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

Caring for Life
Attending to Health

Annual report 2018

* 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.".

COMPANY PROFILE

Sinopharm Group Co. Ltd. (the "**Company**" or "**Sinopharm Group**", together with its subsidiaries referred to as the "**Group**"), which was established in January 2003 and listed on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") (stock code: 01099. HK) in September 2009, is a core subsidiary of China National Pharmaceutical Group Co., Ltd. ("**CNPGC**") and the largest wholesaler and retailer of pharmaceutical and healthcare products and medical devices, and a leading supply-chain service provider in the PRC.

The Group is mainly engaged in pharmaceutical distribution business. Leveraging on its nationwide distribution and delivery network, the Group provides comprehensive distribution, logistics and other value-added services to domestic and foreign manufacturer and suppliers of pharmaceutical products, medical devices and supplies and other healthcare products, and also to downstream customers including hospitals, other distributors, retail drug stores and primary health services institutions.

Meanwhile, the Group manages its network of retail drug stores chain in major cities of China via direct operations and franchises to sell pharmaceutical and healthcare products to end-customers. It has become a leader in China's pharmaceutical retail industry.

Besides, the Group is also engaged in the production and sale of pharmaceutical products, chemical reagents and laboratory supplies, and actively engaged in the innovation of pharmaceutical, medical services and other health-related industries, to explore the synergistic development of its diversified businesses.

Taking advantage of its superior economies of scale, customer resources, network platforms and brand position, the Group will fully leverage on China's pharmaceutical and healthcare market, which shows steady and healthy growth, and capture opportunities arising from healthcare reform to further consolidate and enhance its market leadership, actively striving to become a pharmaceutical and healthcare service provider with international competitiveness.

CORPORATE VISION

Becoming a pharmaceutical and healthcare service provider with international competitiveness

CORPORATE PHILOSOPHY

Caring for life
Attending to health

CORPORATE MISSION

Contributing to human health and good life

CORE VALUE

Benevolence and responsibility

Contents

Corporate Information

At the date of this report

Directors

Mr. Li Zhiming *(Executive Director and Chairman)*
Mr. Yu Qingming *(Executive Director)*
Mr. Liu Yong *(Executive Director and President)*
Mr. Chen Qiyu *(Non-executive Director and Vice Chairman)*
Mr. Ma Ping *(Non-executive Director)*
Mr. Hu Jianwei *(Non-executive Director)*
Mr. Deng Jindong *(Non-executive Director)*
Mr. Wen Deyong *(Non-executive Director)*
Ms. Guan Xiaohui *(Non-executive Director)*
Mr. Yu Tze Shan Hailson *(Independent Non-executive Director)*
Mr. Tan Wee Seng *(Independent Non-executive Director)*
Mr. Liu Zhengdong *(Independent Non-executive Director)*
Mr. Zhuo Fumin *(Independent Non-executive Director)*
Mr. Chen Fangruo *(Independent Non-executive Director)*

Supervisors

Mr. Yao Fang *(Chief Supervisor)*
Mr. Tao Wuping
Mr. Zhang Hongyu
Ms. Li Xiaojuan
Ms. Jin Yi

Joint Company Secretaries

Mr. Wu Yijian
Mr. Liu Wei

Strategy and Investment Committee

Mr. Li Zhiming *(Chairman)*
Mr. Yu Qingming
Mr. Liu Yong
Mr. Chen Qiyu
Mr. Ma Ping
Mr. Hu Jianwei
Mr. Deng Jindong
Mr. Wen Deyong
Mr. Tan Wee Seng
Mr. Chen Fangruo

Audit Committee

Mr. Tan Wee Seng *(Chairman)*
Mr. Deng Jindong
Ms. Guan Xiaohui
Mr. Liu Zhengdong
Mr. Zhuo Fumin

Remuneration Committee

Mr. Liu Zhengdong *(Chairman)*
Mr. Deng Jindong
Mr. Wen Deyong
Mr. Yu Tze Shan Hailson
Mr. Tan Wee Seng

Nomination Committee

Mr. Li Zhiming *(Chairman)*
Mr. Hu Jianwei
Mr. Yu Tze Shan Hailson
Mr. Liu Zhengdong
Mr. Zhuo Fumin
Mr. Chen Fangruo

Legal and Compliance Committee

Mr. Liu Zhengdong *(Chairman)*
Mr. Li Zhiming
Mr. Yu Qingming

Authorized Representatives

Mr. Li Zhiming
Mr. Wu Yijian

Legal Advisers

As to Hong Kong and United States laws:
DLA Piper UK LLP

As to PRC law:
Beijing Zhonglun (Shanghai) Law Firm
Shanghai Boss & Young Attorneys at Law

Auditor

International auditor:
Ernst & Young

Domestic auditor:
Ernst & Young Hua Ming LLP

Principal Place of Business in Hong Kong

Room 1601
Emperor Group Center
288 Hennessy Road
Wanchai, Hong Kong

Principal Place of Business and Headquarter in the PRC

Sinopharm Plaza
No. 1001 Zhongshan Road (West)
Changning District
Shanghai 200051, the PRC

Registered Office in the PRC

6th Floor, No. 221 Fuzhou Road
Shanghai 200002, the PRC

Company's Website

www.sinopharmgroup.com.cn

H Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Stock Code

01099

Principal Banks

Bank of Communications Co., Ltd.
  Shanghai Branch
China Merchants Bank Co., Ltd.
  Shanghai Branch
Bank of China Limited
  Shanghai Branch
China Minsheng Banking Corp., Ltd.
  Shanghai Branch
Industrial and Commercial Bank of China Limited
  Shanghai Branch
Agricultural Bank of China Co., Ltd.
  Shanghai Branch
China Construction Bank Co., Ltd.
  Shanghai Branch

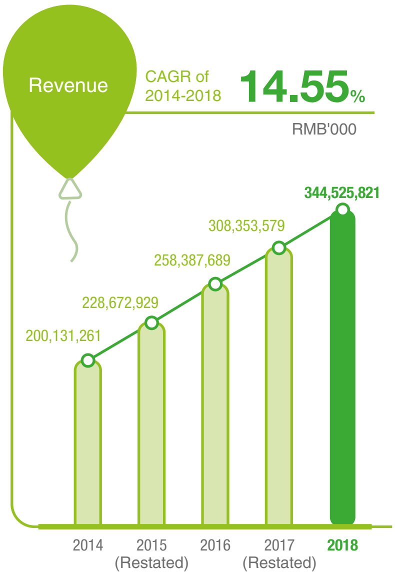
Office of Board of Directors

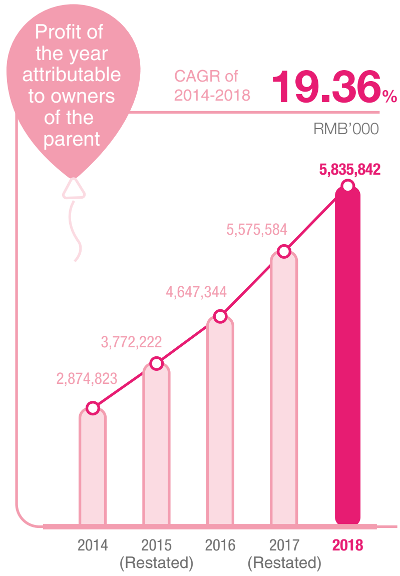
Tel: (+86 21) 2305 2666
Email: ir@sinopharm.com

Financial Highlights

RMB'000

	2014-2018						
	2014	2015	2015 (restated)	2016	2017	2017 (restated)	**2018**
Operating results							
Revenue	200,131,261	227,069,433	228,672,929	258,387,689	277,717,018	308,353,579	**344,525,821**
Gross profit	16,328,218	18,617,529	18,720,313	20,670,673	23,076,554	26,048,865	**31,228,092**
Operating profit	7,861,922	9,169,204	9,227,323	10,213,720	11,905,966	13,140,388	**15,396,806**
Earnings before interest and tax	8,063,294	9,396,713	9,456,979	10,856,642	12,706,623	13,996,518	**16,321,803**
Profit for the year attributable to owners of the parent	2,874,823	3,760,649	3,772,222	4,647,344	5,283,091	5,575,584	**5,835,842**
Profitability							
Gross margin	8.16%	8.20%	8.19%	8.00%	8.31%	8.45%	**9.06%**
Operating margin	3.93%	4.04%	4.04%	3.95%	4.29%	4.26%	**4.47%**
Net profit margin	2.27%	2.51%	2.51%	2.67%	2.83%	2.81%	**2.73%**
Asset status							
Total assets	128,655,739	138,267,028	139,429,696	157,711,590	169,539,028	190,693,400	**235,771,077**
Equity attributable to owners of the parent	27,381,867	30,051,626	30,110,310	31,810,928	35,257,635	38,301,481	**42,821,826**
Total liabilities	92,366,110	97,611,323	98,551,019	113,179,154	118,269,374	132,746,210	**167,495,310**
Cash and cash equivalents	15,232,356	19,919,154	19,966,052	25,572,759	29,011,436	32,240,796	**40,298,985**
Gearing ratio	71.79%	70.60%	70.68%	71.76%	69.76%	69.61%	**71.04%**
Liquidity ratio							
Current ratio (times)	1.28	1.23	1.23	1.33	1.31	1.31	**1.28**
Inventory turnover ratio (days)	36	37	37	37	37	37	**38**
Trade receivables turnover ratio (days)	107	105	104	95	95	92	**99**
Trade payables turnover ratio (days)	95	97	97	96	94	91	**90**
Data per share (RMB)							
Earnings per share – Basic	1.11	1.36	1.36	1.68	1.91	1.88	**1.97**
Earnings per share – Fully diluted	1.11	1.36	1.36	1.68	1.91	1.88	**1.96**





Revenue over **RMB340 billion**
Year-on-year growth of
11.73%

Year-on-year growth in
operating profit of
17.17%

Year-on-year growth in
earnings before interest and tax of
16.61%

Year-on-year growth in
net profit of
8.53%

CARING FOR LIFE ATTENDING TO HEALTH

Adhering to the corporate philosophy of “Caring for Life, Attending to Health”, Sinopharm Group has always been positioning itself as the “leader and consolidator of China’s pharmaceutical distribution industry”.

Chairman's Statement

Li Zhiming

Chairman & Executive Director

Dear shareholders,

I would like to express my heartfelt gratitude to the shareholders and the community for your great support and encouragement to Sinopharm Group for long. 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 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 devices 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 Recognized 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 ageing 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 Group 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 Group from distinction to excellence as well as from a traditional pharmaceutical distribution company to a smart healthcare service ecosystem.

Li Zhiming
Chairman

Shanghai, the People's Republic of China
22 March 2019

MOST POWERFUL

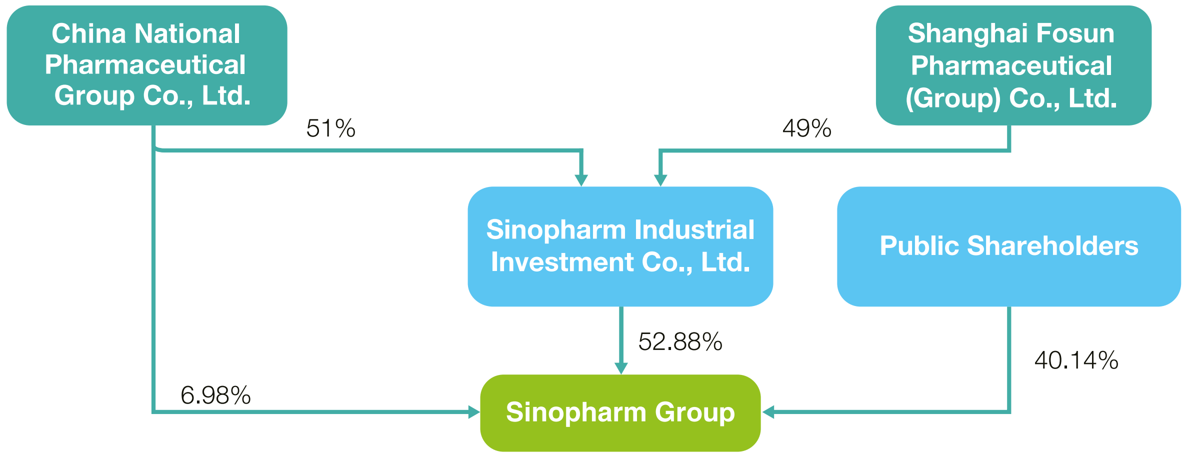
BEST PARTNER MOST RELIABLE

Deliver health, Benefit common people

Sinopharm Group believes that: "a company's development is closely related with people's livelihood. The pioneering quality and professional concept will enable it to develop the health industry together with the community and create and realize superior corporate value".

Shareholding Structure of the Group

As at the date of this report, the simplified structure of the Group was as follows:



Management Discussion and Analysis

Liu Yong

President & Executive Director

Industry Overview

Stable economy 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 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 ageing 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 devices business

The Group actively seized the opportunities of rapid development of medical devices industry and vigorously developed medical devices distribution business. In 2018, the sales of the Group's medical devices 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 devices distributor China National Scientific Instruments and Materials Co., Ltd. ("**CSIMC**") was completed successfully, further consolidating the Group's leading position in China's medical devices 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 on 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 and promote scale advantage.

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 devices business

The medical devices business is also a strategic sector for the structural adjustment of the Group. The Group will take advantage of the development trend of medical devices 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 new supply chain service 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 devices 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 devices segment: during the Reporting Period, the revenue from medical devices 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 devices 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 **RMB million**	2017 (Restated) 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, medical devices business segments and other 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 the 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**"), 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 accruals and other payables denominated in foreign currencies, the majority of which are USD, HKD and EUR. During the Reporting Period, the Group has no corresponding hedging arrangements.

Pledge of Assets

As at 31 December 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 the 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.

Compliance with Laws and Regulations

The Group must comply with a number of laws and regulations, which mainly include the Company Law of the PRC, the Contract Law of the PRC, the Drug Administration Law of the PRC, domestic and foreign securities laws, regulations and exchange rules such as the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), the Securities and Futures Ordinance (Cap. 571) etc., as well as other applicable regulations, policies and regulatory legal documents promulgated pursuant to the aforementioned laws, regulations and rules.

Through various measures such as internal control, compliance management, business approval procedures and employee training, the Group ensures the compliance with applicable laws, regulations, and regulatory legal documents (especially those that have significant impact on the main business). Whenever there are any changes to the applicable laws, regulations, and regulatory legal documents, the Group will notify the relevant employees and the operating team from time to time.

During the Reporting Period, the Directors of the Company are not aware of any non-compliance with the relevant laws and regulations which would have a material impact on the Group.

Relationship with Employees, Suppliers and Customers

The Group endeavours to maintain sustainable development in the long term, continuously create value for its employees and customers, and foster good relationships with its suppliers. The Group understands that employees are its valuable assets, and the realisation and enhancement of employees' values will facilitate the achievement of the Group's overall goals. For the year ended 31 December 2018, the Group adhered to the talent-oriented corporate culture and played an active role in cultivating first-class talents. It also attached great importance to the exploration, management and development planning of human resources, striving to create a harmonious working environment as well as a remuneration and benefit system with market competitiveness for its employees, so as to ensure the Group's advantages in terms of human resources for future development. The Group also understands the importance of maintaining good relationships with its suppliers and customers to the overall development of the Group. The Group places emphasis on supplier selection and encourages fair and open competition to foster long-term relationships with quality suppliers on the basis of mutual trust. To maintain the competitiveness of the Group's brand and products, the Group abides by the principles of honesty and trustworthiness and commits itself to consistently provide quality products to establish a reliable service environment for its customers. For the year ended 31 December 2018, there was no significant and material dispute between the Group and its suppliers and/or customers.

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 ("**Articles of Association**"), 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 nonexecutive 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.

Corporate Governance Report

The Company is committed to upholding high standards of corporate governance which, it believes, is crucial to the development of the Company and protection of the interests of the shareholders of the Company. The Company has adopted sound governance and disclosure practices, and will continuously improve these practices and create a highly ethical corporate culture.

Composition of the Board

As at the date of this report, the board of the directors of the Company (the "**Board**") consisted of 14 directors (the "**Director(s)**"), including three executive Directors, Mr. Li Zhiming, Mr. Yu Qingming and Mr. Liu Yong; six non-executive Directors, namely Mr. Chen Qiyu, Mr. Ma Ping, Mr. Hu Jianwei, Mr. Deng Jindong, Mr. Wen Deyong and Ms. Guan Xiaohui; and five independent non-executive Directors, namely Mr. Yu Tze Shan Hailson, Mr. Tan Wee Seng, Mr. Liu Zhengdong, Mr. Zhuo Fumin and Mr. Chen Fangruo. To the knowledge of the Company, there is no financial, business and family relationships or material/relevant relationships among members of the Board or between the Chairman and the President.

Biographical details of the Directors are set out in the section headed "Biographies of Directors, Supervisors and Senior Management" of this annual report.

Major Responsibilities of the Board

The Board is the core of the Company's corporate governance framework and it takes several roles in representing interests, supervising resources and coordinating interests. The main functions of the Board are strategic planning, guidance on operation management and inspection and supervision. The responsibilities of the Board include formulating operation plans and investment proposals of the Company, preparing the proposed annual budgets and final accounts of the Company, assessing the performance of the Company and overseeing the work of senior management, formulating and reviewing the corporate governance policies and practices of the Company.

