategy.

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(All amounts in Renminbi thousand unless otherwise stated)

YEAR ENDED 31 DECEMBER 2018

	Notes	**2018**	2017 (Restated)
Revenue	*4*	**344,525,821**	308,353,579
Cost of sales	*7*	**(313,297,729)**	(282,304,714)
Gross profit		**31,228,092**	26,048,865
Other income	*5*	**413,764**	428,241
Selling and distribution expenses	*7*	**(10,369,831)**	(8,369,078)
Administrative expenses	*7*	**(5,517,883)**	(4,967,640)
Impairment losses on financial and contract assets	*7*	**(357,336)**	-
Operating profit		**15,396,806**	13,140,388
Other gains – net	*6*	**81,828**	379,251
Finance income		**494,781**	343,063
Finance costs		**(4,608,644)**	(3,112,782)
Finance costs – net	*9*	**(4,113,863)**	(2,769,719)
Share of profits and losses of:			
Associates		**833,203**	466,926
Joint ventures		**9,966**	9,953
Profit before tax		**12,207,940**	11,226,799
Income tax expense	*10*	**(2,803,456)**	(2,561,821)
Profit for the year		**9,404,484**	8,664,978
Attributable to:			
Owners of the parent		**5,835,842**	5,575,584
Non-controlling interests		**3,568,642**	3,089,394
		9,404,484	8,664,978
Earnings per share attributable to ordinary equity holders of the parent (expressed in RMB per share)			
– Basic	*11*	**1.97**	1.88
– Diluted	*11*	**1.96**	1.88

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(All amounts in Renminbi thousand unless otherwise stated)
YEAR ENDED 31 DECEMBER 2018

	Note	2018	2017 (Restated)
Profit for the year		**9,404,484**	8,664,978
Other comprehensive (loss)/income:			
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:			
Remeasurements of post-employment benefit obligations	*10*	**(14,650)**	10,121
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value	*10*	**(10,833)**	-
Income tax effect	*10*	**2,815**	-
Fair value losses on financial asset, net of tax		**(8,018)**	-
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods		**(22,668)**	10,121
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Change in fair value	*10*	–	(35,343)
Income tax effect	*10*	–	8,836
Fair value losses on available-for-sale investments, net of tax		–	(26,507)
Exchange differences on translation of foreign operations		**(6,445)**	15,126
Share of other comprehensive loss of associates		**(600)**	(645)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		**(7,045)**	(12,026)
Other comprehensive loss for the year, net of tax		**(29,713)**	(1,905)
Total comprehensive income for the year		**9,374,771**	8,663,073
Attributable to:			
– Owners of the parent		**5,809,984**	5,583,828
– Non-controlling interests		**3,564,787**	3,079,245
		9,374,771	8,663,073

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(All amounts in Renminbi thousand unless otherwise stated)
31 DECEMBER 2018

	Note	**2018**	2017 (Restated)
ASSETS			
Non-current assets			
Prepaid land lease payments		**1,667,325**	1,585,043
Investment properties		**583,557**	627,955
Property, plant and equipment		**11,025,136**	9,008,497
Intangible assets		**7,476,734**	7,253,448
Investments in joint ventures		**23,571**	13,230
Investments in associates		**6,358,496**	5,479,340
Equity investments designated at fair value through other comprehensive income		**28,375**	-
Financial assets at fair value through profit or loss		**654,672**	-
Available-for-sale investments		**-**	790,579
Finance lease receivables		**9,665**	13,515
Deferred tax assets		**1,072,142**	920,198
Other non-current assets		**2,216,831**	2,230,220
Total non-current assets		**31,116,504**	27,922,025
Current assets			
Inventories		**35,388,863**	30,273,437
Trade and bills receivables	*12*	**106,423,594**	81,299,231
Contract assets		**250,294**	-
Prepayments, other receivables and other assets		**15,058,178**	13,889,015
Financial assets at fair value through profit or loss		**41,199**	-
Available-for-sale investments		**-**	516
Finance lease receivables		**4,917**	5,026
Pledged deposits and restricted cash		**7,188,543**	5,063,354
Cash and cash equivalents		**40,298,985**	32,240,796
Total current assets		**204,654,573**	162,771,375
Total assets		**235,771,077**	190,693,400
EQUITY			
Equity attributable to owners of the parent			
Share capital		**2,971,656**	2,767,095
Treasury shares held for share incentive scheme		**(135,318)**	(193,003)
Reserves		**39,985,488**	35,727,389
		42,821,826	38,301,481
Non-controlling interests		**25,453,941**	19,645,709
Total equity		**68,275,767**	57,947,190

	Note	2018	2017 (Restated)
LIABILITIES			
Non-current liabilities			
Interest-bearing bank and other borrowings		**4,951,167**	5,452,260
Deferred tax liabilities		**864,906**	846,566
Post-employment benefit obligations		**415,461**	409,895
Contract liabilities		**39,427**	-
Other non-current liabilities		**1,149,968**	1,454,058
Total non-current liabilities		**7,420,929**	8,162,779
Current liabilities			
Interest-bearing bank and other borrowings		**50,085,218**	31,649,038
Trade and bills payables	*13*	**83,682,927**	72,492,039
Contract liabilities		**6,101,607**	-
Accruals and other payables		**18,790,632**	19,259,309
Dividends payable		**185,662**	175,482
Tax payable		**1,228,335**	1,007,563
Total current liabilities		**160,074,381**	124,583,431
Total liabilities		**167,495,310**	132,746,210
Total equity and liabilities		**235,771,077**	190,693,400

NOTES:

(All amounts in Renminbi thousand unless otherwise stated)

1 GENERAL INFORMATION

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

On 6 October 2008, the Company was converted into a joint stock limited liability company under the PRC Company Law by converting its registered share capital and reserves as at 30 September 2007 with the proportion of 1:0.8699 into 1,637,037,451 shares of RMB1 each. In September 2009, the Company issued overseas-listed foreign-invested shares ("**H Shares**"), which were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**Hong Kong Stock Exchange**") on 23 September 2009. The Company issued 204,561,102 domestic shares to China National Pharmaceutical Group Co., Ltd. ("**CNPGC**") under general mandate at the issue price of RMB24.97 per consideration share on 13 December 2018.

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

The Group are mainly engaged in: (1) the distribution of pharmaceutical products to hospitals, other distributors, retail drug stores and clinics, (2) the operation of pharmaceutical chain stores, (3) the distribution of medical devices, and (4) the distribution of laboratory supplies, manufacture and distribution of chemical reagents, financial leasing.

The ultimate holding company of the Company is CNPGC, which was established in the PRC.

These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand, unless otherwise stated. These financial statements were approved for issue by the Board of Directors on 22 March 2019.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except as described below, the application of the new and revised standards has had no material impact on the consolidated financial statements.

HKFRS 15 ***Revenue from Contracts with Customers***

HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition.

The Group has assessed the effects of adoption of HKFRS 15 on the financial statements and identified the following areas that have been affected:

HKFRS 15 requires separate presentation of contract assets and contract liabilities. Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under HKFRS 15. Accordingly, trade and other receivables from customers of RMB199,928,000 were reclassified from trade and bills receivables and prepayment, other receivables and other assets to contract assets, and advances received from customers of RMB5,261,643,000 were reclassified from advances from customers under other payables and accruals to contract liabilities, respectively.

Taking into account the impacts disclosed above, the Group considers that the adoption of HKFRS 15 did not have significant impact on financial statements.

HKFRS 9 ***Financial Instruments***

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together below aspects of the accounting for financial instruments: classification and measurement and impairment.

The Group has not restated comparative information and no transition adjustments recognised against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("**ECLs**").

As of 1 January 2018, the Group has assessed its bank acceptance notes under trade and bills receivables. The objective of the Group in holding these bank acceptance notes is to endorse and discount these bills. The Group concluded that the bank acceptance notes of RMB6,644,673,000 were managed within a business model to collect contractual cash flows and to sell, upon transition, were reclassified to fair value through other comprehensive income ("FVOCI"), and presented as trade and bills receivables.

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	Notes	HKAS 39 measurement Amount RMB'000	Re-classification RMB'000	HKFRS 9 measurement Amount RMB'000
Financial assets				
Available-for-sale investments		791,095	(791,095)	-
To: Equity investments designated at fair value through other comprehensive income	(i)		39,008	39,008
To: Financial assets at fair value through profit or loss	(ii)		752,087	752,087

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.

(ii) The Group has classified its unlisted investments previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these non-equity and equity investments did not pass the contractual cash flow characteristics test in HKFRS 9.

Other than the reclassification mentioned above, as of 1 January 2018, other financial assets previously classified as loans and receivables under HKAS 39 were reclassified to financial assets at amortised cost under HKFRS 9 at their original carrying amounts, and there have been no changes to the classification or measurement of financial liabilities as a result of the adoption of HKFRS 9.

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9.

	Impairment allowances under HKAS 39 at 31 December 2017 RMB'000	Re-classification RMB'000	ECL allowances under HKFRS 9 at 1 January 2018 RMB'000
Prepayments and other receivables	221,487	(9,782)	211,705
Contract assets	-	9,782	9,782
	221,487	-	221,487

Taking into account the impacts disclosed above, the Group considers that the adoption of HKFRS 9 did not have significant impact on financial statements

3 SEGMENT INFORMATION

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

(i) Pharmaceutical distribution – distribution of pharmaceutical products to hospitals, other distributors, retail pharmacy stores and clinics;

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

(iii) Medical devices – distribution of medical devices;

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

Although the retail pharmacy segment does not meet the quantitative thresholds required by HKFRS 8 *Operating Segments*, management has concluded that this segment should be reported, as it is closely monitored by the operating committee as a potential growth segment and is expected to materially contribute to group revenue in the future.

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

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

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

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

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

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

(i) Years ended 31 December 2018 and 2017

	Pharmaceutical distribution	Retail pharmacy	Medical devices	Other business	Eliminations	Group
Year ended 31 December 2018						
Segment results						
External segment revenue	**276,985,973**	**14,601,174**	**49,009,951**	**3,928,723**	**-**	**344,525,821**
Inter-segment revenue	**4,063,388**	**202,729**	**463,801**	**243,368**	**(4,973,286)**	**-**
Revenue	**281,049,361**	**14,803,903**	**49,473,752**	**4,172,091**	**(4,973,286)**	**344,525,821**
Operating profit	**12,353,732**	**488,427**	**2,272,512**	**392,927**	**(110,792)**	**15,396,806**
Other gains – net	**66,378**	**6,941**	**(181)**	**8,690**	**-**	**81,828**
Share of profits and losses of associates and joint ventures	**45,990**	**2,712**	**1,121**	**793,346**	**-**	**843,169**
	12,466,100	**498,080**	**2,273,452**	**1,194,963**	**(110,792)**	**16,321,803**
Finance costs – net						**(4,113,863)**
Profit before tax						**12,207,940**
Income tax expense						**(2,803,456)**
Profit for the year						**9,404,484**
Other segment items included in the consolidated statement of profit or loss						
Provision for impairment of financial and contract assets	**260,782**	**650**	**98,361**	**675**		**360,468**
Provision/(reversal of provision) for impairment of inventories	**51,319**	**647**	**(285)**	**(2,112)**		**49,569**
Amortisation of prepaid land lease payments	**32,836**	**339**	**6,256**	**3,920**		**43,351**
Depreciation of property, plant and equipment	**651,994**	**121,066**	**243,912**	**31,409**		**1,048,381**
Depreciation of investment properties	**23,165**	**2,229**	**16,414**	**1,032**		**42,840**
Amortisation of intangible assets	**230,785**	**15,191**	**12,158**	**1,973**		**260,107**
Capital expenditures	**3,245,047**	**147,259**	**456,147**	**17,417**		**3,865,870**

(i) Years ended 31 December 2018 and 2017 (continued)

	Pharmaceutical distribution	Retail pharmacy	Medical devices	Other business	Eliminations	Group
Year ended 31 December 2017 (Restated)						
Segment results						
External segment revenue	254,425,335	12,341,779	37,846,939	3,739,526	-	308,353,579
Inter-segment revenue	2,735,497	50,427	214,141	222,074	(3,222,139)	-
Revenue	257,160,832	12,392,206	38,061,080	3,961,600	(3,222,139)	308,353,579
Operating profit	10,886,682	398,474	1,503,172	410,935	(58,875)	13,140,388
Other gains – net	342,912	6,070	15,137	15,132	-	379,251
Share of profits and losses of associates and joint ventures	8,038	2,781	601	465,459	-	476,879
	11,237,632	407,325	1,518,910	891,526	(58,875)	13,996,518
Finance costs – net						(2,769,719)
Profit before tax						11,226,799
Income tax expense						(2,561,821)
Profit for the year						8,664,978
Other segment items included in the consolidated statement of profit or loss						
(Reversal of provision) /provision for impairment of financial assets	(59,681)	2,666	61,925	50,289		55,199
Provision for impairment of inventories	39,330	116	26,399	2,537		68,382
Provision for impairment of property, plant and equipment	917	-	-	-		917
Amortisation of prepaid land lease payments	34,292	135	67	1,316		35,810
Depreciation of property, plant and equipment	560,930	100,464	218,759	32,143		912,296
Depreciation of investment properties	17,021	969	28,761	5,265		52,016
Amortisation of intangible assets	214,130	14,438	9,650	1,704		239,922
Capital expenditures	2,285,973	198,545	706,245	31,289		3,222,052

(ii) As at 31 December 2018 and 2017

	Pharmaceutical distribution	Retail pharmacy	Medical devices	Other business	Eliminations	Group
As at 31 December 2018						
Segment assets and liabilities						
Segment assets	**179,476,396**	**11,606,634**	**36,205,427**	**11,283,868**	**(3,873,390)**	**234,698,935**
Segment assets include:						
Investments in associates and joint ventures	**241,061**	**26,254**	**15,009**	**6,099,743**	**-**	**6,382,067**
Unallocated assets – Deferred tax assets						**1,072,142**
Total assets						**235,771,077**
Segment liabilities	**82,270,366**	**6,997,294**	**24,590,817**	**2,002,591**	**(4,267,049)**	**111,594,019**
Unallocated liabilities – Deferred tax liabilities and borrowings						**55,901,291**
Total liabilities						**167,495,310**
As at 31 December 2017 (Restated)						
Segment assets and liabilities						
Segment assets	150,442,689	7,176,658	25,788,365	9,499,578	(3,134,088)	189,773,202
Segment assets include:						
Investments in associates and joint ventures	198,440	23,589	12,888	5,257,653	-	5,492,570
Unallocated assets – Deferred tax assets						920,198
Total assets						190,693,400
Segment liabilities	74,827,036	4,835,357	16,521,817	1,775,599	(3,161,463)	94,798,346
Unallocated liabilities – Deferred tax liabilities and borrowings						37,947,864
Total liabilities						132,746,210