The Board shall represent the long-term interest of the Company and the interest of shareholders and related party when making scientific and strategic decisions, be effectively supervised and evaluated when controlling corporate resources and conducting operation management and maintain effective stimulation and supervision over the senior management when duly delegating its power to the senior management. The Board is the core of the Company's corporate governance framework and its role is clearly separated from that of senior management. Being different from the function and duties of the Board, the senior management of the Company are mainly in charge of the Company's production, operation and management; organizing the implementation of the Company's annual business plan and investment proposal; drafting plans for the establishment of the Company's internal management structure; drafting plans for the establishment of the Company's branch offices; drafting the Company's basic internal management system and formulating basic rules and regulations of the Company; within the authority delegated by the Board, appointing, changing or recommending shareholder representatives, directors and supervisors in its holding subsidiary or joint stock subsidiary; deciding on the establishment of the Company's branches; and other powers delegated by the Board.

The Company has separated the roles of Chairman and President. The Chairman is responsible for managing the Board, steering the Board to formulate overall strategies and business development plans, ensuring the receipt of sufficient, complete and reliable information by each Director and the receipt of reasonable explanations for all the issues raised in the Board meetings. The President is responsible for managing the business of the Company and implementing policies, business objectives and plans formulated by the Board, and is accountable to the Board for the Company's overall operation.

The Board has established an audit committee, a remuneration committee, a nomination committee, a strategy and investment committee and a legal and compliance committee. Please see below for the composition and responsibilities of the audit committee, the remuneration committee, the nomination committee, the strategy and investment committee and the legal and compliance committee. Each committee shall provide its recommendations to the Board based on its respective terms of reference. The decisions of the Board on such recommendations shall be final, unless otherwise clearly stated in the terms of reference of these committees.

During the Reporting Period, the Board made a lot of efforts in improving the corporate governance system of the Company and enhancing the corporate governance standards, including amending relevant internal management rules in accordance with the requirements of relevant laws, regulations and regulatory rules as amended from time to time, as well as the practice of the Company; monitoring and organizing the Directors and company secretary to participate in relevant training courses; regularly reviewing the Company's compliance with the domestic and overseas regulatory requirements and its implementation of various internal corporate governance rules and policies, and reviewing the Company's compliance with the Corporate Governance Code and the disclosures in the Corporate Governance Report.

Changes of Directors, Supervisors and Senior Management

(1) On 12 January 2018, as considered and approved by the meeting of the employee representatives, Mr. Zhang Hongyu was elected as an employee representative Supervisor of the fourth session of the Supervisory Committee of the Company, Mr. Yang Jun ceased to be the Company's Supervisor.

(2) On 12 January 2018, as considered and approved by the Board meeting, Mr. Lian Wanyong, Mr. Cai Maisong, Mr. Li Dongjiu and Mr. Zhou Xudong were appointed as the Company's vice presidents.

(3) On 9 March 2018, as considered and approved at the 2018 first extraordinary general meeting of the Company, Ms. Rong Yan and Mr. Wu Yijian were elected as non-executive Directors of the fourth session of the Board. Mr. Li Dongjiu and Mr. Lian Wanyong ceased to be Directors and special committee members.

(4) On 23 March 2018, as considered and approved by the Board meeting, legal and compliance committee was established which comprised Mr. Liu Zhengdong, Mr. Li Zhiming and Ms. Rong Yan, with Mr. Liu Zhengdong served as its chairman, and the members' terms of office were the same as that of Director.

(5) On 24 August 2018, as considered and approved by the Board meeting, Mr. Cai Maisong was appointed as the Company's joint company secretary, authorized representative and secretary to the Board, Mr. Liu Yong ceased to be the Company's joint company secretary and authorized representative.

(6) On 16 November 2018, as considered and approved by the Board meeting, Mr. Li Yang was appointed as the Company's vice president.

(7) On 28 December 2018, as considered and approved at the 2018 third extraordinary general meeting of the Company, Mr. Hu Jianwei was elected as a non-executive Director of the fourth session of the Board, Mr. Yu Qingming was elected as an executive Director of the fourth session of the Board and Mr. Chen Fangruo was elected as an independent non-executive Director of the fourth session of the Board. Mr. She Lulin, Ms. Rong Yan and Ms. Li Ling ceased to be Directors and special committee members.

(8) On 28 December 2018, as considered and approved by the Board meeting, the composition of special committees under the fourth session of the Board is adjusted as follows:

Board Committee	Chairman	Members
Strategy and Investment Committee	Mr. Li Zhiming	Mr. Chen Qiyu, Mr. Ma Ping, Mr. Wang Qunbin, Mr. Hu Jianwei, Mr. Deng Jindong, Mr. Yu Qingming, Mr. Liu Yong, Mr. Tan Wee Seng and Mr. Chen Fangruo
Nomination Committee	Mr. Li Zhiming	Mr. Wang Qunbin, Mr. Hu Jianwei, Mr. Yu Tze Shan Hailson, Mr. Liu Zhengdong, Mr. Zhuo Fumin and Mr. Chen Fangruo
Audit Committee	Mr. Tan Wee Seng	Mr. Deng Jindong, Mr. Liu Zhengdong and Mr. Zhuo Fumin
Remuneration Committee	Mr. Liu Zhengdong	Mr. Yu Tze Shan Hailson
Legal and Compliance Committee	Mr. Liu Zhengdong	Mr. Li Zhiming and Mr. Yu Qingming

(9) On 28 December 2018, as considered and approved by the Board meeting, Mr. Wu Yijian was appointed as the Company's joint company secretary, authorized representative and secretary to the Board, Mr. Cai Maisong ceased to be the Company's joint company secretary, authorized representative and secretary to the Board. On the same day, Mr. Wu Yijian ceased to be a Director and special committee members.

(10) On 11 January 2019, as considered and approved by the Board meeting, the composition of Strategy and Investment Committee, Audit Committee and Remuneration Committee under the fourth session of the Board is adjusted as follows:

Board Committee	Chairman	Members
Strategy and Investment Committee	Mr. Li Zhiming	Mr. Chen Qiyu, Mr. Ma Ping, Mr. Wang Qunbin, Mr. Hu Jianwei, Mr. Deng Jindong, Mr. Yu Qingming, Mr. Liu Yong, Mr. Wen Deyong, Mr. Tan Wee Seng and Mr. Chen Fangruo
Audit Committee	Mr. Tan Wee Seng	Mr. Deng Jindong, Mr. Liu Zhengdong and Mr. Zhuo Fumin
Remuneration Committee	Mr. Liu Zhengdong	Mr. Wen Deyong, Mr. Yu Tze Shan Hailson

(11) On 11 January 2019, as considered and approved by the Board meeting, Ms. Wang Jie was appointed as the Company's vice president.

(12) On 8 March 2019, as considered and approved at the 2019 first extraordinary general meeting of the Company, Ms. Guan Xiaohui was elected as a non-executive Director of the fourth session of the Board, and the appointment of her as a member of the audit committee took effect from the same day.

(13) On 22 March 2019, Mr. Wang Qunbin resigned as a non-executive Director of the fourth session of the Board and special committee member.

(14) On 22 March 2019, as considered and approved by the Board meeting, Mr. Deng Jindong, a non-executive Director and Mr. Tan Wee Seng, an independent non-executive Director have been appointed as members of the remuneration committee.

Board Meetings and General Meetings

The Board convened eleven meetings, six of which were by voting through electronic means of communications, during the Reporting Period. Notices for regular Board meetings were given to each Director at least 14 days prior to the meeting.

During the Reporting Period, the attendance record of each Director at the meetings of the Board is as follows:

Directors	Attendance/No. of meetings held
Executive Directors	
Mr. Li Zhiming	11/11
Mr. Liu Yong	11/11
Non-executive Directors	
Mr. Chen Qiyu	11/11
Mr. She Lulin (resigned)	11/11
Mr. Wang Qunbin (resigned)	11/11
Mr. Ma Ping(1)	10/11
Mr. Deng Jindong	11/11
Mr. Li Dongjiu (resigned)	1/1
Mr. Lian Wanyong (resigned)	1/1
Ms. Rong Yan (resigned)	10/10
Mr. Wu Yijian (resigned)	10/10
Mr. Wen Deyong	11/11
Independent Non-executive Directors	
Ms. Li Ling (resigned)	11/11
Mr. Yu Tze Shan Hailson	11/11
Mr. Tan Wee Seng(2)	10/11
Mr. Liu Zhengdong(3)	10/11
Mr. Zhuo Fumin(4)	9/11

Notes:

(1) Mr. Ma Ping attended one meeting not in person but by his proxy, which was not included in the attendance.

(2) Mr. Tan Wee Seng attended one meeting not in person but by his proxy, which were not included in the attendance.

(3) Mr. Liu Zhengdong attended one meeting not in person but by his proxy, which were not included in the attendance.

(4) Mr. Zhuo Fumin attended two meetings not in person but by his proxy, which was not included in the attendance.

At Board meetings, the Company's senior management reported the information of business activities and data of development of the Company to all Directors on a timely basis. The executive Directors also met with and consulted the non-executive Directors for their opinions on the Company's business development and operations regularly. If any Director has conflict of interests in any proposed resolution to be considered at the Board meeting, such Director shall abstain from voting on such resolution.

During the Reporting Period, the attendance record of each Director at the general meetings is as follows:

Directors	Attendance/No. of meetings held
Executive Directors	
Mr. Li Zhiming	4/4
Mr. Liu Yong	3/4
Non-executive Directors	
Mr. Chen Qiyu	4/4
Mr. She Lulin (resigned)	1/4
Mr. Wang Qunbin (resigned)	0/4
Mr. Ma Ping	4/4
Mr. Deng Jindong	1/4
Mr. Li Dongjiu (resigned)	0/0
Mr. Lian Wanyong (resigned)	0/0
Ms. Rong Yan (resigned)	3/4
Mr. Wu Yijian (resigned)	4/4
Mr. Wen Deyong	3/4
Independent Non-executive Directors	
Ms. Li Ling (resigned)	3/4
Mr. Yu Tze Shan Hailson	4/4
Mr. Tan Wee Seng	3/4
Mr. Liu Zhengdong	3/4
Mr. Zhuo Fumin	3/4

Training for Directors

On 26 June 2018 and 2 July 2018, newly-appointed Directors attended the training of director's responsibilities of Hong Kong-listed company provided by the Company's Hong Kong legal adviser DLA Piper UK LLP. On 27 August 2018 and from 28 November to 30 November 2018, the newly-appointed company secretary attended the Hong Kong compliance training of newly-appointed company secretary provided by DLA Piper UK LLP and the 48th joint member ECPD seminar provided by The Hong Kong Institute of Chartered Secretaries. On 28 December 2018, all the Directors attended the trainings of the latest amendments to the Listing Rules and director's responsibilities of Hong Kong-listed company.

Audit Committee

As at the date of this report, the audit committee of the Company comprised five Directors, including three independent non-executive Directors, namely Mr. Tan Wee Seng, Mr. Liu Zhengdong and Mr. Zhuo Fumin and two non-executive Directors, namely Mr. Deng Jindong and Ms. Guan Xiaohui, with Mr. Tan Wee Seng serving 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 and reporting process for financial information. These responsibilities include, among others:

- making recommendations to the Board on the appointment, re-appointment and removal of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- formulating and implementing policies on the engagement of an external auditor to supply non-audit services; and
- monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in the statements and reports.

During the Reporting Period, five meetings were held by the audit committee. The attendance record of the committee members at the meeting during the Reporting Period is as follows:

Directors	**Attendance/No. of meetings held**
Mr. Tan Wee Seng	5/5
Mr. Li Dongjiu (resigned)	1/1
Ms. Rong Yan (resigned)	4/4
Mr. Wu Yijian (resigned)	4/4
Mr. Liu Zhengdong(1)	3/5
Mr. Zhuo Fumin	5/5
Mr. Lian Wanyong (resigned)	1/1

Note:

(1) Mr. Liu Zhengdong attended two meetings not in person but by his proxy, which was not included in the attendance.

The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2018. The audit committee believes that the Company has complied with all applicable accounting standards and regulations and made sufficient disclosures. The audit committee has reviewed all material internal control rules, including the financial and operational and compliance controls, as well as risk management in 2018. The audit committee was satisfied with the effectiveness and sufficiency of the internal control mechanism in its operations. In addition, the audit committee has also reviewed the adequacy of resources, qualification and experiences of employees in relation to the accounting and financial reporting function of the Company and the adequacy of training courses taken by the employees and the relevant budgets.

The audit committee has reviewed the remuneration of the auditors for 2018 and recommended the Board to re-appoint Ernst & Young as the auditors of the Company for 2019, subject to the approval of shareholders at the forthcoming annual general meeting.

Nomination Committee

As at the date of this report, the nomination committee of the Company comprised six Directors, including four independent non-executive Directors, namely Mr. Yu Tze Shan Hailson, Mr. Liu Zhengdong, Mr. Zhuo Fumin and Mr. Chen Fangruo; one non-executive Director Mr. Hu Jianwei; and one executive Director Mr. Li Zhiming with Mr. Li Zhiming serving as the chairman of the nomination committee. The primary responsibilities of the Company's nomination committee are to formulate the nomination procedures and standards for candidates for Directors. These responsibilities include, among others:

- reviewing the structure, size and composition of the Board on a regular basis and making recommendations to the Board regarding any proposed changes;
- assessing the independence of independent non-executive Directors;
- making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors, and the succession plans for Directors (in particular the Chairman and the President); and
- formulating, implementing and reviewing from time to time the policy concerning diversity of Board members.

The nomination procedures of the Directors are as follows: the nomination committee shall firstly propose a list of candidates for Directors, which shall then be submitted by the committee to the Board for review; the Board shall then submit the relevant proposal to the general meeting for shareholders' approval.

The examination procedures of the candidates for Directors are: (1) to collect, or require relevant department of the Company to collect the particulars of the occupation, education, designation, detailed work experience and all part-time jobs of the candidates and summarize the same in written materials; (2) to hold nomination committee meetings to examine the qualifications of the candidates in accordance with the requirements applicable to a Director and to state the opinion and recommendations on appointments in the form of proposals; and (3) to carry out other relevant work according to decisions of or feedback from the Board.

In order to ensure a diversity on the Board members and improve the Company's corporate governance, the Board has approved the Board diversity policy formulated by the nomination committee, which summarized as: other than complying with relevant requirements under the relevant laws, regulations and rules (including but not limited to the Company Law of the PRC, the Listing Rules and the Articles of Association), the Company should also consider various diversity factors, including professional qualifications, industry experience, culture and education background, ethnicity, gender, age, etc. when designing the Board's composition. The selection of candidates will finally be determined based on their merits and contribution to the Board. Meanwhile, the Company's diversity policy also includes monitoring, reporting and reviewing system to ensure the effectiveness and successful implementation of the policy. The Company will set measurable objectives to implement the Board diversity policy and will review such objectives from time to time to ensure the suitableness and the progress on achieving these objectives.

During the Reporting Period, three meetings were held by the nomination committee. The attendance record of the committee members at the meeting during the Reporting Period is as follows:

Directors	Attendance/No. of meetings held
Mr. Li Zhiming	3/3
Mr. She Lulin (resigned)	3/3
Mr. Wang Qunbin (resigned)	3/3
Ms. Li Ling (resigned)	3/3
Mr. Yu Tze Shan Hailson	3/3
Mr. Liu Zhengdong	3/3
Mr. Zhuo Fumin	3/3

Remuneration Committee

As at the date of this report, the remuneration committee of the Company comprised three Directors, including two independent non-executive Directors, namely Mr. Liu Zhengdong and Mr. Yu Tze Shan Hailson, and one non-executive Director Mr. Wen Deyong, with Mr. Liu Zhengdong serving as the chairman of the remuneration committee. The primary responsibilities of the Company's remuneration committee are to formulate and review the remuneration policies and schemes for the Directors and senior management of the Company. These responsibilities include, among others:

- making recommendations to the Board on the Company's overall remuneration policies and structure for Directors and senior management of the Company;
- determining the specific remuneration packages of all executive Directors and senior management, and making recommendations to the Board in relation to the remuneration of non-executive Directors; and
- reviewing and approving performance-based remuneration by reference to corporate goals and objectives determined by the Board from time to time.

During the Reporting Period, nine meetings were held by the remuneration committee. The attendance record of the committee members at the meeting during the Reporting Period is as follows:

Directors	Attendance/No. of meetings held
Mr. Liu Zhengdong	9/9
Mr. Yu Tze Shan Hailson	9/9
Mr. Li Dongjiu (resigned)	2/2
Mr. Wu Yijian (resigned)	7/7

Strategy and Investment Committee

As at the date of this report, the strategy and investment committee of the Company comprised ten Directors, including three executive Directors, namely Mr. Li Zhiming, Mr. Yu Qingming and Mr. Liu Yong, five non-executive Directors, namely Mr. Chen Qiyu, Mr. Ma Ping, Mr. Hu Jianwei, Mr. Deng Jindong and Mr. Wen Deyong, and two independent non-executive Directors, namely Mr. Tan Wee Seng and Mr. Chen Fangruo, with Mr. Li Zhiming serving as the chairman of the strategy and investment committee.