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

4 REVENUE

An analysis of revenue is as follows:

	2018	2017 (Restated)
Revenue from contracts with customers		
Sales of goods	**343,174,291**	306,425,913
Consulting income	**568,066**	548,347
Revenue from logistics service	**304,041**	308,111
Franchise fee and other service fee from medicine chain stores	**135,807**	84,734
Import agency income	**27,244**	31,537
Interest income from finance leases	**-**	688,041
Others	**94,921**	78,560
Revenue from other sources		
Operating lease income	**221,451**	188,336
	344,525,821	308,353,579

<u>Revenue from contracts with customers</u>
Disaggregated revenue information

For the year end 31 December 2018

<u>Segments</u>	Pharmaceutical distribution	Retail pharmacy	Medical devices	Others	Total
Type of goods or services					
Sale of goods	**276,292,019**	**14,091,765**	**48,875,767**	**3,914,740**	**343,174,291**
Others	**693,954**	**287,958**	**134,184**	**13,983**	**1,130,079**
Total revenue from contracts with customers	**276,985,973**	**14,379,723**	**49,009,951**	**3,928,723**	**344,304,370**
Geographical markets					
China	**276,985,973**	**14,379,723**	**49,009,951**	**3,928,723**	**344,304,370**
Timing of revenue recognition					
Recognised at a point in time	**276,985,973**	**14,379,723**	**49,009,951**	**3,928,723**	**344,304,370**

Revenue included in the contract liability at the beginning of the Reporting Period will be recognised from performance obligations satisfied in previous periods. RMB5,228,946,000 is recognised in the current reporting peiod by delivering products and services.

Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods
The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 210 days from delivery.

Others
The performance obligation is satisfied upon completion of services and payment is generally due within 30 to 210 days from completion.

5 OTHER INCOME

	2018	2017 (Restated)
Government grants *(i)*	**413,764**	428,241

Note:

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

6 OTHER GAINS – NET

	2018	2017 (Restated)
Write-back of certain liabilities	**45,614**	100,124
Gain on fair value remeasurement of existing equity in business combinations not under common control	-	35,239
Gain on deemed disposal of subsidiaries and fair value remeasurement of existing equity in the subsidiaries	**433**	219,114
Loss on disposal of an associate	-	(263)
Gain on disposal of prepaid land lease payments, investment properties, property. plant and equipment and intangible assets	**15,751**	46,176
Gain on disposal of available-for-sale investments	**-**	25,579
Foreign exchange loss - net	**(32,735)**	(5,481)
Donation	**(62,491)**	(56,022)
Interest income from asset-backed securities	**18,635**	-
Dividend income from:		
Available-for-sale investments	**-**	36,261
Equity investments at fair value through other comprehensive income	**850**	-
Equity investments at fair value through profit or loss	**2,464**	-
Fair value gains, net:		
Equity investments at fair value through profit or loss	**41,662**	-
Debt investments at fair value through profit or loss	**44,938**	-
Others - net	**6,707**	(21,476)
	81,828	379,251

7 EXPENSES BY NATURE

	2018	2017 (Restated)
Raw materials and trading merchandise consumed	**312,544,049**	281,701,131
Changes in inventories of finished goods and work in progress	**(62,060)**	13,558
Employee benefit expenses *(Note 8)*	**8,448,589**	7,118,376
Impairment of financial and contract assets, net:		
- Impairment of trade and bills receivables, net *(Note 12)*	**335,318**	(29,393)
- Impairment of contract assets, net	**(852)**	-
- Impairment of other receivables, net	**26,790**	44,568
- Impairment of other non-current assets, net	**(788)**	(426)
- Impairment of finance lease receivable, net	**-**	40,450
Provision for impairment of inventories	**49,569**	68,382
Provision for impairment of property, plant and equipment	**-**	917
Operating lease rental in respect of land and buildings	**1,297,948**	1,030,060
Depreciation of property, plant and equipment	**1,048,381**	912,296
Depreciation of investment properties	**42,840**	52,016
Amortisation of intangible assets	**260,107**	239,922
Amortisation of prepaid land lease payments	**43,351**	35,810
Auditor's remuneration		
- statutory audit services	**35,102**	30,266
- non-statutory audit services	**1,316**	774
- non-audit services	**2,749**	1,600
Advisory and consulting fees	**263,364**	225,095
Transportation expenses	**1,206,374**	1,101,036
Travel expenses	**421,094**	352,387
Market development and business promotion expenses	**2,100,569**	1,377,025
Utilities	**172,802**	137,912
Others	**1,306,167**	1,187,670
Total cost of sales, selling and distribution expenses, administrative expenses and impairment losses on financial and contract assets	**329,542,779**	295,641,432

8 EMPLOYEE BENEFIT EXPENSES

	2018	2017 (Restated)
Salaries, wages, allowances and bonuses	**6,547,004**	5,632,221
Contributions to pension plans *(i)*	**752,990**	629,795
Post-employment benefits	**45,943**	(111,002)
Housing benefits *(ii)*	**281,534**	238,042
Share incentive expenses	**19,983**	26,949
Other benefits *(iii)*	**801,135**	702,371
	8,448,589	7,118,376

Notes:

(i) As stipulated by the related regulations in the PRC, the Group makes contributions to state-sponsored retirement schemes for its employees in Mainland China. The Group has also made contributions to another retirement scheme managed by an insurance company from 2011 for its employees of the Company and certain subsidiaries. The Group's employees make monthly contributions to the schemes at approximately 7% to 10% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group makes contributions of 14% to 28% of such relevant income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. These retirement schemes are responsible for the entire post-retirement benefit obligations to the retired employees.

Contributions totalling RMB8,589,000 (2017 (Restated): RMB8,603,000) were payable to the fund at the year end of 2018.

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

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

9 FINANCE INCOME AND COSTS

	2018	2017 (Restated)
Interest expense:		
– Borrowings	**2,522,857**	1,646,215
– Discount of bills receivable	**510,756**	342,745
– Factoring of trade receivables	**1,116,906**	802,811
– Net interest on net defined benefit liability	**13,245**	16,266
Gross interest expense	**4,163,764**	2,808,037
Bank charges	**451,391**	314,586
Less: capitalised interest expense	**(6,511)**	(9,841)
Finance costs	**4,608,644**	3,112,782
Finance income:		
– Interest income on deposits in banks or other financial institutions	**(418,732)**	(280,696)
– Interest income on long-term deposits	**(76,049)**	(62,367)
Net finance costs	**4,113,863**	2,769,719

10 TAXATION

	2018	2017 (Restated)
Current income tax	**2,982,039**	2,729,045
Deferred income tax	**(178,583)**	(167,224)
	2,803,456	2,561,821

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

	2018	2017 (Restated)
Profit before tax	**12,207,940**	11,226,799
Less: Share of profits and losses of associates and joint ventures	**(843,169)**	(476,879)
	11,364,771	10,749,920
Tax calculated at the applicable tax rate	**2,841,193**	2,687,480
Expenses not deductible for tax purposes	**97,323**	100,159
Income not subject to tax	**(8,333)**	(59,511)
Tax losses not recognised	**63,463**	21,311
Tax losses utilised from previous periods	**(308)**	(10,585)
Impact of change in the applicable income tax rate on deferred tax	**(113)**	(23)
Impact of lower tax rates enacted by local authority	**(131,647)**	(107,152)
Income tax refund	**(58,122)**	(69,858)
Income tax expense	**2,803,456**	2,561,821

Note:

(i) During 2018, enterprises incorporated in the PRC are normally subject to enterprise income tax ("**EIT**") at the rate of 25%, while certain subsidiaries enjoy preferential EIT at a rate of 15% as approved by the relevant tax authorities or due to their operations in designated areas with preferential EIT policies.

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

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

	2018 Before tax	2018 Tax credit	2018 After tax	2017 Before tax	2017 Tax (charge)/ credit	2017 After tax
Equity investments at fair value through other comprehensive income	**(10,833)**	**2,815**	**(8,018)**	-	-	-
Available for sale investments	-	-	-	(35,343)	8,836	(26,507)
Remeasurement of post-employment benefit obligations	**(18,447)**	**3,797**	**(14,650)**	13,105	(2,984)	10,121
Total	**(29,280)**	**6,612**	**(22,668)**	(22,238)	5,852	(16,386)

11 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent excluding the cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future as at the end of the Reporting Period and the weighted average number of ordinary shares of 2,971,656,000 (2017: 2,971,656,000) in issue during the year excluding restricted shares at the end of the year.

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

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

	2018	2017 (Restated)
Earnings		
Profit attributable to ordinary equity holders of the parent	**5,835,842**	5,575,584
Less: Cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future	**(2,295)**	(3,170)
Profit attributable to equity holders of the parent used in the basic earnings per share calculation	**5,833,547**	5,572,414
	Number of shares	
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation *('000)*	**2,967,629**	2,965,316
Effect of dilution – Restricted shares *('000)*	**4,027**	6,340
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation *('000)*	**2,971,656**	2,971,656
Basic earnings per share *(RMB per share)*	**1.97**	1.88
Diluted earnings per share *(RMB per share)*	**1.96**	1.88

12 TRADE AND BILLS RECEIVABLES

	2018	2017 (Restated)
Trade receivables	**97,845,345**	69,687,246
Bills receivable	**9,828,703**	12,520,398
	107,674,048	82,207,644
Less: Provision for impairment	**(1,250,454)**	(908,413)
	106,423,594	81,299,231

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

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

	2018	2017 (Restated)
Within 1 year	**105,389,332**	80,674,784
1 to 2 years	**888,066**	482,924
Over 2 years	**146,196**	141,523
	106,423,594	81,299,231

The movements in the loss allowance for impairment of trade receivables are as follows:

	2018	2017 (Restated)
At beginning of year	**908,413**	930,230
Acquisition of subsidiaries	**6,855**	18,761
Provision for impairment/ (reversal of provision) recognised during the year *(Note 7)*	**335,318**	(29,393)
Other increase/(decrease) for the year	**5,831**	(3,964)
Write-off for the year	**(5,963)**	(7,221)
At end of year	**1,250,454**	908,413

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing for groupings of various customer segments with similar loss patterns (i.e., by nature of the customers, product types and ageing category). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Impairment under HKAS 39 for the year ended 31 December 2017

The impairment of trade and bills receivables as at 31 December 2017 are related to the age of the balance, location of customers, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties.

As at 31 December 2018, outstanding trade receivables of RMB25,425,928,000 (2017: RMB21,905,910,000) were derecognised under the accounts receivable factoring programs without recourse. The ageing of these derecognised trade receivables was within one year. As at 31 December 2018, the collection of such trade receivables on behalf of banks amounting to RMB4,032,788,000 (2017: RMB3,048,715,000) was recorded in other payables.

13 TRADE AND BILLS PAYABLES

	2018	2017 (Restated)
Trade payables	**64,485,007**	56,882,506
Bills payable	**19,197,920**	15,609,533
	83,682,927	72,492,039

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

The ageing analysis of trade and bills payables as at the end of the Reporting Period, based on the invoice date, is as follows:

	2018	2017 (Restated)
Below 3 months	**56,910,303**	52,110,211
3 to 6 months	**17,747,603**	12,701,467
6 months to 1 year	**5,237,674**	5,538,037
1 to 2 years	**2,737,984**	1,415,741
Over 2 years	**1,049,363**	726,583
	83,682,927	72,492,039

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

	2018	2017 (Restated)
RMB	**83,228,766**	72,200,180
USD	**453,486**	291,676
EUR	**675**	-
HKD	**-**	11
JPY	**-**	172
	83,682,927	72,492,039

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

During the year ended 31 December 2018, trade payables of RMB1,943,944,000 (2017: RMB3,381,485,000) were repaid by the banks under this program with the equivalent amount drawn as borrowings. As at 31 December 2018, bank borrowings related to this program were RMB398,646,000 (2017: RMB166,835,000).

14 DIVIDENDS

The final dividend for year 2017 of RMB0.57 (tax inclusive) per share, amounting to RMB1,577,244,000 in total, was approved by the shareholders at the annual general meeting of the Company held on 28 June 2018. A final dividend for the year ended 31 December 2018 of RMB0.59 (tax inclusive) per ordinary share, totalling approximately RMB1,753,277,000 is to be proposed at the upcoming annual general meeting according to the resolution passed at the Board meeting held on 22 March 2019. These financial statements have not reflected this proposed dividend.

	2018	2017
Proposed final dividend	**1,753,277**	1,577,244

15 BUSINESS COMBINATIONS UNDER COMMON CONTROL

On 11 July 2018, the Company and CNPGC entered into an agreement, pursuant to which the Company agreed to acquire 60% equity interests in China National Scientific Instruments and Materials Co., Ltd. (including its subsidiaries, together, "CSIMC"), held by CNPGC, at a consideration of RMB5,107,890,720, which will be satisfied by issue of 204,561,102 domestic shares by the Company to CNPGC under general mandate at the issue price of RMB24.97 per consideration share. Upon completion of the acquisition (the "Acquisition"), CSIMC became a subsidiary of the Company. The business combination under common control was accounted for in accordance with Accounting Guideline 5 *Merger Accounting for Common Control Combinations* issued by the HKICPA. In applying merger accounting, financial statement items of the combining entity for the Reporting Period in which the common control combination occurs, and any comparative periods disclosed, are included in the consolidated financial statements of the combined entity as if the combination had occurred from the date then the combining entities or businesses first came under the control of the controlling party or parties.

The carrying amount of CSIMC assets and liabilities at the combination date and the balance sheet date of the previous accounting period are as follows:

	16 October 2018	31 December 2017
Cash and cash equivalents	**1,635,005**	3,229,360
Pledged deposits and restricted cash	**315,464**	204,942
Trade and other receivables	**18,857,725**	11,020,642
Inventories	**4,687,008**	3,504,745
Prepaid land lease payments	**238,759**	236,444
Investment properties	**207,238**	226,834
Property, plant and equipment	**1,310,137**	1,212,838
Intangible assets	**19,271**	7,602
Goodwill	**571,667**	571,667
Investments in associates and joint ventures	**450,550**	428,674
Financial assets at fair value through profit or loss	**176,473**	-
Available-for-sale investments	**-**	237,123
Deferred tax assets	**92,544**	83,687
Other non-current assets	**215,693**	226,547
Interest-bearing bank and other borrowings	**(4,010,318)**	(1,496,902)
Trade and other payables	**(16,393,683)**	(12,257,730)
Deferred tax liabilities	**(174,941)**	(179,694)
Other non-current liabilities	**(468,031)**	(579,243)
Net assets	**7,730,561**	6,677,536
Non-controlling interests	**(4,380,070)**	
Combination difference (through equity interest)	**1,757,400**	
Total purchase consideration	**5,107,891**	

Notes:

The following is a reconciliation of the effect arising from the common control combination in respect of the acquisition of the above subsidiary on the consolidated statement of financial position.