The strategy and investment committee is a special operating organization under and accountable to the Board. It is mainly responsible for conducting research and making recommendations on the long-term development strategies and major investment decisions of the Company, and supervising and reviewing the implementation of annual operation plans and investment proposals under the authorization of the Board.

During the Reporting Period, seven meetings were held by the strategy and investment committee. The attendance record of the committee members at the meeting during the Reporting Period is as follows:

Directors	Attendance/No. of meetings held
Mr. Li Zhiming	7/7
Mr. Chen Qiyu	7/7
Mr. She Lulin (resigned)	7/7
Mr. Wang Qunbin(1) (resigned)	2/7
Mr. Ma Ping(2)	6/7
Mr. Deng Jindong	7/7
Mr. Liu Yong	7/7
Mr. Li Dongjiu (resigned)	1/1
Mr. Wu Yijian (resigned)	6/6
Ms. Li Ling (resigned)	7/7
Mr. Tan Wee Seng(3)	5/7

Notes:

(1) Mr. Wang Qunbin attended five meetings not in person but by his proxy.

(2) Mr. Ma Ping attended one meeting not in person but by his proxy.

(3) Mr. Tan Wee Seng attended two meetings not in person but by his proxy.

Legal and Compliance Committee

As at the date of this report, the legal and compliance committee of the Company comprised three Directors, including two executive Directors, namely Mr. Li Zhiming and Mr. Yu Qingming, and one independent non-executive Director, namely Mr. Liu Zhengdong, with Mr. Liu Zhengdong serving as the chairman of the legal and compliance committee.

The legal and compliance committee of the Board is a special operating organization under and accountable to the Board. It is mainly responsible for promoting the rule of law of the Company and guide the Company's compliance management works.

During the Reporting Period, the legal and compliance committee did not hold any meeting.

Term of Office of the Non-Executive Directors

Name	Position	Commencement Date	Expiry Date
Chen Qiyu	non-executive Director	21 September 2017	20 September 2020
Ma Ping	non-executive Director	21 September 2017	20 September 2020
Hu Jianwei	non-executive Director	28 December 2018	20 September 2020
Deng Jindong	non-executive Director	21 September 2017	20 September 2020
Wen Deyong	non-executive Director	21 September 2017	20 September 2020
Guan Xiaohui	non-executive Director	8 March 2019	20 September 2020
Yu Tze Shan Hailson	independent non-executive Director	21 September 2017	20 September 2020
Tan Wee Seng	independent non-executive Director	21 September 2017	20 September 2020
Liu Zhengdong	independent non-executive Director	21 September 2017	20 September 2020
Zhuo Fumin	independent non-executive Director	21 September 2017	20 September 2020
Chen Fangruo	independent non-executive Director	28 December 2018	20 September 2020

Compliance With the Corporate Governance Code

The Company has adopted all the code provisions contained in the Corporate Governance Code as the Company's code on corporate governance. During the Reporting Period, the Company had complied with the code provisions set out in the Corporate Governance Code.

Securities Transactions by Directors and Supervisors

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as the standards for governing the transactions of the Company's listed securities by the Directors and the supervisors of the Company (the "**Supervisor(s)**"). Having made specific enquiries with all Directors and Supervisors, all of them confirmed that they had complied with the requirements set out in the Model Code during the Reporting Period.

Remuneration of Auditors

The Company's domestic auditors, Ernst & Young Hua Ming LLP and overseas auditors, Ernst & Young are the independent external auditors of the Group. The remuneration paid and payable by the Group to Ernst & Young Hua Ming LLP and Ernst & Young in respect of the services provided during the Reporting Period is as follows:

Services provided	Fee paid and payable
Statutory audit service provided for 2018	RMB35,102,000
Non-statutory audit service provided for 2018	RMB1,316,000
Non-audit service – tax consultancy services	RMB2,749,000

Confirmation By the Directors and Auditors

The Directors have reviewed the effectiveness of the internal control system of the Group. The review covered all the material aspects of its internal controls, including the supervision of the financial and operational and compliance affairs, as well as risk management.

The Directors are responsible for supervising the preparation of annual accounts in order to give a true and fair view of the financial position, operating results and cash flow of the Company during the year. For the purpose of the preparation of the financial statements for the Reporting Period, the Directors have selected appropriate accounting policies, adopted applicable accounting principles, made judgments and assessments that are prudent and reasonable and ensured the financial statements were prepared on a going concern basis. The Directors have confirmed that the Group's financial statements were prepared in accordance with the requirements of laws and applicable accounting principles.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast doubt upon the ability of the Company to operate as a going concern. The statement of auditors about their reporting responsibilities on the financial statements is set out in the section headed "Independent Auditor's Report".

Shareholders' Rights

Two or more shareholders representing a total of over 10% (inclusive) shares carrying the right to vote at the meeting to be convened may sign one or more written requests of the same format and contents, and submitted to the Board for the convening of an extraordinary general meeting or a class meeting. The Board shall furnish a written reply stating its agreement or disagreement to convene the extraordinary general meeting or a class meeting within ten days upon receipt of such requisition.

When the Company convenes an annual general meeting, shareholders who individually or jointly hold five percent (5%) or more (inclusive) of the shares carrying on voting rights of the Company shall be entitled to propose new resolutions in writing to the Company. The Company shall include resolutions falling within the scope of power of the general meeting into the agenda of such meeting. Shareholders who individually or jointly hold three percent (3%) or more of the shares of the Company shall be entitled to propose temporary resolutions and submit the same in writing to the Board ten (10) days prior to the date of the general meeting.

The shareholders may put enquiries to the Board via the office phone number and email address of the Board office as stated in this annual report.

Amendments to the Articles of Association

In accordance with the requirements of relevant laws, regulations and regulatory rules, and taking into consideration of the practice of the Company, as approved the Shareholders at the general meeting held on 28 June 2018, the Company made certain amendments to the Articles of Association including, among others, the change of business license number to unified social credit code and establishment of general counsel system. For details, please refer to the circular of the Company dated 10 May 2018. As approved by Shareholders at the general meeting held on 21 September 2018, the Company made amendments to the business scope in the Articles of Association. For details, please refer to the circular of the Company dated 6 September 2018.

Effective Communications With Investors

The Group had made effective improvements in investor relations in 2018 under the leadership and support of the Board and management. The Group has participated in a number of investment forums and successfully communicated with many fund management companies through various means. The Group organized on-site visits to its logistics centers, distribution centers and retail drug stores for a number of fund management companies to facilitate investors' direct understanding of and contact with the Company. The Company and its subsidiaries also received various fund investors for on-site visits. In the future, the Company will maintain continuous and effective communications with investors through road shows after the issuance of interim/annual results as well as through general meetings.

Implementation of Non-Competition Agreement

The independent non-executive Directors have reviewed the compliance by CNPGC of the Non-Competition Agreement and confirmed that CNPGC has complied with the terms of such agreement during the year ended 31 December 2018. At the same time, CNPGC also confirmed to the Company that it has complied with the terms of the Non-Competition Agreement.

The independent non-executive Directors are not aware of any breach of the terms of the Non-Competition Agreement by CNPGC and therefore, no remedy action was taken by the Company during the year ended 31 December 2018.

In accordance with the Non-Competition Agreement entered into between the Company and CNPGC, if CNPGC or any of its subsidiaries (other than the Company) is aware of any business opportunity to own, invest in, participate in, develop, operate or engage in any business or company which directly or indirectly competes with the core business of the Company (the "**Business Opportunity**"), it will inform the Company of the aforesaid Business Opportunity in writing immediately in the first place. Whether to take up the Business Opportunity is up to the independent non-executive Directors.

During the Reporting Period, the independent non-executive Directors did not make any decisions in relation to whether to exercise or terminate an option or a right of first refusal or take up or waive any Business Opportunity.

Risk Management And Internal Control

The Board has established a risk management and internal control system in accordance with the requirements of paragraph C.2 of the Corporate Governance Code of Appendix 14 of the Listing Rules and continues to monitor and review the effectiveness of its operation. The system is designed to manage rather than eliminate the risk of failure to meet business objectives, to promote effective and efficient operations, to ensure reliable financial reporting and compliance with applicable laws and regulations, as well as to safeguard the assets of the Group.

Characteristics of the Risk Management and Internal Control Organisation System

In accordance with the requirements of Rule C.2.2 of the Corporate Governance Code of Appendix 14 of the Listing Rules, the Group has established a sound risk management and internal control organization system which includes the Board, its audit committee, management of the Group, the risk and operation management department, legal compliance department, audit department and other departments to ensure that the Group has sufficient resources, qualified and experienced staffs, training courses and related budget for risk management and internal audit. Each department of the Group serves as the frontline in risk management and internal control; and the risk and operation management department, legal compliance department and the management of the Group are the higher level supervisors for risk management and internal control; while the highest level of supervision is carried out by the audit committee under the Board and the audit department, an independent supervision department that conducts internal audit for the Group's risk management system. As the highest decision maker for the Group's risk management and internal control, the Board assumes the ultimate responsibility for the establishment of a sound risk management and internal control system as well as the effectiveness of the risk management work carried out across the Group.

Implementation of Risk Management and Internal Control

The Group reviews the effectiveness of the risk management and internal control systems every year and assesses all important aspects of internal control such as supervision on financial, operation and compliance affairs, etc. based on the five elements of internal control, namely, the internal environment, risk assessment, control activities, information and communication as well as internal supervision.

After risk assessment, the Company is facing three major risks, namely cash flow and account receivable risk, investment decision risk and business integration and control risk.

As for cash flow and account receivable risk, affected by industry policies such as "two invoice system" and zero mark-up, as the proportion of direct sales to hospital increased, the Company's account receivable balance increased rapidly, account receivable turnover days went up, working capital pressure grew, bringing challenges to cash flow and account receivable.

As for investment decision risk, research might not be complete and sufficient during the phase of pre-investment, due diligence and project management might not be complete and thorough during the phase of making investment, some indicators of investment return in post-investment management projects might not be accurately quantified due to long cycle, bringing challenges to investment decision.

As for business integration and control risk, industry policies kept releasing, industry growth slowed down, profit margin continued to be squeezed, some subsidiaries' development was incompatible or disconnected with headquarter's development plan, corporate general system construction and business process were slow etc, bringing challenges to business integration and control.

In 2018, the Group formulated practical and feasible management proposals based on its actual situation and carried out effective risk management in various approaches.

Inside the Group, management strengthened its supervision management and review for strategy implementation. After the strategy was set, the Group gave more attention to strategy implementation and reviewed the effect of strategy implementation. The Board periodically organized strategy review work to understand the implementation progress of strategy and management's feedback on strategy and supervised and encouraged the Company's strategy to be effectively implemented to avoid mistakes.

Outside the Group, the Group strived to analyse market environment, policy trend and competition pattern, strengthened its annual planning review for headquarter and its subsidiaries. It continued to advance promulgation and supervision work for planning implementation and assigned the coordination of planning implementation to specific persons. It analysed the key development direction for next-stage planning implementation and provided its subsidiaries with practical and reliable analysis guidance of planning objective.

The Group strived to further improve its risk and internal control management system, establish sound system and procedures and implement its supervision work effectively. It also sought to carry out the risk control thoroughly by means of prevention in advance, supervision during the process and following up afterwards. In 2018, the Company held three compliance management committee meetings, launched random on-site examination on five subsidiaries, completed amendment of Sinopharm Group Compliance Operation Manual, and trained employees on compliance management.

Meanwhile, the Group strengthened its management on each professional business in its headquarter as well as its supervision on and guidance to the secondary subsidiaries. It also enhanced its audit supervision and inspection on the implementation of key internal control systems by its subsidiaries in every level by conducting follow-up activities, inspection and ad-hoc audit thereon. Based on an interactive supervision mechanism, departments including, among others, the audit, legal compliance and discipline inspection departments cooperated in the supervision to form resultant force in order to strengthen management vulnerabilities, ensure implementation of the system, carry out rectification and follow-up activities and improve the accountability mechanism.

Formation of the Long-term Risk Management and Internal Control mechanism

Focusing on the overall strategic objective, the Group established the risk management system gradually by implementing the basic procedures of risk management in each stage of management and its course of business. It sorted out and identified potential risks thoroughly from the headquarter level to the operational level, developing a risk database of the Sinopharm Group, a systematic and sophisticated database peculiar to the Group, as the foundation of its risk management and internal control.

Every year, the Group instructs each department to identify, analyse and assess the material risks of the Group on the basis of the changing internal and external environment and taking into consideration the possibility and impact of the risk. In light of the actual operation and management of its professional business, each department formulates detailed risk management proposals against material risks on a case by case basis.

The risk and operation management department prepares the Report on Overall Risk Management of the Sinopharm Group annually to summarise the risk management work of the previous year and review the supervision, inspection and timely rectification of all material risks. The report also sets out the risk management plan for the next year as well as resources and events that need coordination and further instruction, and is finally submitted to the management and Board of the Group for approval.

The Group's procedures for financial reporting and information disclosure, etc. are in strict compliance with the requirements of the Listing Rules. Office of Board of Directors enacted the Rules on the Inside Information Management in Sinopharm Group Co. Ltd., which was passed by approval of the Board, and has set up standard control procedures for information collection, classification, approval and disclosure. Prior to disclosing relevant information to the public, the Group will ensure that such information is absolutely confidential and will maintain a register and filing of insiders as required. The Supervisory Committee is responsible for the supervision of inside information management.

In the Board meeting held on 22 March 2019, the Board reviewed the risk management and internal control during the Reporting Period and concluded that there had been no deficiency in material risk control and they had not been aware of any weakness in material risk control based on the outcome of the risk management and internal control work implemented by the Group during the period from 1 January 2018 to the date of this Report. The Board was of the opinion that the risk management and internal control system of the Group is effective and sufficient.

Biographies of Directors, Supervisors and Senior Management

Directors

Mr. Li Zhiming, aged 57, executive Director, Chairman (Legal Representative), Deputy Secretary of Party Committee. Mr. Li joined the Company in May 2010 and served as the vice president until November 2013, and has served as the president and deputy secretary of party committee from November 2013 to March 2017, and has served as executive Director since January 2014 and the chairman, president and secretary of party committee from March 2017 to November 2017, and has served as the chairman and secretary of party committee from November 2017 to November 2018, and has served as the chairman and deputy secretary of party committee since November 2018. He has more than 37 years of working experience, over 33 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Li graduated from the Xinjiang Commerce College with associate degree and a major in finance and accounting in July 1981, and graduated from the economic management discipline of the Urumqi Branch of Xi'an Military Academy with associate degree in July 1997. Mr. Li was qualified as a senior economist and a chief pharmacist. Mr. Li was the deputy director of finance department of Xinjiang New & Special Ethnic Drug Store, staff of audit department of Xinjiang Pharmaceutical Administration Bureau, deputy general manager and chief accountant of Xinjiang Pharmaceutical Industry and Trade Company, chief accountant and deputy general manager of Xinjiang New & Special Ethnic Drug Corporation, and deputy director of the office of the preparatory and leading group of Xinjiang Pharmaceutical Administration Bureau steering the construction of the group entity, and general manager of Xinjiang New & Special Ethnic Drug Corporation from July 1985 to February 2000. Mr. Li has taken senior management positions such as chairman, general manager and secretary of party committee of Xinjiang Pharmaceutical Group Company from February 2000 to February 2009, and has served as the chairman, general manager and secretary of party committee of Sinopharm Group Xinjiang Medicines Co., Ltd. from February 2009 to May 2013. Mr. Li is currently the director and general manager of Sinopharm Industrial Investment Co., Ltd., the director of China National Accord Medicines Co., Ltd. and China National Medicines Co., Ltd., vice chairman of Shanghai Shyndec Pharmaceutical Co., Ltd., and also takes senior management positions at some subsidiaries.

Mr. Yu Qingming, aged 55, executive Director, Secretary of Party Committee, has served as secretary of party committee of the Company since November 2018 and executive Director of the Company since December 2018. Mr. Yu has over 32 years of working experience, especially in the management of pharmaceuticals, health products and medical devices, and holds the professional title of senior engineer. Mr. Yu graduated from Shanghai Medical Equipment College (now known as University of Shanghai for Science and Technology) in 1987, and graduated from the Central Party School majoring in economic management in 2001 with a master degree. From July 1987 to April 1990, Mr. Yu successively served as secretary of Communist League Branch at Beijing Pharmaceutical Station of CNPGC, secretary to the general manager and secretary to the Administrative Party Branch of China Medical Instrument Corporation. From April 1990 to February 1997, he served in the State Pharmaceutical Administration, serving as deputy principle clerk, principle clerk and deputy department secretary of the General Office. From February 1997 to December 2009, he successively served as deputy general manager of the China sales department and manager of the corporate management department, assistant to chairman, vice president and executive president of Zhuhai United Laboratories Co., Ltd. and executive president of Federal Pharmaceutical International Holdings Limited. Mr. Yu was the director, general manager and party secretary of China Medical Instrument Corporation from December 2009 to August 2010. Mr. Yu has taken senior management positions of China National Scientific Instruments and Materials Co., Ltd. and China National Medical Device Co., Ltd. from August 2010 to November 2016. He has served as the chairman and secretary of party committee of China National Scientific Instruments and Materials Co., Ltd. and China National Medical Device Co., Ltd. since November 2016. Mr. Yu is currently a deputy to the 13th National People's Congress, a member of Beijing Chaoyang District Political Consultative Conference, vice president of China Association for Medical Devices Industry, vice chairman of China Association of Medical Equipment, vice president of China Chamber of Commerce for Import and Export of Medicines and Health Products, and vice president of China Association for the Promotion of the Development of Pharmaceutical Enterprises etc.