The consolidated statement of financial position as at 31 December 2017:

	The Group as previously reported	CSIMC	Adjustments	The Group restated
Net assets	51,269,654	6,677,536	-	57,947,190
Share capital	2,767,095	4,000,000	(4,000,000)	2,767,095
Treasury shares held for share incentive	(193,003)	-	-	(193,003)
Share premium	18,077,173	-	-	18,077,173
Statutory reserves	879,700	61,573	(61,573)	879,700
Revaluation of available-for-sale investments	16,590		-	16,590
Other reserves	(3,463,286)	295,097	1,959,391	(1,208,798)
Retained earnings	17,173,366	716,407	72,951	17,962,724
Non-controlling interests	16,012,019	1,604,459	2,029,231	19,645,709
	51,269,654	6,677,536	-	57,947,190

The consolidated statement of financial position as at 31 December 2016:

	The Group as previously reported	CSIMC	Adjustments	The Group restated
Net assets	44,532,436	6,033,571	-	50,566,007
Share capital	2,767,095	4,000,000	(4,000,000)	2,767,095
Share premium	18,077,173	-	-	18,077,173
Statutory reserves	715,869	7,554	(7,554)	715,869
Revaluation of available-for-sale investments	30,642	-	-	30,642
Other reserves	(3,217,390)	294,814	1,959,505	(963,071)
Retained earnings	13,437,539	505,065	125,076	14,067,680
Non-controlling interests	12,721,508	1,226,138	1,922,973	15,870,619
	44,532,436	6,033,571	-	50,566,007

16 COMPARATIVE FIGURES

As further explained in note 15, the Group obtained 60% equity interests in CSIMC from CNPGC. Since both CSIMC and the Group are subsidiaries of CNPGC, the acquisition was a business combination under common control. The comparative information which includes the consolidated statement of financial position, the consolidated statements of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows, and notes to the consolidated financial statements for the comparative period are re-presented as if China Scientific and Materials had been combined at the beginning of the comparative period.

17 EVENTS AFTER THE REPORTING PERIOD

There was no material subsequent event after the end of Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

Stable economic performance while securing progress

In 2018, China's GDP grew by 6.6% which was slightly lower than that of 2017. The macro economy was performing in a reasonable range, demonstrating a pattern of stability with progress, but still faces uncertain domestic and international factors such as the further slowdown in economic growth, Brexit, trade disputes and geopolitics.

Growth of distribution industry slowed down

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

Opportunities and challenges co-existed

Policies such as "two-invoice system" and centralized drug procurement have brought challenges to the industry, but the impact will be short term and manageable, in the long run they will contribute to facilitate the acceleration of the survival of the fittest and the consolidation of the industry. The concentration ratio of the industry is bound to increase in the future, enabling large-scale enterprises with scale advantage and superior control and management like us to get better development.

Driven by the aging population, urbanization, increase in chronic diseases, rise in household income and the wider coverage of medical insurance, we have confidence in the outlook of China's healthcare industry. Enterprises like us, relying on leading network advantages, normative operations and superior corporate governance, will become the beneficiaries.

Business Review

Significant effect from structural adjustment of distribution business and further enhancement of network advantage

Faced with challenging industry situation and negative impact from the performance results of the Group in the first quarter of this year, the Group focused on direct sale, deeply engaged end customers, enhanced product aggregation, deepened management and control, and promoted innovation, resulting in significant growth in the direct sales business, the proportion of direct sales business in distribution revenue increased to 89.44%, representing a year-on-year increase of 6.91 percentage points, which drove the improvement in gross profit margin. This promoted the recovery growth in the revenue and net profit during the year, further consolidating the leading position and advantages of the Group.

In the pharmaceutical distribution sector, the Group has built an integrated pharmaceutical supply chain, established an advanced supply chain management model, achieved steady adjustments in product structures, continuously optimized customer structure, continually expanded and integrated national distribution network. As at 31 December 2018, the Group's distribution network covered 31 provinces, municipalities and autonomous regions across China, with a prefecture-level administrative region coverage rate of 97% and a county-level administrative region coverage rate of 98%. The Group's national pharmaceutical distribution logistics network included 5 logistic hubs, 38 logistic centers at provincial level, 240 logistics outlets at prefecture level, 26 retail logistics outlets, with a total number of logistics outlets reaching 309.

Leading position in the retail business

In respect of retail pharmacy, aiming to establish an integrated wholesale-retail pharmaceutical distribution model, the Group vigorously promoted the development of the retail business and strengthened its leading advantages. The Group has set up retail chain pharmacies that are either directly operated by the Group or through franchises in major cities throughout China. Our retail network covered 30 provinces, municipalities and autonomous regions and more than 229 cities. As at 31 December 2018, the total number of our retail pharmacies reached 5,183, representing an increase of 740 on a year-on-year basis, our pharmaceutical retail scale continued to lead the industry. Sinopharm Holding Guoda Drugstore Co., Ltd.'s strategic cooperation with Walgreens Boots Alliance, Inc., the world's leading pharmaceutical retailer, has progressed smoothly, gradually forming a differentiated business model which is different from the homogeneous competition of domestic retail chain pharmacies, and its management capability and operation efficiency continued to improve.

Rapid growth of medical device business

The Group actively seized the opportunities of rapid development of medical device industry and vigorously developed medical device distribution business. In 2018, the sales of the Group's medical device business achieved rapid growth, leading to the increase in the Group's revenue growth and gross profit margin. The acquisition of 60% equity interests in China's largest medical device distributor China National Scientific Instruments and Materials Co., Ltd. was completed successfully, further consolidating the Group's leading position in China's medical device industry.

Focus on transformation, advance innovation and strengthen management and control

The Group continued to rapidly promote the supply chain service transformation, and established various nationwide business platforms. The promotion of usage of these platforms have received initial success and has been widely recognized by our suppliers and subsidiaries. The Group established a "full track" vaccine tracking system and endeavored to become the industry benchmark, resulting in integration of tracking and business process and further enhancing its innovative cold-chain logistics service capabilities. By leveraging our industry-leading position and strong brand influence, and combining our experience in the industry with market demand, the Group established a supply chain financial service platform which achieved the combination of industry and finance. The Group comprehensively promoted the integrated operation, achieving business management and control integration, supply chain coordination and service sharing.

Future Plan

Continue to consolidate leading position in distribution business

The pharmaceutical distribution business will remain an important strategic sector of the Group. The Group will continue to promote the penetration of distribution network to lower-tier market and optimize its network layout, thereby further utilizing scale and network advantages to continuously consolidate its leading position in the industry. The Group will actively seize the policy opportunity to rapidly increase the market share in direct sale to hospitals. The Group will actively grasp the opportunity of organic growth and cooperative M&A to further accelerate the consolidation of industry resources surrounding main business.

Continue to promote rapid growth of retail business

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

Continue to vigorously develop medical device business

The medical device business is also a strategic sector for the structural adjustment of the Group. The Group will take advantage of the development trend of medical device industry and further exert synergy and scale advantage so as to accelerate business layout, approach manufacturers and end customers, strive to increase the proportion of direct sale, and actively promote strategic cooperation.

Continue to advance and foster innovative businesses

Innovative businesses based on main business are critical for optimizing the Group's revenue structure and profitability. The Group will continue to explore supply chain service new model guided by demand. The Group will continue to integrate logistics resources, promote "full track" system, develop drug tracking system and build integrated tracking platform. The Group will continue to improve and promote supply chain financial services to increase client loyalty. The Group will accelerate the integration of provincial platforms and push forward the reform of operation model.

Continue to optimize operation management capabilities and enhance management and control services

The Group will continue to optimize operation management capabilities and enhance management and control services through measures such as deeply solidifying integration construction, further advancing finance sharing, adopting innovative information technology, enhancing cash flow control, as well as measures such as enhancing internal audit, improving risk and compliance management so as to achieve sustainable high-quality development.

Looking forward, there are still uncertainties in the policies and situation of the pharmaceutical distribution industry, bringing both challenges and opportunities. The Group will stick to the new strategy and the concept of "high-quality development" to guide its operation management and innovation reform, follow the big trend of increasing industry concentration, focus on the increase of market share, re-shape supply chain value, innovate on operation, management and control model, and push forward high-quality development with organization reform, with the aim to build a smart healthcare service ecosystem with international competitiveness.

Financial Summary

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

During the Reporting Period, the Group recorded a revenue of RMB344,525.82 million, representing an increase of RMB36,172.24 million or 11.73% as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded a net profit of RMB9,404.48 million, representing an increase of RMB739.50 million or 8.53% as compared with the corresponding period of last year. Profit attributable to owners of the parent amounted to RMB5,835.84 million, representing an increase of RMB260.26 million or 4.67% as compared with the corresponding period of last year.

During the Reporting Period, basic earnings per share of the Company amounted to RMB1.97, representing an increase of 4.79% as compared with the corresponding period of last year.

Revenue

During the Reporting Period, the Group recorded a revenue of RMB344,525.82 million, representing an increase of 11.73% as compared with RMB308,353.58 million for the twelve months ended 31 December 2017, which was primarily due to the increase in revenue from the Group's pharmaceutical distribution business, retail pharmacy business and medical device business. The Group's revenue grew faster than the average level of development of pharmaceutical market in China.

- Pharmaceutical distribution segment: during the Reporting Period, the revenue from pharmaceutical distribution of the Group was RMB281,049.36 million, which accounted for 80.41% of the total revenue of the Group and represented an increase of 9.29% as compared with RMB257,160.83 million for the twelve months ended 31 December 2017. Such increase was primarily due to a remarkable development of the pharmaceutical distribution business and the further expansion of the pharmaceutical distribution network of the Group.

- Retail pharmacy segment: during the Reporting Period, the revenue from retail pharmacy of the Group was RMB14,803.90 million, which accounted for 4.24% of the total revenue of the Group and represented an increase of 19.46% as compared with RMB12,392.21 million for the twelve months ended 31 December 2017. The increase was primarily due to the acquisition for expansion and business growth of the Group's existing pharmacies.

- Medical device segment： during the Reporting Period, the revenue from medical device of the Group was RMB49,473.75 million, which accounted for 14.16% of the total revenue of the Group and represented an increase of 29.99% as compared with RMB38,061.08 million for the twelve months ended 31 December 2017. The increase was primarily due to the acquisition for expansion and business growth of the Group's medical device business.

- Other business segments: during the Reporting Period, revenue from other business of the Group was RMB4,172.09 million, representing an increase of 5.31% as compared with RMB3,961.60 million for the twelve months ended 31 December 2017.

Cost of Sales

During the Reporting Period, the cost of sales of the Group was RMB313,297.73 million, representing an increase of 10.98% as compared with RMB282,304.71 million for the twelve months ended 31 December 2017. The increase was primarily due to the increase in the sales revenue of the Group.

Gross Profit

As a result of the above-mentioned factors, the gross profit of the Group during the Reporting Period was RMB31,228.09 million, representing an increase of 19.88% as compared with RMB26,048.87 million for the twelve months ended 31 December 2017. The gross profit margin of the Group for the twelve months ended 31 December 2017 and 2018 were 8.45% and 9.06%, respectively.

Other Income

During the Reporting Period, other income of the Group was RMB413.76 million, representing a decrease of 3.38% as compared with RMB428.24 million for the twelve months ended 31 December 2017. The decrease was primarily due to the decrease in subsidies obtained by the Group from the central and local governments.

Selling and Distribution Expenses

During the Reporting Period, the selling and distribution expenses of the Group were RMB10,369.83 million, representing an increase of 23.91% as compared with RMB8,369.08 million for the twelve months ended 31 December 2017. The increase in selling and distribution expenses was primarily attributable to the Group's enlarged operation scale, its business development and its expansion of distribution networks through new set-ups and acquisitions of companies and businesses, etc.

Administrative Expenses

During the Reporting Period, the administrative expenses of the Group were RMB5,517.88 million, representing an increase of 11.08% as compared with RMB4,967.64 million for the twelve months ended 31 December 2017. The increase in administrative expenses was primarily attributable to the increase in administrative costs incurred by the expansion of network scale and business growth of the Group.

Operating Profit

As a result of the above-mentioned factors, the operating profit of the Group during the Reporting Period was RMB15,396.81 million, representing an increase of 17.17% from RMB13,140.39 million for the twelve months ended 31 December 2017.

Other Gains – Net

The other gains of the Group net of other losses decreased from RMB379.25 million for the twelve months ended 31 December 2017 to RMB81.83 million for the Reporting Period. The decrease was primarily due to the decrease in gains from deem disposal of subsidiaries by the Group last year.

Finance Costs – Net

During the Reporting Period, the finance costs of the Group was RMB4,113.86 million, representing an increase of 48.53% as compared with RMB2,769.72 million for the twelve months ended 31 December 2017. The increase was primarily due to the increase in financing costs of the Group.

Share of Profits and Losses of Associates

During the Reporting Period, the Group's share of profits and losses of associates was RMB833.20 million, representing an increase of 78.44% as compared with RMB466.93 million for the twelve months ended 31 December 2017.

Share of Profits and Losses of Joint Ventures

During the Reporting Period, the Group's share of profits and losses of joint ventures was RMB9.97 million, representing an increase of 0.13% as compared with RMB9.95 million for the twelve months ended 31 December 2017.

Income Tax Expenses

During the Reporting Period, the Group's income tax expenses were RMB2,803.46 million, representing an increase of RMB241.64 million as compared with RMB2,561.82 million for the twelve months ended 31 December 2017. The increase was primarily due to the increase in profits of the Group, which led to a corresponding increase in income tax expenses. The Group's actual income tax rate increased to 22.96% during the Reporting Period from 22.82% for the twelve months ended 31 December 2017.

Profit for the Year

As a result of the above-mentioned factors, the profit of the Group for the year of 2018 was RMB9,404.48 million, representing an increase of 8.53% as compared with RMB8,664.98 million for the twelve months ended 31 December 2017. The profit margin of the Group for the twelve months ended 31 December 2017 and 2018 were 2.81% and 2.73%, respectively.

Profit Attributable to Owners of the Parent

During the Reporting Period, profit attributable to owners of the parent was RMB5,835.84 million, representing an increase of 4.67% or RMB260.26 million from RMB5,575.58 million for the twelve months ended 31 December 2017.