Mr. Liu Yong, aged 50, executive Director, President and Deputy Secretary of Party Committee. Mr. Liu has served as vice president of the Company from January 2009 to November 2017, executive Director and president since November 2017, and deputy secretary of party committee since January 2018. Mr. Liu has over 27 years of working experience, over 24 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Liu obtained a bachelor's degree in science, majoring in business administration of pharmaceutical enterprises, from China Pharmaceutical University in July 1992, a master's degree in business administration from Fudan University in January 2000 and a doctoral degree in social and administrative pharmacy from China Pharmaceutical University in June 2016. Mr. Liu is a chief pharmacist and a practicing pharmacist. Mr. Liu was employed at Shanghai Pharmaceutical Station from July 1992 to July 1999, and served as the deputy general manager at the marketing department of China National Pharmaceutical Group Shanghai Co., Ltd. and the deputy general manager of Shanghai Guoda Drug Chain Store Co., Ltd. from July 1999 to April 2003. Mr. Liu was the general manager and secretary of Party Committee of Sinopharm Holding Shenyang Co., Ltd. from April 2003 to November 2009. Mr. Liu was also secretary to the Board of the Company from October 2016 to November 2017, joint company secretary and authorized representative of the Company from October 2016 to August 2018, and has served as general legal counsel of the Company from January 2014 to March 2018. Mr. Liu is also the director of Sinopharm Industrial Investment Co., Ltd. and China National Medicines Co., Ltd., and chairman of China National Accord Medicines Co., Ltd., and also takes senior management positions at some subsidiaries.

Mr. Chen Qiyu, aged 47, non-executive Director and vice Chairman, joined the Company in January 2003, and had served as the chief supervisor until May 2010. He has served as a non-executive Director since May 2010 and has been the vice chairman since November 2013. He has over 26 years of working experience. He obtained a bachelor's degree in genetics from Fudan University in July 1993 and a master's degree of advanced business administration from China Europe International Business School in September 2005. Mr. Chen was previously the chief financial officer, the board secretary, general manager, president and vice chairman of the board of directors of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. from July 1998 to May 2010, and has been its director and chairman since May 2005 and June 2010, respectively. He has served as the vice president and co-president of Fosun International Limited since August 2010, and has served as its executive director since July 2015. He has served as the vice president and co-president of Shanghai Fosun High Technology (Group) Co., Ltd. since January 2011, and has served as its director since July 2015 and has served as its Chairman since November 2017. Mr. Chen has been a director of Tianjin Pharmaceuticals Group Co., Ltd. and Beijing Sanyuan Food Co., Ltd. since February 2009, May 2010 and September 2015, respectively. Mr. Chen served as the supervisor, director as well as the director and general manager of Sinopharm Industrial Investment Co., Ltd from July 2008 to March 2014 successively, and has served as the vice chairman of the same since March 2014 till now. Mr. Chen is currently also the standing member of Shanghai 13th Committee of the Chinese People's Political Consultative Conference, the chairman of China Medical Pharmaceutical Material Association, vice chairman of China Association for Pharmaceutical Innovation, chairman of Shanghai Biopharmaceutics Industry Association, and the vice-chief of Shanghai Society of Genetics etc..

Mr. Ma Ping, aged 63, non-executive Director, joined the Company and has served as the non-executive Director of the Company since October 2016. Mr. Ma has over 36 years of working experience and currently serves as an external director of China National Pharmaceutical Group Corporation. Mr. Ma received a bachelor degree from chemistry department of Fudan University in 1982. Mr. Ma served as principal clerk, engineer, vice director and director of Ministry of Labor and Personnel, National Pharmaceutical Administration, State Planning Commission, respectively from February 1982 to March 1992. He served as department manager, project manager, general manager of London Export Corporation, Hoechst (China), Lotus Healthcare, respectively from March 1992 to April 1994. He co-founded and served as managing director of BMP from April 1994 to October 1996. He served as investment director, business development director of Sinogen International Ltd. from October 1996 to May 1998. He served as vice president, COO, China general manager of United Medical Industrial Group from May 1998 to March 2000. He served as director, vice general manager of Tonghua Golden-horse Group (a Shenzhen Stock Exchange-listed company, stock code: 000766) from March 2000 to September 2001. He served as director, general manager of BMP (a Nasdaq-listed company, stock code: BJGP) from September 2001 to December 2005. He served as director, general manager of BioPro Pharmaceutical Inc. from December 2005 to December 2011. He has been serving as director of BioPro Pharmaceutical Inc. and project consultant of Principle Capital since December 2011, and has been serving as an external director of China National Pharmaceutical Group Corporation since May 2016. Mr. Ma is also the director of China National Biotec Group Co., Ltd.

Mr. Hu Jianwei, aged 45, non-executive Director, has served as non-executive Director of the Company since he joined the Company in December 2018. Mr. Hu worked at government agencies for a long time from July 1994 to November 2017. He has in-depth research on macroeconomic operation and management and is familiar with medical and health work. He has served as a member of party committee and deputy general manager of CNPGC since December 2017, and general counsel since January 2019, mainly responsible for work such as strategic planning, branding, operation and legal affairs.

Mr. Deng Jindong, aged 55, non-executive Director, and has been a non-executive Director since he joined the Company in August 2007. He has over 31 years of working experience, over 26 years of which is financial management experience. Mr. Deng obtained a bachelor's degree in economics from Hangzhou Electronics Industry Institution (currently known as Hangzhou Dianzi University) in July 1986 and a master's degree in economics from Central Institute of Finance and Economics (currently known as Central University of Finance & Economics) in January 1991. He is a non-practicing PRC certified public accountant. Mr. Deng was previously the chief financial officer of Economic Information Network Data Co., Ltd., senior audit manager of Taikang Life Insurance Co., Ltd. and the head of the accounting department of CNPGC from April 2000 to October 2001, from October 2001 to October 2002 and from October 2002 to October 2004, respectively. Mr. Deng has been the chief accountant of CNPGC from October 2004 to May 2017, and has served as its vice general manager since May 2017. Mr. Deng was a director and chief financial officer, and a director of Sinopharm Industrial Investment Co., Ltd. from July 2008 to August 2015 and from August 2015 to January 2016, respectively. He has also been its chairman since January 2016.

Mr. Wen Deyong, aged 48, non-executive Director. Mr. Wen has served as the non-executive Director of the Company since he joined the Company since September 2017. Mr. Wen graduated from Donghua University and received a master degree in business administration in December 2017. Mr. Wen is currently the executive vice president of Shanghai Fosun Pharmaceutical Industry Development Co., Ltd. and vice chairman of Chongqing Yaoyou Pharmaceutical Co., Ltd. Mr. Wen has served as the technician in water needle shop of Chongqing Pharmaceutical Co., Ltd. 6th Factory, the sales outworker in sales department, the sales director in sales company, the general manager in 2nd marketing department of Chongqing Yaoyou Pharmaceutical Co., Ltd., the general manager of northern unit of Chongqing Haisiman Company, the vice president and president of Chongqing Yaoyou Pharmaceutical Co., Ltd from September 1995 to May 2016.

Ms. Guan Xiaohui, aged 48, non-executive Director, has served as the non-executive Director of the Company since she joined the Company in March 2019. Ms. Guan obtained a bachelor's degree in economics from Jiangxi University of Finance and Economics and obtained a master's degree in accounting for senior accountant from the Chinese University of Hong Kong in December 2007. Ms. Guan joined Fosun Pharma in May 2000 and currently serves as the senior vice president and chief financial officer. Before joining Fosun Pharma and its subsidiaries, Ms. Guan worked at Jiangxi Provincial Branch of the Industrial and Commercial Bank of China from July 1992 to May 2000. Ms. Guan served as the supervisor of China National Accord Medicines Corporation Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000028) and the supervisor of BioSino Bio-Technology and Science Incorporation (a company listed on the Hong Kong Stock Exchange, stock code: 08247). Mr. Guan is qualified as Chinese Certified Public Account and a member of The Association of Chartered Certified Accountants.

Mr. Yu Tze Shan Hailson, aged 63, an independent non-executive Director, has served as a non-executive Director since September 2014 and has more than 40 years of working experience. Mr. Yu graduated from the University of Calgary in Canada with a bachelor degree in Electrical Engineering in 1979, graduated from the University of Hong Kong with a master degree in Electrical Engineering in 1987, graduated from City University of Hong Kong with a master degree of law in Arbitration and Dispute Resolution in 1995 and completed the postgraduate diploma in Investment Management and post-graduate certificates in Hong Kong Laws and Traditional Chinese Medicine courses. Mr. Yu served as equipment maintenance and testing engineer, equipment maintenance and testing laboratory manager, computer engineering and system engineering manager of Ampex Ferrotec Limited (Hong Kong) successively from June 1979 to September 1987. Mr. Yu joined China International Trust and Investment Corporation Hong Kong (Holdings) Limited and served as the general manager of engineering research and development department, and consultant for Petroleum Development and LPG Tank Terminal Port successively from October 1987 to January 1998. Mr. Yu has been serving as the deputy managing director of Versitech Limited and deputy director of Technology Transfer Office of the University of Hong Kong since February 1998 till now. Mr. Yu has been serving as an independent non-executive director of China Traditional Chinese Medicine Co., Ltd. (formerly known as Winteam Pharmaceutical Group Limited, a company listed on the Hong Kong Stock Exchange) since November 2013. He has served as an independent non-executive director of China NT Pharma Group Company Limited since June 2017. Mr. Yu currently is a Charted Engineer, fellow of each of the Institution of Engineering and Technology, The Hong Kong Institution of Engineers, the Chartered Institute of Arbitrators and Hong Kong Institute of Arbitrators.

Mr. Tan Wee Seng, aged 64, independent non-executive Director, has served as a non-executive Director since September 2014 and has more than 41 years of working experience. Mr. Tan is a Chartered Global Management Accountant, Fellow member of the Chartered Institute of Management Accountants in United Kingdom, and the Hong Kong Institute of Directors. Mr. Tan has been with Reuters Group from April 1984 to June 2002 and has served as senior vice president and chief China representative in China, Outer Mongolia and Korea offices. Mr. Tan served as executive director, chief finance officer and company secretary of Li Ning Company Limited (a company listed on the Hong Kong Stock Exchange), from January 2003 to November 2008. Mr. Tan was an independent director and chairman of the audit committee of 7 Days Holdings Limited (whose shares were listed on the New York Stock Exchange between November 2009 to July 2013) until it was privatized. He was the Chairman of the Special Committee for Privatization of 7 Days Holdings Limited from October 2012 to July 2013. Mr. Tan currently also serves as independent non-executive director of each of Health and Happiness (H&H) International Holdings Limited (a company listed on the Hong Kong Stock Exchange), Sa Sa International Holdings Limited (a company listed on the Hong Kong Stock Exchange), CIFI Holdings (Group) Company Limited (a company listed on the Hong Kong Stock Exchange), Xtep International Holdings Limited (a company listed on the Hong Kong Stock Exchange) and Shineroad International Holdings Limited (a company listed on the Hong Kong Stock Exchange), he is also an independent director of ReneSola Ltd. (a company listed on the New York Stock Exchange) and a director of Beijing City International School.

Mr. Liu Zhengdong, aged 49, independent non-executive Director, has been an independent non-executive Director of the Company since September 2014. He is a lawyer who has more than 25 years of working experience as a practicing lawyer. Mr. Liu graduated from East China University of Political Science and Law (formerly known as East China School of Political Science and Law) with a bachelor's degree in Law in 1991, and juris master's degree in 2002. He served as an assistant prosecutor in Railway Transportation branch of Shanghai People's Procuratorate from July 1991 to June 1994. From June 1994 to October 1998, Mr. Liu worked at Shanghai Hongqiao Law Firm and has been serving as a lawyer. Mr. Liu co-founded Shanghai Junyue Law Firm with others in October 1998 and has been serving as chief partner and lawyer. Mr. Liu served as president of the Eighth Session of Shanghai Bar Association and was also honored as National Excellent Lawyer, Shanghai Excellent Non-litigation Lawyer and Shanghai Leading Talent. Currently, Mr. Liu serves as deputy to the Shanghai 15th People's Congress, director of the National Lawyers Association, vice chairman of Shanghai Youth Federation, vice president of Shanghai General Chamber of Commerce, standing member of Shanghai Association of Industry and Commerce. Mr. Liu also serves as arbitrators of China International Economic and Trade Arbitration Commission (CIETA), Shanghai International economic and Trade Arbitration Commission (SHIAC) and Shanghai Arbitration Commission (SAC), adjunct professor of East China University of Political Science and Law, part time master tutor of the School of Law of Shanghai Jiao Tong University, visiting professor of each of Shanghai University of Political Science and Law and Lawyer School of Renmin University of China.

Mr. Zhuo Fumin, aged 68, independent non-executive Director, Mr. Zhuo has been an independent non-executive Director since March 2016. Mr. Zhuo has more than 43 years of experience in the field of enterprise management and capital markets. Mr. Zhuo graduated from Shanghai Jiaotong University of Engineering Science in 1983. He subsequently obtained a master's degree in economics from Fudan University in 1997. Mr. Zhuo currently serves as chairman and managing partner of V Star Capital. Between 1987 and 1995, Mr. Zhuo served senior positions including an office head and an officer assistant of the Shanghai Economic System Reform Committee. Between 1995 and 2002, Mr. Zhuo held in turn various senior positions at Shanghai Industrial Investment (Holdings) Co., Ltd., including the managing director and chief executive officer of Shanghai Industrial Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 363) and the chairman of SIIC Medical Science and Technology (Group) Limited. Mr. Zhuo has served as the chairman and the chief executive officer of Vertex China Investment Co., Ltd. (a wholly owned subsidiary of Vertex Management Group, a global venture capital management company), founder and chairman of Shanghai Kexing Investment Co., Ltd. and managing partner of GGV Capital, a venture capital fund since 2002. Mr. Zhuo is also an independent director of Arcplus Group Plc (a company listed on the Shanghai Stock Exchange, stock code: 600629) and Daqo New Energy Corp. (a company listed on the New York Stock Exchange, stock code: DQ), Focus Media (a company listed on the Shenzhen Stock Exchange, stock code: 002027), Shanghai Shine-Link International Logistics Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 603648) and Dazhong Transportation (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600611), a non-executive Director of Besunyen Holdings Company Limited (a company listed on the Hong Kong Stock Exchange, stock code: 926), and an independent non-executive director of SRE Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1207).

Mr. Chen Fangruo, aged 54, independent non-executive Director, has served as independent non-executive Director of the Company since he joined the Company in December 2018. Mr. Chen graduated from Shanghai Jiao Tong University in 1985 with dual Bachelor's Degrees in Shipbuilding and Marine Engineering and Computer Science and Technology. In 1987, he obtained a Master's Degree from the Moore School of Electrical Engineering, University of Pennsylvania. He then received his Ph.D. degree from the Wharton School at the University of Pennsylvania. Mr. Chen worked at Columbia Business School in 1992, successively serving as the Assistant Professor, Associate Professor, Lifetime Associate Professor, and Full Professor. In 2005, he became the Lifetime Chair Professor. Mr. Chen acted as a distinguished visiting professor at Stanford School of Business, Cheung Kong Graduate School of Business, Chinese Academy of Sciences, Shanghai Jiao Tong University, Peking University, Tianjin University and other prestigious universities at home and abroad. Mr. Chen has served as a visiting chair professor at Shanghai Jiao Tong University since 2017. He is currently a "Guangqi" fund sponsored professor at Shanghai Jiao Tong University. He has acted as the Dean of Antai College of Economics and Management at Shanghai Jiao Tong University since August 2018.

Supervisors

Mr. Yao Fang, aged 50, chief Supervisor, has served as the Supervisor of the Company since January 2011. Mr. Yao obtained a bachelor's degree in economics from Fudan University in July 1989 and a master degree of business administration from The Chinese University of Hong Kong in December 1993. Between 1993 and 2009, Mr. Yao served as assistant general manager of the international business department of Shanghai Wanguo Securities Co., Ltd. (currently known as Shenwan Hongyuan Group Co., Ltd.), general manager of Shanghai Shang Shi Assets Operation and Management Co., Ltd. and Shang Shi Management (Shanghai) Co., Ltd., managing director of Shanghai Industrial Pharmaceutical Investment Co., Ltd. (delisted on 12 February 2010), the chairman of Shanghai Overseas Co., Ltd., non-executive director of Lianhua Supermarket Holdings Co., Ltd. (stock code 0980), and executive director of Shanghai Industrial Holding Limited (stock code: 0363) listed on the Hong Kong Stock Exchange. Mr. Yao has served as a non-executive director of Biosino Bio-Technology and Science Incorporation (stock code: 8247) listed on the Hong Kong Stock Exchange from 24 January 2011 to 13 March 2014. Mr. Yao has served in Fosun Pharma since April 2010 and currently serves as the executive director and co-chairman.