Profit Attributable to Non-controlling Interests

Profit attributable to non-controlling interests for the Reporting Period was RMB3,568.64 million, representing an increase of RMB479.25 million from RMB3,089.39 million for the twelve months ended 31 December 2017.

Liquidity and Capital Resources

Working capital

During the Reporting Period, the Group had commercial banking facilities of RMB132,400.77 million, of which approximately RMB69,359.16 million were not yet utilized. Cash and cash equivalents of RMB40,298.99 million primarily comprise cash, bank savings and income from current operating activities.

Cash flow

The cash of the Group was primarily used for financing working capital, repaying credit interest and principal due, financing acquisitions and providing funds for capital expenditures, growth and expansion of the Group's facilities and operations. The table below sets out the cash flow of the Group from operating, investing and financing activities for the year ended 31 December 2017 and 2018, respectively:

	2018	2017 (Restated)
	RMB million	*RMB million*
Net cash generated from operating activities	**3,653.74**	3,208.67
Net cash used in investing activities	**(5,907.62)**	(3,159.65)
Net cash generated from financing activities	**10,318.52**	3,978.89
Net increase in cash and cash equivalents	**8,064.64**	4,027.91
Cash and cash equivalents at the beginning of the year	**32,240.80**	28,205.01
Exchange differences	**(6.45)**	7.88
Cash and cash equivalents at the end of the year	**40,298.99**	32,240.80

Net cash generated from operating activities

The Group's cash inflow from operations primarily derives from collections from the sale of the products and services in its pharmaceutical distribution, retail pharmacy and medical device business segments. During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB3,653.74 million, representing an increase of RMB445.07 million from RMB3,208.67 million for the twelve months ended 31 December 2017. The net amount of cash generated from operating activities in 2018 has no significant change compared to the amount in 2017.

Net cash used in investing activities

During the Reporting Period, the net cash used in investment activities of the Group was RMB5,907.62 million, representing an increase of RMB2,747.97 million as compared with RMB3,159.65 million for the twelve months ended 31 December 2017.

Net cash generated from financing activities

During the Reporting Period, the net cash generated from financing activities of the Group was RMB10,318.52 million, which was primarily attributable to the proceeds from borrowings from banks and others financial institutions. The net cash generated from financing activities of the Group for the twelve months ended 31 December 2017 was RMB3,978.89 million.

Capital Expenditure

The Group's capital expenditures were primarily utilized for the development and expansion of distribution channels, upgrading of its logistic delivery systems and the improving of the level of informatization. The Group's capital expenditures amounted to RMB3,222.05 million and RMB3,865.87 million for the year ended 31 December 2017 and 2018, respectively.

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

Capital Structure

Fiscal resources

During the Reporting Period, the Group made certain improvement and adjustments to its capital structure, so as to relieve fiscal risks and reduce finance costs. Through issuance of corporate bonds and super short-term commercial papers, the Group obtained approximately RMB3,300 million and RMB26,000 million respectively for the purpose of replenishing working capital, facilitating the adjustment of the debt structure of the Group and reducing financing costs.

The Group's borrowings are mainly denominated in RMB.

As at 31 December 2018, the cash and cash equivalents of the Group were mainly denominated in RMB, with certain amount denominated in Hong Kong Dollars ("**HKD**") and small amount denominated in USD ("**USD**") and Euro ("**EUR**") and AUD ("**AUD**").

Indebtedness

As at 31 December 2018, the Group had aggregated banking facilities of RMB132,400.77 million, of which RMB69,359.16 million were not utilized and are available to be drawn down at any time. Such banking facilities are primarily short-term loans for working capital. Among the Group's total borrowings as at 31 December 2018, RMB50,085.22 million will be due within one year and RMB4,951.17 million will be due after one year. During the Reporting Period, the Group did not experience any difficulties in renewing its bank loans with its lenders.

Gearing ratio

As at 31 December 2018, the Group's gearing ratio was 71.04% (31 December 2017 (Restated): 69.61%), which was calculated based on the net liabilities divided by the aggregate of its total equity and net liabilities as at 31 December 2018.

Foreign Exchange Risks

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

Pledge of Assets

As at 31 December 2018, part of the Group's borrowings and bills payable were secured by bank deposits of RMB6,933.48 million, prepaid land lease payments with book value of RMB85.44 million, investment properties with book value of RMB0.03 million, properties, plant and equipment with book value of

RMB90.33 million, and trade and bills receivables with book value of RMB1,596.37 million.

Major Acquisitions and Disposals

On 11 July 2018, the Company and CNPGC entered into an agreement, pursuant to which the Company agreed to acquire 60% equity interests in CSIMC held by CNPGC, at a consideration of RMB5,107,890,720, which will be satisfied by issue of 204,561,102 domestic shares by the Company to CNPGC under general mandate at the issue price of RMB24.97 per consideration share. Upon completion of the acquisition (the "**Acquisition**"), CSIMC became a subsidiary of the Company. For details, please refer to the announcements of the Company dated 11 July 2018 and 30 July 2018. On 16 October 2018, the Acquisition was completed. On 13 December 2018, the Company issued 204,561,102 domestic shares to CNPGC.

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

Major Investment

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

Going Concern

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

Contingent Liabilities and Material Litigations

As at 31 December 2018, the Group neither had any material contingent liability, nor had any material litigation.

Human Resources

As at 31 December 2018, the Group had a total of 69,722 employees. In order to meet the development needs and support and promote the realization of its strategic objectives, the Group has integrated existing human resources, made innovations in management model and optimized management mechanism in accordance with the requirements of specialized operation and integrated management, so as to actively advance the organizational reform and accelerate the cultivation and recruitment of talents. The Group has established a strict selection process for recruitment of employees and adopted a number of incentive mechanisms to enhance their efficiency. The Group conducted periodic performance reviews on its employees and adjusted their salaries and bonuses accordingly. In addition, the Group has provided training programs to employees with different functions.

DIVIDENDS

Relevant resolution was passed at a meeting of the Board held on 22 March 2019 to propose to distribute a final dividend of RMB0.59 per share (tax inclusive) for the year ended 31 December 2018 (the "**Final Dividend**"), totalling approximately RMB1,753,277,000. If the proposal of profit distribution is approved by shareholders at the 2018 annual general meeting to be held on Thursday, 27 June 2019 (the "**AGM**"), the Final Dividend will be distributed to the shareholders whose names appear on the register of members of the Company on Tuesday, 9 July 2019 no later than 27 August 2019.

According to the articles of association of the Company, the Final Dividends will be denominated and declared in Renminbi. Final Dividend on domestic shares of the Company and for investors investing in the H shares of the Company through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect (the "**Southbound Trading**") (the "**Southbound Trading Shareholders**") will be paid in Renminbi, and the Final Dividend for other holders of H shares of the Company will be paid in Hong Kong dollars. The amount of the Final Dividend payable in Hong Kong dollars shall be calculated based on the average exchange rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the calendar week prior to 27 June 2019 (being the date of declaration of the Final Dividend).

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

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

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

Pursuant to *the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of GuoShui Fa [1993] No. 045 Document* (the "**Notice**") issued by the State Administration of Tax on 28 June 2011, the dividend to be distributed by the PRC non-foreign invested enterprises which has issued shares in Hong Kong to the overseas resident individual shareholders, is subject to the individual income tax with a tax rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries of their residence and Mainland China. Thus, 10% personal income tax will be withheld by the Company from the Final Dividend payable to the individual H-share shareholders whose names appear on the register of members of the Company on Tuesday, 9 July 2019, unless otherwise stated in the relevant taxation regulations, taxation agreements or the Notice.

Pursuant to the "Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets" (Cai Shui [2014] No.81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)) and the "Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets" (Cai Shui [2016] No.127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)) jointly promulgated by the Ministry of Finance, the State Administration of Taxation and the China Securities Regulatory Commission, for dividends derived by

Mainland individual investors from investing in H-share listed on the Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect, H-share companies shall withhold individual income tax at a tax rate of 20% for the investors. For Mainland securities investment funds investing in shares listed on Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect, the above rules also apply and individual income tax shall be levied on dividends derived therefrom. Dividends derived by Mainland enterprise investors from investing in shares listed on Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect shall be reported and paid by the enterprise investors themselves. H-share companies will not withhold or pay enterprise income tax on their behalf in the distribution of dividends.

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

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

DIVIDEND POLICY

The Company has established a dividend policy. Under the PRC Company Law and our Articles of Association, all of our shareholders have equal rights to dividends and distribution. The declaration of dividends is subject to the discretion of the Board and the approval of the shareholders, which we expect will take into account factors such as the following:

(i) our financial results;
(ii) our shareholders' interests;
(iii) general business conditions and strategies;
(iv) our capital requirements;
(v) contractual restrictions on the payment of dividends by us to our shareholders or by our subsidiaries to us;
(vi) taxation considerations;
(vii) possible effects on our credit worthiness;
(viii) statutory and regulatory restrictions; and
(ix) any other factors the Board may deem relevant.

The allocations to the statutory common reserve fund is currently 10% of the Company's after-tax profit attributable to equity holders of the Company for the fiscal year determined in accordance with PRC accounting rules and regulations. When the accumulated allocations to the statutory common reserve fund reach 50% of our Company's registered capital, the Company will no longer be required to make allowances for allocation to the statutory common reserve fund.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 28 May 2019 to Thursday, 27 June 2019 (both days inclusive). In order to qualify to attend the AGM and to vote at the meeting, all instruments of transfer of the holders of H-shares of the Company must be lodged at the H-shares registrar of the Company at Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 27 May 2019. Shareholders whose names appear on the register of members of the Company on Tuesday, 28 May 2019 shall be entitled to attend the AGM.

The register of members of the Company will be closed from Thursday, 4 July 2019 to Tuesday, 9 July 2019 (both days inclusive). In order to qualify to receive the Final Dividend, all instruments of transfer of the holders of H-shares of the Company must be lodged at the H-shares registrar of the Company at Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 3 July 2019. Shareholders whose names appear on the register of members of the Company on Tuesday, 9 July 2019 shall be entitled to receive the Final Dividend.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

The Company's restricted share incentive scheme (the "**Scheme**") took effect on 18 October 2016. During the Reporting Period, as six incentive recipients resigned from the Group, making them unqualified for the Scheme, the Trustee sold 200,000 H shares of the Company to the secondary market. Save as disclosed above, during the Reporting Period, the Company and its subsidiaries had not purchased, sold or ransomed any of the listed shares of the Company.

First Unlocking of the Restricted Shares under the Initial Grant pursuant to the Restricted Share Incentive Scheme

On 16 November 2018, the Board considered and approved the Resolution on the First Unlocking of the Restricted Shares under the Initial Grant pursuant to the Restricted Share Incentive Scheme of the Company. Pursuant to this resolution, the two-year lock-up period in relation to the Initial Grant has expired, followed by the first unlocking period. Among the incentive recipients who participated in the Initial Grant, except for those who left the Group or changed their positions in the Group, thus causing the termination of the unlocking or those who fell short of performance standards in the performance review, thus failing to meet the unlocking conditions, the remaining 144 incentive recipients have all met the unlocking conditions of the Initial Grant for the first unlocking period. The 1.7523 million H shares of the Company held by them were unlocked on 16 November 2018. During the Reporting Period, 58 incentive recipients who met the unlocking conditions sold 451,769 H shares of the Company to the secondary market through the Trustee upon unlocking.

AUDIT COMMITTEE

As at the date of this announcement, the audit committee of the Company currently consists of five directors: including three independent non-executive directors being Mr. Tan Wee Seng, Mr. Liu Zhengdong, Mr. Zhuo Fumin and two non-executive directors being Mr. Deng Jindong and Ms. Guan Xiaohui. Mr. Tan Wee Seng currently serves as the chairman of the audit committee. The primary responsibilities of the Company's audit committee are to inspect, review and supervise the Company's financial information, reporting process for financial information and risk management and internal control system. The audit committee has reviewed the audited annual results of the Group for the year ended 31 December 2018.

SCOPE OF WORK OF ERNST & YOUNG

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2018. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

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

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

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

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

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

SUBSEQUENT EVENTS

On 11 January 2019, the Board resolved to appoint Ms. Guan Xiaohui as a non-executive director and a member of the audit committee of the Board. On 8 March 2019, the general meeting of the Company approved the resolution to appoint Ms. Guan Xiaohui as a non-executive director. For details, please refer to the announcements of the Company dated 11 January 2019 and 8 March 2019.

On 22 March 2019, due to work arrangement, Mr. Wang Qunbin tendered his resignation as a non-executive director of the Company, a member of the nomination committee of the Board, a member of the strategy and investment committee of the Board. On the same day, the Board resolved to propose to appoint Ms. Dai Kun as a non-executive director of the Company. In accordance with the articles of association of the Company, the proposed appointment of Ms. Dai Kun as non-executive director is subject to the approval by the shareholders at the general meeting of the Company. The term of office of Ms. Dai Kun as non-executive director will take effect from the date of approval of her appointment by the shareholders at the general meeting of the Company until the expiration of the term of the current session of the Board. For details, please refer to the announcement of the Company dated 22March 2019.

On 22 March 2019, the Board resolved to propose to make certain amendments to the articles of association and the Rules of Procedure of the Board of Directors of the Company. The proposed amendments to the articles of association and the Rules of Procedure of the Board of Directors of the Company are subject to the approval by the shareholders at the general meeting of the Company. For details, please refer to the announcement of the Company dated 22 March 2019.

Mr. Deng Jindong, a non-executive director of the Company and Mr. Tan Wee Seng, an independent non-executive director of the Company, have been appointed as members of remuneration committee of the Board, both with effect from 22 March 2019. For details, please refer to the announcement of the Company dated 22 March 2019.

DISCLOSURE OF INFORMATION

The 2018 annual report of the Company will be duly dispatched to the shareholders of the Company, and published on the websites of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the Company (http://ir.sinopharmgroup.com.cn).

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

Shanghai, the PRC
22 March 2019

As at the date of this announcement, the executive directors of the Company are Mr. Li Zhiming, Mr. Yu Qingming and Mr. Liu Yong; the non-executive directors of the Company are Mr. Chen Qiyu, Mr. Ma Ping,Mr. Hu Jianwei, Mr. Deng Jindong, Mr. Wen Deyong and Ms. Guan Xiaohui; and the independent non-executive directors of the Company are Mr. Yu Tze Shan Hailson, Mr. Tan Wee Seng, Mr. Liu Zhengdong, Mr. Zhuo Fumin and Mr. Chen Fangruo.

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