Mr. Tao Wuping, aged 64, Supervisor, has been a Supervisor of the Company since June 2015, was an independent non-executive Director from September 2008 to September 2014. Mr. Tao is a lawyer and has over 35 years of working experience as practicing lawyer. Mr. Tao obtained a master's degree in law, majoring in international economic law, from Fudan University in June 1997. Mr. Tao has been the director of Guantao Zhongmao (Shanghai) Law Firm since August 2016. He was the director of Shanghai Shen Da Law Firm from August 1994 to August 2016. Mr. Tao has been a visiting law professor of Shanghai Institute of Foreign Trade, a part-time professor at the Law and Politics College of East China Normal University, and the honorary dean, a part-time professor at the Law and Politics College of Shanghai Normal University and a visiting professor of East China University of Political Science and Law since March 2002, June 2003, September 2003 and June 2012, respectively. Mr. Tao has been the independent director of Tianzhi Fund Management Co., Ltd. since August 2014. Mr. Tao was awarded the title of "National Outstanding Attorney at Law" by All China Lawyers Association and the first session of "Eastern Attorney at Law" by Shanghai Bar Association.

Mr. Zhang Hongyu, aged 57, employee representative Supervisor, has been a employee representative Supervisor of the Company since January 2018. Mr. Zhang has over 33 years of working experience, has been serving as the secretary of Discipline Inspection Commission since May 2018. Mr. Zhang obtained a bachelor degree in economics from East China Normal University in July 1985 and a master degree in EMBA from Shanghai Jiao Tong University in December 2007. Mr. Zhang served successively as a staff member and engineer of Human Resource Department of the Shanghai Branch of Chinese Academy of Sciences from July 1985 to September 1992. Mr. Zhang served as the manager of Human Resources Department of Shanghai Keyuan Real Estate Development Co., Ltd. from September 1992 to September 1994 and the manager of Shanghai Huihuang Architectural Decoration Co., Ltd. from October 1994 to August 1996. Mr. Zhang worked at the Shanghai Branch of Chinese Academy of Sciences from September 1996 to October 1999 and finally served as deputy-division-chief researcher at the Human Resource Department. Mr. Zhang successively served as deputy general manager of Human Resources Department of China Worldbest Group Co., Ltd., head of Human Resources Department of China Worldbest Life Industry Co., Ltd., assistant to president and head of Human Resources Department of China Worldbest Life Industry Co., Ltd. from November 1999 to December 2006. Mr. Zhang served as deputy party secretary and head of Human Resources Department of Sinopharm Logistics Co., Ltd. from March 2007 to June 2009, head of Human Resources Department of Distribution Business Department of the Company and deputy head of Human Resources Department of the Company from July 2009 to September 2010, head of the Party Affairs Department of the Company from September 2010 to January 2018, and deputy secretary of Discipline Inspection Commission and deputy chairman of Labour Union of the Company from December 2012 to January 2018, and secretary of Discipline Inspection Commission and deputy chairman of Labour Union of the Company from January 2018 to May 2018.

Ms. Li Xiaojuan, aged 43, Supervisor. Ms. Li has over 17 years of working experience. Ms. Li obtained a bachelor's degree in real estate operation and management from investment economics department of Dongbei University of Finance & Economics in July 1998 and a master's degree in national economics (investment economics) with specialty in securities investment from investment economics department of Dongbei University of Finance & Economics in April 2001. Ms. Li is a qualified economist, a non-practicing certified public accountant, and an asset valuer. Ms. Li served as the project manager of Beijing Tianhua Accounting Firm from April 2001 to April 2003 and the vice director of strategic cooperation department of TopSun Group from April 2003 to February 2005. Ms. Li served as the manager of finance department of China National Pharmaceutical Industry Corporation from February 2005 to April 2006 and the director of auditing and supervision office and the manager of auditing department of China National Pharmaceutical Industry Corporation from April 2006 to August 2010. Ms. Li joined CNPGC in August 2010 and served as the vice director of investment management department from August 2010 to April 2014. She has served as vice director and director of auditing department from April 2014 to January 2019 and has served as director of finance department since January 2019.

Ms. Jin Yi, aged 44, employee representative Supervisor, joined the Company in December 2007, successively served as the senior project manager and the vice director of the investment management department, and has been the investment project supervisor of the investment management department since January 2015, and has been the employee representative Supervisor since June 2015. Ms. Jin has approximately 19 years of working experience. Ms. Jin obtained a bachelor's degree in economics, majoring in investment economics, from Nanjing University in July 1997, and a master's degree in business administration from The Chinese University of Hong Kong in December 2005. Ms. Jin was qualified as an intermediate economist. Ms. Jin served as the floor trader of Zhengzhou Commodity Exchange in China from July 1997 to May 1998, the project manager of information consulting department of Shanghai Information Center from May 1999 to July 2003, and the senior analyst of ALC Advisors (Shanghai) Company Limited from April 2005 to November 2007.

Mr. She Lulin, aged 63, former non-executive Director, has served as non-executive Director from January 2003 to December 2018. He was the vice chairman and has served as the chairman of the Company from August 2007 to November 2013. He has around 35 years of working experience, over 32 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. She obtained a bachelor's degree in science, majoring in Pharmacy, from Nanjing Pharmaceutical Institution (currently known as China Pharmaceutical University) in July 1982 and a master's degree in business administration for executives from Tsinghua University in July 2005. Mr. She was previously the deputy head of the office, assistant to the general manager, deputy general manager and general manager of China National Pharmaceutical Group Guangzhou Corporation from August 1982 to August 1996. Mr. She was also the vice chairman of the board of directors and general manager of CNPGC from December 1998 to October 2004. Mr. She was a director, general manager and the secretary of Party Committee of CNPGC from October 2004 to October 2009. He was the vice chairman of the board of directors, general manager and deputy secretary of Party Committee of CNPGC since October 2009. Mr. She has been the chairman of the board of directors and legal representative of Sinopharm Industrial Investment Co., Ltd. from July 2008 to November 2013. Mr. She was the chairman of the board of directors of China National Medicines Co., Ltd. from December 1998 to January 2001.

Mr. Wang Qunbin, aged 50, former non-executive Director, has served as non-executive Director from January 2003 to March 2019. He has around 28 years of working experience, over 24 years of which is management experience in biological medicine. Mr. Wang obtained a bachelor's degree in science, majoring in genetics, from Fudan University in July 1991. Mr. Wang was previously a lecturer at the Genetic Research Institute of Fudan University from September 1991 to September 1993. Mr. Wang has served as a director of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. since May 1995, during which time he was its chairman of the board of directors from October 2007 to June 2010, and has been its non-executive director since October 2012. Mr. Wang was a director of Shanghai Fosun High Technology (Group) Co., Ltd. from November 1994 to November 2017, and has served as an executive director and chief executive officer of Fosun International Limited (a company listed on the Hong Kong Stock Exchange) since August 2005. Mr. Wang has served as directors of Shanghai Yuyuan Tourist Mart Co., Ltd., Sinopharm Industrial Investment Co., Ltd. and Henan Lingrui Pharmaceutical Company Ltd.

Ms. Rong Yan, aged 50, former non-executive Director, has served as non-executive Director of the Company from March 2018 to December 2018. She has over 28 years of working experience. Ms. Rong obtained a bachelor degree in accounting from Liaoning University in July 1991 and a master degree in international finance and investment from Derby Business School at University of Derby in the United Kingdom in October 2000. Ms. Rong served as senior staff member of the Institute of Intelligence of China National Petroleum Corporation from August 1991 to May 1993, and the financial manager of China Zhenhua Import and Export Corporation from May 1993 to October 2001. Ms. Rong served successively as manager of Finance Department, deputy chief accountant and manager of Finance Department, and chief financial officer of China Pharmaceutical Foreign Trade Corporation from October 2001 to February 2008. Ms. Rong served successively as director of Finance Department and director of Financial Management Department of CNPGC from February 2008 to June 2011. Ms. Rong has served as director of finance department of CNPGC from June 2011 to January 2019. She has served as chief financial officer and deputy general manager of China National Pharmaceutical Investment Co., Ltd. since January 2019. She has also been serving as chief financial officer of Sinopharm Industrial Investment Co., Ltd. since July 2015, director of China National Traditional Chinese Medicine Co., Ltd. since April 2016 and chairman of Sinopharm Group Finance Co., Ltd. since August 2017.

Ms. Li Ling, aged 58, former independent not-executive Director, has served as independent non-executive Director of the Company from December 2012 to December 2018. Ms. Li has around 36 years of working experience. She obtained a bachelor's degree in physics in August 1982 and a master's degree in economics in February 1987 from Wuhan University, and obtained a master's degree and a doctorate degree in economics from University of Pittsburgh in U.S.A in September 1990 and May 1994, respectively. Ms. Li worked at the Department of Economics of Towson University in Maryland, U.S.A as an associate professor with tenure from August 2000 to August 2003, and also taught at the Department of Economics of University of Pittsburgh in U.S.A and the Department of Management and Marketing of The Hong Kong Polytechnic University. Ms. Li has been an economics professor and Ph.D. supervisor at Research Institute of National Development, a director of Research Center of China Healthy Development of Peking University since June 2008, and is an expert who enjoys the special allowance of the State Council and is one of the "Top Ten Teachers" of Peking University. Ms. Li has served as an independent director of PICC Health Insurance Company Limited since 2009. Ms. Li currently also serves as the vice chairman of China Health Economics Association, a member of the State Council Health Reform Advisory Commission, a member of National Health and Family Planning Commission on public policy, an evaluation expert in the Pilot Project of Urban Resident Basic Medical Insurance implemented by the State Council, an advisor to the Beijing Municipal Government, an advisor to the pharmaceutical and healthcare reform of Guangdong Province and the vice chairman of Gerontological Society of China.

Company Secretaries

Mr. Wu Yijian, one of the joint company secretaries, is also secretary to the Board. Please refer to the section headed "Senior Management" for Mr. Wu's biography.

Dr. Liu Wei, aged 61, has PRC lawyer qualification and is a solicitor qualified to practice law in Hong Kong and in England. Dr. Liu graduated from the Northwest University of China, the Chinese University of Political Science and Law and the University of Cambridge with a bachelor's degree in Chinese literature, a master's degree in law, a Ph.D. in Law respectively. Dr. Liu also completed his Common Professional Examination (CPE) with Manchester University in England, as well as a Postgraduate Certificate in Laws (PCLL) with the University of Hong Kong. Dr. Liu has extensive experience in corporate finance and corporate governance of listed companies and is a partner of DLA Piper.

Senior Management

Mr. Liu Yong, Mr. Liu Yong is currently an executive director and the president of the Company. Please refer to the section headed "Directors" above for Mr. Liu's biography.

Mr. Li Yang, aged 41, joined the Company as a vice president in November 2018. Mr. Li has more than 19 years of working experience, with more than 17 years of operation and management experience in the medical devices industry. Mr. Li obtained a Bachelor of Economics in International Enterprise Management from Dalian Maritime University in January 2000. Mr. Li is qualified as Assistant Economist. Mr. Li worked at the Human Resources Department and served as the secretary to the general manager of China National Pharmaceutical Group Co., Ltd. from July 2000 to September 2002. Mr. Li also served as the key account manager of the Sales Department of GE Healthcare China, sales manager and north district manager of the MRI Division of IBA China from October 2002 to January 2011. Mr. Li served as the executive deputy general manager of China National Medical Device Co., Ltd. from January 2011 to September 2011. From September 2011 to September 2017, Mr. Li served as the director, general manager, deputy party secretary, party secretary and Legal Representative of China National Medical Device Co., Ltd. Mr. Li concurrently served as the deputy general manager and director of China National Scientific Instruments and Materials Co., Ltd. from December 2011 to November 2016. Since November 2016, Mr. Li has served as the director, general manager, deputy party secretary and legal representative of China National Scientific Instruments and Materials Co., Ltd. Since September 2017, Mr. Li has served as the director, president, deputy party secretary and legal representative of China National Medical Device Co., Ltd. Mr. Li is currently a member of the 12th Committee of All-China Youth Federation.

Mr. Jiang Xiuchang, aged 55, joined the Company as the chief financial officer in May 2010, and has been the vice president of the Company since July 2013. He has over 32 years of working experience, over 21 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Jiang obtained a bachelor's degree in financial accounting from Zhongnan University of Economics and Law in July 1986, and graduated from the class for advanced studies of postgraduate courses in corporate management from the School of International Business Management of University of International Business and Economics in January 2005. Mr. Jiang was qualified as a senior economist and senior accountant. Mr. Jiang served at China National Pharmaceutical (Group) Corporation from July 1986 to March 2002, and was the deputy head of the department of information, reform office, finance department and deputy manager of the department of pharmacy. He was deputy head, head and chief financial officer of the finance department of China National Medicines Co., Ltd. from March 2002 to May 2010. Mr. Jiang is currently the chairman of China National Medicines Co., Ltd., the director of China National Accord Medicines Co., Ltd. and takes senior management positions at some subsidiaries.

Mr. Lian Wanyong, aged 49, joined the Company as a vice president in January 2018. Mr. Lian has over 22 years of working experience, all of which is management experience. Mr. Lian obtained a bachelor's degree in medicine, majoring in clinical medicine, from Hunan University of Medicine (currently known as Central South University Xiangya School of Medicine) in July 1993, a master's degree in medicine, majoring in pharmacology, from Zhongshan Medicine University (currently known as Zhongshan School of Medicine, Sun Yat-Sen University) in July 1996 and a master's degree in business administration from the University of Miami in May 2002, respectively. Mr. Lian was previously the manager of the operation and audit department of China National Group Corp. of Traditional & Herbal Medicine from January 2004 to July 2005, and a deputy head of the financial assets management department of CNPGC from July 2005 to March 2008, respectively, and the head of the investment management department of CNPGC from January 2008 to April 2014 and vice director of policy research office of CNPGC from April 2014 to January 2018. Mr. Lian was a director of Sinopharm Industrial Investment Co., Ltd. from December 2008 to March 2014. Mr. Lian was a non-executive Director of the Company from December 2008 to January 2011 and from January 2016 to January 2018. He served as a Supervisor of the Company from January 2011 to December 2015. Mr. Lian is also the director of China National Medicines Co., Ltd. and China National Accord Medicines Co., Ltd. and takes senior management positions at some subsidiaries.

Ms. Wang Jie, aged 54, joined the Company as a vice president in January 2019. Ms. Wang has over 29 years of working experience. Ms. Wang graduated from chemistry department of Sichuan University in July 1987 and obtained a master degree in polymer major from chemistry department of Sichuan University in July 1990. Ms. Wang served as an assistant researcher, office director assistant, office vice director, sales vice director and sales manager of Chengdu Institute of Biological Products from August 1990 to April 2008. She served as a marketing department manager of China National Biotec Group from April 2008 to November 2009. She served as a director of marketing department, director of public affairs department and director of international cooperation and public affairs department of CNPGC from November 2009 to December 2018. She served as a vice general manager of China National Pharmaceutical Investment Co., Ltd. from November 2016 to December 2018.

Mr. Cai Maisong, aged 49, joined the Company as a vice president in January 2018. Mr. Cai has over 26 years of working experience. Mr. Cai received a bachelor degree of pharmacy from School of Pharmacy of Beijing Medical University in July 1992, and later received a master degree in business administration from Nankai University. Mr. Cai served as a technician, factory director and vice manager of fourth operation department in first factory of Guangzhou Baiyunshan Pharmaceutical Company from July 1992 to June 1996. Mr. Cai served as a medical representative and director in Les Laboratoires Servier Industrie from June 1996 to January 2001, and served as an assistant manager in Beijing Jingdaren Pharmaceutical Co., Ltd. from January 2001 to May 2001. Mr. Cai served as a vice manager in development zone medicine company of Tianjin purchase station of China National Pharmaceutical Group Corp. and manager in logistics center of China National Pharmaceutical Group Corp. Tianjin Co., Ltd. from June 2001 to July 2002 and from July 2002 to January 2003 respectively. Mr. Cai served as a director of commerce department, manager of marketing department and director of operation management center in Sinopharm Holding Tianjin Co., Ltd. from January 2003 to August 2006, and served as a director of risk and operation management department in Sinopharm Group Co. Ltd. from August 2006 to December 2010. Mr. Cai served as a vice director of risk and operation management department, director of risk and operation management department and vice director of policy research office in CNPGC from December 2010 to August 2017. Mr. Cai served as an employee supervisor in China National Pharmaceutical Group Corp. from June 2014 to May 2017, and served as a vice principal in Sichuan Province Food and Drug Administration from June 2016 to January 2018. Mr. Cai was the secretary to the Board, joint company secretary and authorized representative of the Company from August 2018 to December 2018. Mr. Cai currently takes senior management positions at some subsidiaries.

Mr. Li Dongjiu, aged 54, joined the Company as a vice president and chief legal advisor in January 2018. Mr. Li has over 31 years of working experience in the pharmaceutical industry, over 26 years of which relates to management experience in the pharmaceutical and healthcare products industry. Mr. Li is a professor-level senior engineer and Doctor of Engineering, Mr. Li obtained a bachelor's degree in Chemical Engineering from Dalian University of Technology in July 1987, a master's degree in Management from Wuhan University of Technology in June 1999, a master's degree of Arts in International Economic Relations from the Flinders University of South Australia in October 2005, a PhD degree of Transportation Planning and Management from Wuhan University of Technology in June 2013, and an EMBA degree from China Europe International Business School. Mr. Li worked for North China Pharmaceutical Co., Ltd. (a company listed on the Shanghai Stock Exchange) as a deputy general manager of North China Pharmaceutical Huasheng Co., Ltd., general manager of Sweeteners Vitamins Department of North China Pharmaceutical Group Corporation, general manager of Sales Company of North China Pharmaceutical Group Corporation and deputy general manager of North China Pharmaceutical Co., Ltd. and head of its financial department, successively from July 1987 to December 2009, and served as executive president of Shanghai Fosun Pharmaceutical Industry Development Co., Ltd., vice president and director of the Pharmaceutical Management Committee and senior vice president and director of the pharmaceutical management committee of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (a company listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange) and president of Shanghai Fosun Pharmaceutical Development Co., Ltd., successively from December 2009 to December 2012. Mr. Li served as a senior vice president, chairman of the medicine commercialization and consumer products management committee and vice chairman of the pharmaceutical manufacturing management committee of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. from January 2013 to February 2015 and served as a director of Nature's Sunshine Products Inc., a company listed on NASDAQ, USA (NASDAQ: NATR) from August 2014 to June 2016. Mr. Li was the non-executive Director of the Company from October 2013 to January 2018. Mr. Li has served as a vice president, senior vice president and chairman of pharmaceutical commerce committee of Shanghai Fosun Pharmaceutical Development Co., Ltd. from June 2010 to January 2018. Mr. Li is currently a vice president of China Nonprescription Medicines Association (CNMA), China Association of Pharmaceutical Commerce and Shanghai Association of Pharmaceutical Commerce, a commissioner for the UN Commission on Life-Saving Commodities for Women and Children and a member of council of the Cancer Foundation of China. Mr. Li is also the director of China National Medicines Co., Ltd. and China National Accord Medicines Co., Ltd. and takes senior management positions at some subsidiaries.

Mr. Zhou Xudong, aged 50, joined the Company as a vice president in January 2018. Mr. Zhou has over 29 years of working experience. Mr. Zhou received a associate degree of audit from department one from Nanjing Audit University in July 1990. Mr. Zhou served as an accountant of audit department in Yizheng Chemical Fiber Industry Alliance Company from July 1990 to October 1992. Mr. Zhou served as a salesman, vice director, vice manager of medicine operation department and vice general manager in Nantong City Chemical Pharmaceutical Raw Material Company from November 1992 to December 2002. Mr. Zhou served as a general manager and chairman in Nantong City Pharmaceutical Sales Co., Ltd. from December 2002 to December 2011. Mr. Zhou served as a general manager of Sinopharm Holding Nantong Co., Ltd. and vice general manager of Sinopharm Holding Jiangsu Co., Ltd. from December 2011 to May 2015 and from July 2014 to April 2015 respectively. He has served as a general manager of Sinopharm Holding Jiangsu Co., Ltd. since May 2015. Mr. Zhou currently takes senior management positions at some subsidiaries.

Mr. Wu Yijian, aged 49, joined the Company as the secretary to the Board in January 2019. Mr. Wu graduated from Shanghai Medical University with a bachelor's degree in medicine in July 1993. Mr. Wu obtained his master's degree in business administration from Tsinghua University in July 2003, his joint master's degree in professional accounting for senior accountant from the Chinese University of Hong Kong and Shanghai National Accounting Institute in November 2014, and completed the courses for the general manager in the China Europe International Business School of Management in July 2007. Mr. Wu has served in Sanjiu Enterprise from July 1993 to May 2004 and successively served as sales director of Sanjiu Pharmaceutical Trading Co., Ltd., the chief operating officer of Sanjiu Pharmaceutical Chain Co., Ltd. and the deputy general manager of Shanghai Sanjiu Pharmaceutical Technology Development Co., Ltd. Mr. Wu served in Shanghai Fosun Pharmaceutical (Group) Co., Ltd. from June 2004 to December 2014 and successively served as the general manager of Shanghai Fosun Pharmaceutical Investment Co., Ltd., general manager of Shanghai Fosun Pharmaceutical Co., Ltd., general manager of Shanghai Fumei Pharmacy Co., Ltd. and other positions. Mr. Wu served as the vice president of Shanghai Yuyuan Tourist Mart Co., Ltd. from January 2014 to December 2015. Mr. Wu served as the president assistant and the director of the commercial pharmaceutical management committee of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. from January 2016 to December 2018. Mr. Wu was a non-executive Director of the Company from June 2016 to September 2017 and from March 2018 to December 2018. Mr. Wu currently is also a supervisor of China National Accord Medicines Co., Ltd.

Mr. Xu Shuangjun, aged 51, has been the non-executive vice president of the Company since May 2011. He has over 33 years of working experience, over 25 years of which is management experience in the pharmaceutical and healthcare products industry. He graduated from the School of Pharmacy of the Second Military Medical University in Shanghai and obtained a bachelor's degree in medicine in 2001. He further obtained a master's degree in business administration from the Macau University of Science and Technology in 2006 and has the qualifications of practicing pharmacist and chief pharmacist. Mr. Xu was employed at Shijiazhuang Lerentang from October 1987 to March 1999. He was manager of the operating branch and the deputy general manager of Shijiazhuang City Medicines and Herbs Co., Ltd. from March 1999 to August 2004, and was the chairman and general manager of Hebei Zhongrui Medicines Co., Ltd., the general manager and secretary of the Party Committee of Shijiazhuang Lerentang Pharmaceutical Co., Ltd., and the chairman and general manager of and secretary of the Party Committee of Lerentang Pharmaceutical Group Co., Ltd. from August 2004 to May 2011. Mr. Xu was the vice chairman and general manager, secretary of the Party Committee, and chairman of Sinopharm Lerentang Pharmaceutical Co., Ltd. from May 2011 to December 2015, and has been its vice chairman since December 2015.

Mr. Lu Jun, aged 61, former vice president, was a vice president of the Company from June 2004 to October 2018. He served as the assistant to the general manager of the Company, the general manager of medicine retail business department and the head of the investment department of the Company concurrently from April 2003 to June 2004. Mr. Lu has over 44 years of working experience, over 20 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Lu obtained an executive master's degree in business administration in Antai College of Economics and Management of Shanghai Jiao Tong University in December 2009. Mr. Lu was qualified as a senior economist. Mr. Lu taught at the Second Military Medical University from March 1980 to August 1998, and was previously the general manager of Sinopharm Group Shanghai Likang Medicine Co., Ltd. and Sinopharm Holding Guoda Drug Stores Co., Ltd. from August 1998 to June 2008.

Report of the Board of Directors

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

Principal Business

Our Group is the largest distributor of pharmaceutical and healthcare products, and a leading supply chain services provider in the PRC; it also operates the largest national pharmaceutical distribution network in the PRC according to the information of China Association of Pharmaceutical Commerce. The Group has been able to rapidly increase its market share and profits in a highly fragmented industry by taking advantage of its economies of scale and nationwide distribution network, through which the Group offers a wide range of value-added supply chain services for its customers and suppliers.

The Group has integrated operations in the following business segments, namely:

- **Pharmaceutical distribution segment:** Pharmaceutical distribution is the Group's principal business. The Group provides distribution, logistics and other value-added services for domestic and international pharmaceutical and healthcare products manufacturers and other suppliers. The Group differentiates itself from its competitors in China by its strengths of geographic coverage, the breadth of its product portfolio and the comprehensive supply chain services provided to its customers and suppliers, etc.

- **Retail pharmacy segment:** The Group has established a network of retail drug stores in major cities of China via direct operations and franchises.

- **Medical devices segment:** The Group is engaged in the distribution of medical devices in China.

- **Other business segment:** The Group is also engaged in the production, sale and financial leasing of pharmaceutical products, chemical reagents and laboratory supplies.

Please refer to the section headed "Management Discussion and Analysis" for a fair review and the analysis using financial key indicators on the Group business, major risks and uncertainties faced by the Group, and the future development of the Group's business.

Results

The operating results of the Group during the Reporting Period are set out in the consolidated statement of profit or loss on page 99 of this annual report.

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 EIT 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 EIT 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 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 the 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 the Company's registered capital, the Company will no longer be required to make allowances for allocation to the statutory common reserve fund.

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 redeemed 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.

Principal Subsidiaries

Details of the names, principal places of business, places of incorporation and issued share capital of the Company's principal subsidiaries are set out in Note 46 to the Consolidated Financial Statements.

Reserves

Details of movements in reserves of the Group during the Reporting Period are set out in the consolidated statement of changes in equity on page 103 of this annual report and Note 32 to the Consolidated Financial Statements.

Distributable Reserves

In accordance with the PRC Company Law, the Company may only distribute dividends out of its distributable profits of the year (i.e. the Company's profit after tax after offsetting: (i) the accumulated losses brought forward from the previous years; and (ii) the allocations to the statutory surplus reserve and, if any, the discretionary common reserve (in such order of priorities)).

According to the Articles of Association, for the purpose of determining distributable, the profit of the Company is the lower of its profit after tax determined in accordance with: (i) the PRC accounting standards and regulations; and (ii) the HKFRSs.

In 2018, the distributable reserves of the Company, calculated based on the above principles, amounted to approximately RMB22,018.59 million, which is prepared in accordance with the HKFRSs.

Property, Plant, Equipment and Investment Properties

Details of changes in investment properties and property, plant and equipment of the Group during the Reporting Period are set out in Notes 15 and 16 to the Consolidated Financial Statements.

Borrowings

Details of borrowings of the Group are set out in Note 33 to the Consolidated Financial Statements.

Debenture

In order to facilitate the adjustment of the debt structure of the Group and reduce financing costs, the Group issued corporate bonds of RMB3.3 billion and super short-term financing bonds of RMB26 billion during the Reporting Period.

Details of issued bonds of the Group are set out in Note 33 to the Consolidated Financial Statements.

Equity-Linked Agreement

Details of equity-linked agreements entered by the Group in 2018 are set out in the section headed "Non-Exempt Connected Transactions" in this Report of the Board of Directors.

Major Customers and Suppliers

During the Reporting Period, purchases of goods and services from its 5 largest suppliers were less than 30% of the Group's total purchases, and the goods and services sold to its 5 largest customers were less than 30% of the Group's total sales.

Permitted Indemnity Provisions

The Company has maintained directors' liability insurance to protect the Directors of the Company against any potential losses arising from his/her actual or alleged misconduct.

Connected Transactions

Pursuant to the requirements of the Listing Rules, the transactions between the Company and its connected persons (as defined under the Listing Rules) constitute connected transactions of the Company. The Company regulates and manages such transactions in compliance with the Listing Rules. The followings are the non-exempt connected transactions conducted by the Group during the Reporting Period.

Non-Exempt Continuing Connected Transactions

For the year of 2018, the Group entered into several non-exempt continuing connected transactions. The annual caps for and the actual transaction amounts of the non-exempt continuing connected transactions by the Group are set out below:

Transactions between the Group and the CNPGC Group under the Procurement Framework Agreement and Sales Framework Agreement	**Annual cap for the year 2018** (RMB million)	**Actual transaction amounts for the year ended 31 December 2018** (RMB million)
Transactions between the Group and the CNPGC Group under the Framework Procurement Agreement	6,000	4,448
Transactions between the Group and the CNPGC Group under the Framework Sales Agreement	1,400	911

Transactions between the Group and Sinopharm Group Finance Co. under the Financial Services Framework Agreement	**Annual caps for 2018** (RMB million)	**Actual transaction amounts for the year ended 31 December 2018** (RMB million)
Maximum daily balance of the deposits placed with Sinopharm Group Finance Co. by the Group	3,500	3,483
Interests/service fees incurred by the Group for the provision of other financial services by Sinopharm Group Finance Co.	200	150

Transaction between the Group and the CNPGC Group under the EPC General Contracting Services Framework Agreement	**Annual caps for 2018** (RMB million)	**Actual transaction amounts for the year ended 31 December 2018** (RMB million)
Amount payable by the Group to the CNPGC Group under the EPC General Contracting Services Framework Agreement	500	21

Transaction between the Group and the Factoring Company under the Factoring Services Framework Agreement	**Caps for the nine months ended 31 December 2018** (RMB million)	**Actual transaction amounts for the nine months ended 31 December 2018** (RMB million)
Interests/service fees payable by the Group to the Factoring Company under the Factoring Services Framework Agreement	75	20

The continuing connected transactions between the Group and the CNPGC Group under the Framework Procurement Agreement

In order to regulate the continuing connected transactions in respect of the procurement of pharmaceutical products between the Group and CNPGC and its subsidiaries and associates (excluding the Group) (the "**CNPGC Group**"), the Company and the CNPGC renewed the Framework Procurement Agreement of Pharmaceutical Products, Personal-care Supplies and Medical Equipment ("**Framework Procurement Agreement**") on 27 October 2017, and set up the annual caps for the continuing connected transactions contemplated under the Framework Procurement Agreement for the three years ending 31 December 2020 to be RMB6,000 million, RMB8,000 million and RMB10,000 million, respectively.

Pursuant to the Listing Rules, the Framework Procurement Agreement and the annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2020 have been approved by the independent shareholders of the Company.

Pursuant to the Framework Procurement Agreement, the Group has agreed to purchase pharmaceutical products, personal-care supplies and medical equipment as well as the related services from the CNPGC Group. The related services to be provided by the CNPGC Group under the Framework Procurement Agreement mainly include the transportation services, storage services, equipment maintenance and repair services, as well as other related and ancillary services.

Under the Framework Procurement Agreement, the price shall be determined in accordance with the following pricing principles: (i) The price of pharmaceutical products, personal-care supplies and medical equipment procured by the Group from the CNPGC Group under the renewed Framework Procurement Agreement will be offered by members of the CNPGC Group based on the bidding price of the relevant products, which is won by relevant member of the CNPGC Group through it's participation in the public bidding process of such products conducted by the tender office of Chinese government or hospitals, deducting the gross profit of distributors at each level; (ii) where Relevant members of the GNPGC Group will on a regular basis, provide the Company and its subsidiaries with the procurement price list of all types of the above-mentioned products for distributors at each level. The Company and/or its subsidiaries, after considering comprehensively a lot of factors relating to the specific product, including but not limited to the price, quality, credit period, delivery method, after-sales service, gross profit and average price in the industry and going through all necessary internal review and approval procedures covering the president and various departments including procurement department, finance department, operation department and quality department of the Company and/or its subsidiaries, will determine whether to accept the procurement price of specific product as offered by members of the CNPGC Group. If the Company and/or its subsidiaries, after taking into consideration all the above-mentioned factors, consider that the procurement price offered by members of the CNPGC Group is not in the best interest of the Company and its shareholders, or is not fair and reasonable, they will make the decision not to procure such products from the CNPGC Group.

The Framework Procurement Agreement is for a term of three years with effect from 1 January 2018 and ending on 31 December 2020. Upon expiry, the Framework Procurement Agreement will, subject to compliance with the relevant requirements under the Listing Rules and agreement of the parties, be renewed for a further term of three years. For details of the transactions, please refer to the announcement published on the websites of Hong Kong Stock Exchange and the Company on 27 October 2017.

CNPGC is the ultimate controlling shareholder of the Company and connected person of the Company under the Listing Rules. The transactions under the Framework Procurement Agreement between the Company and the CNPGC constitute continuing connected transactions of the Company.

The continuing connected transactions between the Group and the CNPGC Group under the Sales Framework Agreement

In order to regulate the continuing connected transactions in respect of the sales of, among others, pharmaceutical products between the Group and the CNPGC Group, the Company and the CNPGC renewed the Sales Framework Agreement of Pharmaceutical Products, Personal-care Supplies, Medical Equipment, Chemical Reagents and Laboratory Supplies ("**Sales Framework Agreement**") on 27 October 2017, and set up the annual caps for the continuing connected transactions contemplated under the renewed Framework Sales Agreement for the three years ending 31 December 2020 to be RMB1,400 million, RMB2,000 million and RMB2,800 million, respectively.

Pursuant to the Listing Rules, the Sales Framework Agreement and the annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2020 have been approved by the Board of the Company.

Pursuant to Sales Framework Agreement, the Group has agreed to sell pharmaceutical products, personal-care supplies, medical equipment, chemical reagents and laboratory supplies as well as the related services to the CNPGC Group. The related services to be provided by the Group under the Framework Sales Agreement mainly include the transportation services, storage services, equipment maintenance and repair services, as well as other related and ancillary services.

Under the Sales Framework Agreement, the price shall be determined in accordance with the following pricing principles: (i) The price of pharmaceutical products, personal-care supplies, medical equipment, chemical reagent, chemical reagents or laboratory supplies sold by the Group to the CNPGC Group under the renewed Framework Sales Agreement will be offered by members of the Group based on the bidding price of the relevant products, which is won by relevant member of the Group through it's participation in the public bidding process of such products conducted by the tender office of Chinese government or hospitals, deducting the gross profit margin of distributors at each level; (ii) The finance department of the Company will be responsible for collecting data of the continuing connected transactions conducted by itself or any of its subsidiaries on a regular basis and examining and comparing specific agreements for such continuing connected transactions with those entered into with independent third parties, so as to ensure that the pricing policies of the relevant products offered by the Company and/or its subsidiaries to the CNPGC Group are comparable to those offered to independent third parties.

The Sales Framework Agreement is for a term of three years with effect from 1 January 2018 and ending on 31 December 2020. Upon expiry, the Framework Sales Agreement will, subject to compliance with the relevant requirements under the Listing Rules and agreement of the parties, be renewed for a further term of three years. For details of the transactions, please refer to the announcement published on the websites of Hong Kong Stock Exchange and the Company on 27 October 2017.

CNPGC is the ultimate controlling shareholder of the Company and a connected person of the Company under the Listing Rules. The transactions under the Sales Framework Agreement between the Company and the CNPGC constitute continuing connected transactions of the Company.

The continuing connected transactions between the Group and Sinopharm Group Finance Co. under the Financial Services Framework Agreement

In order to regulate the continuing connected transactions in respect of the utilization of financial services between the Group and Sinopharm Group Finance Co., Ltd. ("**Sinopharm Group Finance Co.**") the Company and Sinopharm Group Finance Co. renewed the Financial Services Framework Agreement on 27 October 2017, and set up the annual caps for the maximum daily balance of the deposits under the renewed Financial Services Framework Agreement for each of the three years ending 31 December 2020 to be RMB3,500 million, and the annual caps for the interests/service fees paid for the provision of other financial services under the renewed Financial Services Framework Agreement for each of the three years ending 31 December 2020 to be RMB200 million.

Pursuant to the Listing Rules, the Financial Services Framework Agreement and the annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2020 have been approved by the Board of the Company.

Pursuant to the Financial Services Framework Agreement, the Company and/or its subsidiaries will, from time to time, utilize the following financial services available from Sinopharm Group Finance Co. as is deemed necessary: (i) deposit services; (ii) loan and entrustment loan services; (iii) other financial services including bill discounting and acceptance services, finance lease services, settlement services and entrustment loan agency services; and (iv) other services as approved by China Banking Regulatory Commission.

Fees and charges payable by the Company and/or its subsidiaries to Sinopharm Group Finance Co. under the Financial Services Framework Agreement are determined on the following basis: (1) Deposit services: interest rates shall not be lower than each of (i) the interest rates floor promulgated by the People's Bank of China from time to time for the same category of deposits; (ii) the interest rates offered to other members of the CNPGC Group by Sinopharm Group Finance Co. for the same category of deposits; and (iii) the interest rates offered to the Company and/or its subsidiaries by commercial banks for the same category of deposits. (2) Loan services: interest rates shall not be higher than each of (i) the interest rates cap promulgated by the People's Bank of China from time to time for the same category of loans; (ii) the interest rates offered to other members of the CNPGC Group by Sinopharm Group Finance Co. for the same category of loans; and (iii) the interest rates offered to the Company and/or its subsidiaries by commercial banks for the same category of loans. (3) Other financial services: the interests or service fees charged for other financial services shall (i) comply with the standard rates as promulgated by the People's Bank of China or China Banking Regulatory Commission from time to time (if applicable); (ii) be not higher than the interests or service fees charged by commercial banks for comparable services; and (iii) be not higher than the interests or service fees charged by Sinopharm Group Finance Co. for comparable services to other members of the CNPGC Group. Sinopharm Group Finance Co. may provide other services to the Company and/or its subsidiaries as may be approved by China Banking Regulatory Commission in the future. The fees and charges for such services to be provided shall: (i) comply with the standard rates as promulgated by the People's Bank of China or China Banking Regulatory Commission from time to time (if applicable) for such kind of services; (ii) be not higher than the fees charged by commercial banks for comparable services; and (iii) be not higher than the fees charged by Sinopharm Group Finance Co. for comparable services to other members of the CNPGC Group.

The Financial Services Framework Agreement is effective for a term of three years from 1 January 2018 to 31 December 2020. For details of the transactions, please refer to the announcement published on the websites of Hong Kong Stock Exchange and the Company on 27 October 2017.

Sinopharm Group Finance Co. is a subsidiary of the ultimate controlling shareholder of the Company and a connected person of the Company under the Listing Rules. Therefore, the transactions under the Financial Services Framework Agreement between the Company and Sinopharm Group Finance Co. constitute continuing connected transactions of the Company.

The continuing connected transactions between the Group and the CNPGC Group under the EPC General Contracting Service Framework Agreement

In order to regulate the continuing connected transactions in respect of the EPC general contracting service between the Group and the CNPGC Group, the Company and the CNPGC renewed the EPC General Contracting Service Framework Agreement ("**EPC Service Agreement**") on 27 October 2017, and set up the annual caps for the continuing connected transactions contemplated under the EPC Service Agreement for the three years ending 31 December 2020 to be RMB500 million, respectively.

Pursuant to the Listing Rules, the EPC Service Agreement and the annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2020 have been approved by the Board of the Company.

Pursuant to the EPC Service Agreement, the CNPGC Group will provide EPC (Engineering, Procurement, and Construction) general contracting services to the Group according to the engineering project general contracting agreements obtained by CNPGC Group through bidding process.

Under the EPC Service Agreement, the price shall be determined in accordance with the following pricing principles: (i) Under the EPC General Contracting Service Framework Agreement, the service provider and the price of EPC general contracting services shall be determined through a bidding process in principle and in compliance with applicable laws, regulations and rules. The CNPGC Group shall bid by stringently following the steps and/or measurements as stipulated by The Invitation And Submission of Bids Law of the PRC and the specific requirements in bidding invitation documents made by the Group; (ii) The bid invitation documents made by the Group include all substantial requirements and all key terms for the conclusion of contracts, including: the project's technical requirements, the criteria for examination of the contractors, the requirements for the bid price and the standard of evaluation of the bid and etc. The Group's tender committee is responsible for (i) adhering the process is in accordance with The Invitation And Submission of Bids Law of the PRC; (ii) reviewing, evaluating and monitoring documents from outsourcing service providers based on the technical, commercial and pricing criteria and payment terms of relevant service fees, which will ensure the terms obtained by the Group from the CNPGC Group is no less favorable than those available from independent third parties; and (iii) grading the service providers and writing recommendation advice. The Group's tender committee is responsible for deciding which service provider will be awarded the EPC General Contracting Service Framework Agreement.

The EPC Service Agreement is for a term of three years with effect from 1 January 2018 and ending on 31 December 2020. Upon expiry, the EPC Service Agreement will, subject to compliance with the relevant requirements under the Listing Rules and agreement of the parties, be renewed for a further term of three years. For details of the transactions, please refer to the announcement published on the websites of Hong Kong Stock Exchange and the Company on 27 October 2017.

CNPGC is the ultimate controlling shareholder of the Company and a connected person of the Company under the Listing Rules. The transactions under the EPC Service Agreement between the Company and the CNPGC constitute continuing connected transactions of the Company.

The continuing connected transactions between the Group and the Factoring Company under the Factoring Service Framework Agreement

In order to regulate the continuing connected transactions in respect of the factoring services between the Group and the Company and Sinopherm Puxin Commercial Factoring Company Limited ("**Factoring Company**") entered into the Factoring Services Framework Agreement ("**Factoring Services Framework Agreement**") on 23 March 2018, and set up the annual caps of interests/fees payable by the Group for commercial factoring services for the nine months ended 31 December 2018 and the two years ending 31 December 2020 under the Factoring Services Framework Agreement to be RMB75 million, RMB100 million and RMB100 million, respectively.

Pursuant to the Listing Rules, the Factoring Services Framework Agreement and the annual caps for the continuing connected transactions contemplated thereunder for the nine months ended 31 December 2018 and the two years ending 31 December 2020 have been approved by the Board of the Company.

Pursuant to the Factoring Services Framework Agreement, the Factoring Company will provide recourse and non-recourse factoring and other commercial factoring services (including sales sub-account management services, accounts receivable collection services and other permitted business of the Factoring Company) to the Group.

Pursuant to the Factoring Services Framework Agreement, the comprehensive pricing (including interest and fees) of the commercial factoring services charged by the Factoring Company shall be fair and reasonable and shall not be higher than the comprehensive pricing of the same commercial factoring services provided by independent third parties to the Group during the same period.

The Factoring Services Framework Agreement shall be effective from 23 March 2018 to 31 December 2020. Upon expiry, the Factoring Service Framework Agreement will, subject to compliance with the relevant requirements under the Listing Rules and agreement of the parties, be renewed for a further term of three years. For details of the transactions, please refer to the announcement published on the websites of Hong Kong Stock Exchange and the Company on 23 March 2018.

CNPGC Factoring Company is a subsidiary of the Company's ultimate controlling shareholder, and therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Factoring Services Framework Agreement constitute continuing connected transactions of the Company.

The Company has conformed that the execution and enforcement of the implementation agreements under the continuing connected transactions set above for the year ended 31 December 2018 has followed the pricing principles of such continuing connected transactions.

The Independent non-executive Directors had reviewed the above continuing connected transactions and confirmed that these transactions had been entered into:

i. in the ordinary and usual course of business of the Group;

ii. either on normal commercial terms or on terms no less favourable to the Company; and

iii. in accordance with relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the auditor of the Company to perform certain agreed-upon procedures in respect of the continuing connected translations and the auditor has reported the factual findings on these procedures to the Board committee.

The auditors of the Company had informed the Board and confirmed that the above-mentioned continuing connected transactions:

i. were approved by the Board;

ii. were in accordance with pricing policy of the Company;

iii. were entered into in accordance with relevant agreements governing the transactions; and

iv. did not exceed the annual caps disclosed in the relevant announcements of the Company.

Non-Exempt Connected Transaction

On 11 July 2018, the Company and CNPGC entered into an assets purchase 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 will become 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 the 204,561,102 domestic shares to CNPGC.

Save as disclosed above, for the year ended 31 December 2018, there is no other related party transaction or continuing related party transaction set out in Note 45 to the Consolidated Financial Statements which constitutes discloseable connected transaction or continuing connected transaction under the Listing Rules. In respect of the connected transactions and the continuing connected transactions, the Company has complied with the disclosure requirements of the Listing Rules (as amended from time to time).

Directors' and Supervisors' Service Contracts

Each of the Directors and Supervisors has entered into a service contract with the Company. None of the Directors and Supervisors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Biographies of Directors, Supervisors and Senior Management

Biographies of the Directors, Supervisors and senior management are set out from page 38 to 50 of this annual report.

The list of Directors during the Reporting Period and as at the date of this report (unless otherwise stated) is set out below:

Name	Position	Commencement Date	Expiry Date
Executive Directors			
Li Zhiming	executive Director	21 September 2017	20 September 2020
Yu Qingming	executive Director	28 December 2018	20 September 2020
Liu Yong	executive Director	18 December 2017	20 September 2020
Non-executive Directors			
Chen Qiyu	non-executive Director	21 September 2017	20 September 2020
She Lulin	non-executive Director	21 September 2017	28 December 2018
Wang Qunbin	non-executive Director	21 September 2017	22 March 2019
Ma Ping	non-executive Director	21 September 2017	20 September 2020
Hu Jianwei	non-executive Director	28 December 2018	20 September 2020
Deng Jindong	non-executive Director	21 September 2017	20 September 2020
Li Dongjiu	non-executive Director	21 September 2017	12 January 2018
Lian Wanyong	non-executive Director	21 September 2017	12 January 2018
Wen Deyong	non-executive Director	21 September 2017	20 September 2020
Rong Yan	non-executive Director	9 March 2018	28 December 2018
Wu Yijian	non-executive Director	9 March 2018	28 December 2018
Guan Xiaohui	non-executive Director	8 March 2019	20 September 2020
Independent Non-executive Directors			
Li Ling	independent non-executive Director	21 September 2017	28 December 2018
Yu Tze Shan Hailson	independent non-executive Director	21 September 2017	20 September 2020
Tan Wee Seng	independent non-executive Director	21 September 2017	20 September 2020
Liu Zhengdong	independent non-executive Director	21 September 2017	20 September 2020
Zhuo Fumin	independent non-executive Director	21 September 2017	20 September 2020
Chen Fangruo	independent non-executive Director	28 December 2018	20 September 2020

Remunerations of Directors, Supervisors, Senior Management and Five Highest Paid Individuals

The remuneration committee determines and makes recommendation to the Board (as appropriate) on the remuneration and other benefits payable to the Directors. The committee regularly reviews the remuneration of all Directors to ensure that their remuneration and compensation are at appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group, and determines remuneration of the Directors based on their qualifications, experience and contributions, to attract and retain its Directors as well as to control costs.

Details of the remuneration of the Directors and Supervisors in 2018 are set out in Note 49 to the Consolidated Financial Statements.

Details of the five highest paid individuals of the Group in 2018 are set out in Note 10 to the Consolidated Financial Statements on page 161 of this annual report.

Details of the remuneration of the current senior management of the Company by band for the year ended 31 December 2018 are set out as follows:

Range	**Number of individuals**
Below RMB3,000,000	7
RMB6,000,000 to RMB9,000,000	3
RMB9,000,000 and above	1

Interests of Directors and Supervisors in Transaction, Arrangement or Contract

Save as the non-exempt continuing connected transactions disclosed in this annual report, for the year ended 31 December 2018, there was no transaction, arrangement and contract of significance to which the Company, its holding company, its subsidiaries or a subsidiary of its holding company was a party and in which a Director, Supervisor or their connected entity has or had at any time during that period, in any way, whether directly or indirectly, a material interest.

Interests of Directors in Competing Business

As at 31 December 2018, none of the Directors of the Company has any interests in the competing business which would be required to be disclosed under Rule 8.10 of the Listing Rules.

Directors', Supervisors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at 31 December 2018, the interests or short positions held by the Directors, Supervisors and Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the requirements of the Model Code are as follows:

Name	Class of shares	Nature of interest and the capacity	Number of shares held	Approximate percentage to the total number of shares of the Company (%)	Approximate percentage to the relevant class of shares (%)	Long position/ short position
Li Zhiming	H shares	Beneficial owner	260,000	0.01	0.02	Long
Yu Qingming	H shares	Beneficial owner	100,000	0.00	0.01	Long
Liu Yong	H shares	Beneficial owner	210,000	0.01	0.02	Long
Jin Yi	H shares	Beneficial owner	1,200	0.00	0.00	Long

Notes:

The information was disclosed based on the data available on the website of the Hong Kong Stock Exchange (www.hkex.com.hk), the above-mentioned "approximate percentage to the total number of shares of the Company" is calculated based on the total number of shares of the Company of 2,971,656,191 issued as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, none of the Directors, Supervisors and the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the requirements of the Model Code.

Rights to Purchase Shares or Debentures of Directors, Supervisors and Chief Executive

No arrangements to which the Company, any of its subsidiaries, its holding company or any subsidiary of its holding company is or was a party enabling the Directors, Supervisors and the chief executive of the Company to acquire benefits by means of acquisitions of shares or debentures of the Company or any other body corporate subsisted during the Reporting Period.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company

As at 31 December 2018, to the best knowledge of the Directors, the interests or short positions of the following persons (other than the Directors, Supervisors or the chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

Name	Class of shares	Nature of interest and capacity	Number of shares held	Approximate percentage to the total number of shares of the Company (%)	Approximate percentage to the relevant class of shares (%)	Long position/short position/ shares available for lending
CNPGC	Domestic shares	Beneficial owner	207,289,498 (Note 2)	6.98	11.65	Long position
	Domestic shares	Interest of controlled corporation	1,571,555,953 (Note 1 and 2)	52.88	88.35	Long position
Sinopharm Investment	Domestic shares	Beneficial owner	1,571,555,953 (Note 1 and 2)	52.88	88.35	Long position
Fosun Pharma	Domestic shares	Interest of controlled corporation	1,571,555,953 (Note 1 and 3)	52.88	88.35	Long position
Fosun High Technology	Domestic shares	Interest of controlled corporation	1,571,555,953 (Note 1 and 4)	52.88	88.35	Long position
Fosun Company	Domestic shares	Interest of controlled corporation	1,571,555,953 (Note 1 and 5)	52.88	88.35	Long position
Fosun Holdings	Domestic shares	Interest of controlled corporation	1,571,555,953 (Note 1 and 6)	52.88	88.35	Long position
Fosun International Holdings	Domestic shares	Interest of controlled corporation	1,571,555,953 (Note 1 and 7)	52.88	88.35	Long position
Mr. Guo Guangchang	Domestic shares	Interest of controlled corporation	1,571,555,953 (Note 1 and 8)	52.88	88.35	Long position
BlackRock, Inc.	H shares	Interest of controlled corporation (Note 10)	84,186,233	2.83	7.06	Long position
Matthews International Capital Management, LLC	H shares	Investment manager	71,724,400	2.41	6.01	Long position

Name	Class of shares	Nature of interest and capacity	Number of shares held	Approximate percentage to the total number of shares of the Company (%)	Approximate percentage to the relevant class of shares (%)	Long position/short position/ shares available for lending
JPMorgan Chase & Co.	H shares	Beneficial owner, Investment manager, Custodian/approved lending agent (Note 9)	250,672,887	8.44	21.01	Long position
			3,354,632	0.11	0.28	Short position
			230,041,040	7.74	19.28	Shares available for lending
Oppenheimer Developing Markets Fund	H shares	Beneficial owner	142,587,200	4.80	11.95	Long position

Notes:

The information was disclosed based on the data available on the website of the Hong Kong Stock Exchange (www.hkexnews.hk).

(1) Such 1,571,555,953 domestic shares belong to the same batch of shares.

(2) CNPGC is interested in 207,289,498 domestic shares directly and 1,571,555,953 domestic shares indirectly through Sinopharm Industrial Investment Co., Ltd. ("**Sinopharm Investment**"). As CNPGC owns 51% equity interest in Sinopharm Investment, it is deemed to be interested in the shares held by Sinopharm Investment for the purposes of the SFO.

(3) Fosun Pharma is the beneficial owner of 49% equity interest in Sinopharm Investment and, therefore, Fosun Pharma is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(4) Fosun High Technology (Group) Co., Ltd. ("**Fosun High Technology**") is the beneficial owner of 37.55% equity interest in Fosun Pharma and, therefore, Fosun High Technology is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(5) Fosun International Ltd. ("**Fosun Company**") is the beneficial owner of 100% equity interest in Fosun High Technology and, therefore, Fosun Company is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(6) Fosun Holdings Ltd. ("**Fosun Holdings**") is the beneficial owner of 70.72% equity interest in Fosun Company and, therefore, Fosun Holdings is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(7) Fosun International Holdings Ltd. ("**Fosun International Holdings**") is the beneficial owner of 100% equity interest in Fosun Holdings and, therefore, Fosun International Holdings is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(8) Mr. Guo Guangchang is the beneficial owner of 85.29% equity interest in Fosun International Holdings and 0.004% equity interest in Fosun Pharma and, therefore, Mr. Guo Guangchang is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(9) JPMorgan Chase & Co. is interested, in an aggregate of long position of 250,672,887 H shares (of which 230,041,040 are H shares available for lending) and short position of 3,354,632 H shares of the Company.

(10) BlackRock, Inc. is interested in the long positions of 84,186,233 H shares of the Company indirectly through a series of controlled corporations.

(11) Above-mentioned "approximate percentage to the total number of shares of the Company" is calculated based on the 2,971,656,191 total number of shares of the Company issued as at 31 December 2018.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2018, no person (other than the Directors, Supervisors or the chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association and the laws of the PRC which oblige the Company to offer pre-emptive rights of new shares to existing shareholders on their shareholding proportion.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, there was sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules during the year of 2018 and as at the latest practicable date prior to the issue of this annual report.

Management Contract

There was no contract concerning the management or administration of the whole or any substantial part of the business of the Company which was entered into or existed during the Reporting Period.

Pension Scheme

During the Reporting Period, details of the pension scheme of the Group are set out in Note 10 to the Consolidated Financial Statements.

Donation

During the Reporting Period, details of the donation of the Group are set out in Note 8 to the Consolidated Financial Statements.

Environmental Policy and Performance

Since its establishment, the Company has established the environmental protection management system according to the Chinese laws, regulations, technical specifications, technical standards and systems relating to the environmental protection. It provides guidance and assistance in the environment protection work assigned in the budget objective and work scheme for all the companies affiliated to the subsidiaries, and then conducts supervision, management and appraisal. Each affiliated company has included the environmental protection, energy conservation and emission reduction into their medium and long-term development planning and annual plan, established and improved the management system and various rules and regulations in relation to the environmental protection, energy conservation and emission reduction, abided by relevant local and national laws, regulations and emission standards, and fulfilled the measures and responsibilities for the environmental protection, energy conservation and emission reduction. The industrial enterprise subordinate to the Company has established and implemented the ISO 14001 Environmental Management System Certification.

The Company has formulated a series of management systems including the Administrative Measures for Environmental Protection, the Administrative Measures for Clean Production, the Administrative Measures for Hazardous Waste, and the Emergency Plan for Environmental Accidents, specifying responsibilities of employees at various levels in terms of the environmental protection, energy conservation and emission reduction, and strengthening the environmental protection consciousness of all the companies. The responsible person of each subsidiary shall be primarily responsible for the environmental protection of all the subsidiaries, and the performance shall be included into the annual appraisal index of the responsible person of such subsidiary, in order to enhance the environmental protection responsibility and consciousness of the leaders of all the subsidiaries. The target-oriented responsibility system shall be adopted in the management with the responsible person of the subsidiary primarily responsible for the environmental protection.

Entrusted Deposit and Matured Time Deposit

As at 31 December 2018, the Company had not held any deposits under trust or any time deposit in any financial institution in the PRC which could not be withdrawn upon maturity.

Tax Relief and Exemption

Save as disclosed in this annual report, the Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

Confirmation of Independence by Independent Non-executive Directors

The Company had received annual confirmation of independence from each of the independent non-executive Directors. Based on the confirmation, the Company considers that all independent non-executive Directors are independent under the Listing Rules.

Auditor

The financial statements set out in this annual report have been audited by Ernst & Young.

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

Shanghai, the PRC
22 March 2019

Report of the Supervisory Committee

During the Reporting Period, all members of the Supervisory Committee of the Company (the "**Supervisory Committee**") have complied with the principle of integrity and earnestly performed their supervisory duties in accordance with the relevant regulations set out in the PRC Company Law, the Articles of Association and Rules of Procedures for the Supervisory Committee of the Company to protect the interests of the shareholders and the Company.

I. Works of The Supervisory Committee During The Reporting Period

For the year 2018, the Supervisory Committee held two meetings and the details are as follows:

On 12 January 2018, the first extraordinary meeting of the fourth session of the Supervisory Committee was convened to consider the "Resolution on Resignation of Supervisor".

On 23 March 2018, the second meeting of the fourth session of the Supervisory Committee was convened to consider and approve the "Report of the Supervisory Committee of 2017" and "Resolution on Determination of 2018 Remuneration of Supervisors of the Fourth Session of the Supervisory Committee".

Ii. Comments of The Supervisory Committee On Certain Matters of The Company in 2018

During the Reporting Period, the members of the Supervisory Committee adhered to the principles of fidelity and accountability to all shareholders and duly performed their duties and works according to the relevant laws and regulations. The Supervisory Committee worked actively, supervised the regulatory compliance and operation, financial condition, use of proceeds and internal control, etc. of the Company through attending shareholders' general meetings and board meetings as non-voting delegates and on-site inspections. The Supervisory Committee has arrived at the following opinions:

1. Regulatory compliance of the operation of the Company. During the Reporting Period, the Board earnestly exercised the rights and performed the obligations conferred by the PRC Company Law and the Articles of Association to make decisions in time on material matters including production and operation plans and development objectives, and implemented all resolutions adopted by the shareholders' general meetings and board meetings. Senior management managed and operated the Company in compliance with laws and regulations. The Directors and senior management have fulfilled obligation of integrity without violating any laws or Articles of Association or committing any action which may be against the interests of shareholders.

2. Evaluation of financial condition of the Company. During the Reporting Period, the Supervisory Committee has supervised and reviewed the financial structure and position of the Company. The Supervisory Committee is of the opinion that the financial structure of the Company was healthy and standardized and the Company was in a good financial position. The 2018 Audit Report of the Company has truly, accurately and completely reflected the financial condition, results of operation and cash flows of the Company.

3. The use of funds raised by the Company. The Supervisory Committee is of the opinion that the use of proceeds complied with the provisions of relevant laws and regulations and the Articles of Association without violating the interests of the Company and its shareholders. The Supervisory Committee will continue to supervise and monitor the use of proceeds.

4. Acquisition and disposal of assets of the Company. The acquisitions and disposals of the assets of the Company during the Reporting Period were based on fair and reasonable prices. No insider dealing or any action that may injure shareholders' interests or cause any loss of assets of the Company has been found.

5. Connected transactions of the Company. During the Reporting Period, the connected transactions between the Company and all connected persons conformed to applicable regulations of the Hong Kong Stock Exchange. The connected transactions were based on fair and reasonable prices and were carried out in accordance with the principles of reasonableness, fairness and justice. No harm to the interests of the Company and unrelated shareholders has been found.

6. Preparation and review of annual report of the Company. The preparation and review procedures of the 2018 annual report of the Company conformed to all the relevant regulations of the China Securities Regulatory Commission and the Hong Kong Stock Exchange. No breach of confidentiality provisions by any person involved in the preparation or review of annual report has been found.

In the coming year, the Supervisory Committee will continue to arduously perform its supervisory and monitoring duties with an aim to strengthen the overall competitiveness and sustainable profitability of the Company and to protect the interests of shareholders and the Company.

Yao Fang
Chief Supervisor

Shanghai, the PRC
22 March 2019

Environmental, Social and Governance Report

To comply with the requirements set out in the Environmental, Social and Governance Report Guide issued by the Stock Exchange of Hong Kong Limited in December 2015, the Company hereby submits its Environmental, Social and Governance Report (the "**ESG Report**") from 1 January 2018 to 31 December 2018. This report is the Environmental, Social and Governance Report of the Company and its subsidiaries, and adopts the "comply or explain" provision set out in the Environmental, Social and Governance Reporting Guide.

The Company's Board of Directors is responsible for its ESG strategies and reporting, including the assessment and identification of ESG risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. We have appointed our business function department to review the Group's operation and have internal discussions to identify relevant ESG matters and assess the importance of such matters to our business and stakeholders. The management has confirmed the effectiveness of ESG risk management and internal control systems to the Board of Directors. The identified major ESG matters have been included in this ESG Report according to the general disclosure requirements of the ESG Report Guide, in order to disclose the Group's ESG performance during operation on a balanced basis.

1. Communication with Stakeholders

The Company has a wide range of stakeholders, including shareholders/investors, government/regulators, employees, customers, suppliers/partners, the environment, communities/the public. By collecting opinions and fully understanding shareholders' expectations, it carries out social responsibility practices and balances the interests of the Group and stakeholders.

Communication with and Participation of Stakeholders

Stakeholders	Method of Communication	Expectations and Demands
Shareholders/investors	• General meetings • News release and announcement • Company report • Website publishing • Meetings of the investors and road show	• Ensuring shareholders' rights and interests • Information disclosure • Compliance operation and management • Anti-corruption
Government/regulators	• Conferences • Compliance report • Field inspection • Participation in meetings/seminars • Special inquiry/inspection • Proper submission of documents	• Legal and compliance regulation • Quality management system • Drug quality safety • Employee health • Safety management
Employees	• Labor contract • Trade union • Employee forum and assembly • Employee party • Manger's mailbox • Voluntary activities • Daily communication	• Equal employment • Employee benefits • ICBC construction • Employee health • Safety management • Employee training • Assessment and promotion

Stakeholders	Method of Communication	Expectations and Demands
Customers	• Daily operation/interaction • Customer satisfaction survey • Regular visits • Industry exhibitions and forums • Customers service center/hotline	• Logistics quality management • Drug quality and safety • Product recovery • Customer satisfaction and compliant handling • Consumer privacy protection
Suppliers/partners	• High-level meetings • Seminars and meetings • Marketing summits • Supplier evaluation • Field visit • Daily communication	• Supplier code of conduct • Supplier management
Environment	• Environmental inspection • Environmental disclosure report • Implementation of green operation and management	• Environmental protection system • Publicity of environmental protection • Energy saving and emission reduction • Green office
Communities/the public	• Voluntary activities • Charity activities • Sponsorship of public service activities	• Charitable health care • Concerned about disaster areas • Poverty alleviation

2. Product Liability

As China's largest distributor of pharmaceutical and healthcare products and a leading provider of supply chain service, the Company takes a lead in pursuit of product quality, upgrading of industry standards, purification of industry market and sound development of the industry.

Quality Management System

The Company has established the sound ISO9001&GSP integrated quality management system since 2006 and prepared the Quality Management Manual as the code of conduct in the quality management system, which is helpful to the transparency and systematic character of the process and lay a solid foundation for the Company's rapid development. The Company has signed the Responsibility Letter for Quality Management with every general manager of its second-tier subsidiaries who is responsible for their company's operation of the quality management system and for reporting the matters concerning the operation of the quality management system to the quality management representatives and the President of the Company.

Qualification Certificates

GSP

- Implementation of the GSP system is a scientific and advanced management measure to ensure the drug quality and generally adapted to the international trend for drug quality management at the same time. As China's largest distributor of pharmaceutical and healthcare products and a leading provider of supply chain service, the quality management department of the Company's headquarters provides high-quality drugs for the market by GSP management and promotes the quality management of China's pharmaceutical business to be modern and international.

ISO9001

- On 1 April 2007, the Company obtained the ISO 9001 Quality Management System Certification from DEKRA company in German which ranks the third in the world in the field of certification, safety and quality inspection. In recent years, it has successively included its second-tier subsidiaries into ISO 9001:2008 integrated certification system for integrated quality management. In April 2016, the Company passed through DEKRA's certification for ISO9001 certificate renewal.

SA8000

- At present, companies have to pass through SA8000 certification or the social responsibility audit conducted according to SA8000 to join the global industrial chain of multinational companies. The Company has passed through the certification of an external third-party certification authority at the end of 2009.

ISO27001

- The Company has established the Information Security Management System (ISMS) according to ISO27000:2005 standard system. After more than one year of continuous and steady operation, Sinopharm Logistics Co., Ltd. subordinate to the Company passed through the formal audit of the international certification authority in 2011 and obtained certificates issued by UKAS (United Kingdom Accreditation Service) and CNAS (China National Accreditation Service for Conformity Assessment), becoming the first pharmaceutical enterprise in China passing through ISO27001 international information security certification.

The Company has set the overall quality target at the beginning of each year and issued to its subsidiaries. Subsidiaries are required to prepare rules for the implementation according to the "decomposition index and implementation plan of policy targets", conduct regular self-examination and assessment of the implementation plan and timely correct problems once found to ensure the effective operation of the quality management system of subsidiaries and the comprehensive implementation of the quality target of the Company's headquarters. The quality management department of the Company's headquarters strictly follows the audit plan developed at the beginning of the year and combines with key management points to complete the audit of second-tier subsidiaries and issue audit reports at 100%, and requires subsidiaries to submit a rectification report against defects, clarify rectification measures and estimated time of completion, and track the implementation details of rectification.

In 2018 the Company successfully passed replacement certification of ISO9001:2015, replacement certification of medical devices business certificate and replacement certification inspection of drug GSP, and obtained corresponding qualification certificates. During the process of system certification, the Company newly added 5 quality management rules, amended 32 quality management rules, further optimized the establishment of the system rules and effectively guided the compliant and orderly development of daily operation activities. Meanwhile, the Company organized 11 relevant trainings on regulation, system, and rules so as to make various-level employees of the Company to timely understand various new regulations, quality system construction and company rules and regulations. The improvement of employee's quality capability and applying it to real activities will better increase enterprise's core competitive advantage.

Logistics Quality Management

As a leading enterprise in the medical logistics industry, the Company regards logistics quality as the top priority. For management of various facilities, equipment, vehicles and information system, the Company has developed the Regulations on Management of Facilities and Equipment, Regulations on Safety Management of Transport Vehicles, Regulations on Management of Information System and Regulations on Management of Evaluation and Control of Third-party Logistics to clearly define the purchase of shelf, temperature control system, cooling system, water and electricity supply, fire system and vehicle, quality supervision of third-party logistics and daily management.

The Company ensures that personnel related to storage and distribution management are qualified and experienced to make sure that goods can be properly handled and stored, and has developed the Regulations on Management of Drug Receiving, Regulations on Management of Drug Storage, Regulations on Management of Drug Maintenance, Regulations on Management of Drug Ex-warehouse Recheck, Regulations on Management of Drug Shipment and Handover and Regulations on Management of Drug Transportation and Delivery for the operating process of major business sections including goods receiving, acceptance, storage, delivery, distribution and outsourcing.

Traceability of drugs is an important management issue in the medical industry. To trace the quality status in case of a quality problem or customer feedback and achieve the purpose of source management, the Company has developed the Regulations on Management of Identification and Traceability, from which it is required to distinguish consignors, batch numbers, specifications and dosage forms of drugs by identification and to identify, maintain and recheck the qualification status of drugs of all stages by using various types of warehouses, regions and color labels.

Pursuant to annual training plans, the Company organized training for relevant employees to ensure that their operation was accurate and whole process quality risk management was under control.

In 2018, in accordance with the requirements of relevant documents such as The Notice of Vaccine Storage and Transportation Management Regulation (2017 version), The Notice to Further Strengthen Regulation on Vaccine Distribution and Promote Vaccine Supply, Drug Sales Quality Management Regulation (Amended) and Medical Device Supervision & Management Regulation, the Company continued to amend and improve the relevant rules of quality system, and conducted an audit on subordinate logistics companies and tracked the implementation details in order to provide the basis for the Company's continuous improvement. No significant nonconformity was found in this audit.

Drug Quality Safety

With strict control of the first-purchasing and quality of drugs, the Company has prepared relevant system documents, such as the Regulations on Management of Introduction, Selection and Assessment of New Drugs, Regulations on Management of First-purchasing Drugs, Regulations on Management of Narcotic Drugs and Psychotropic Drugs of Category I, Regulations on Management of Psychotropic Drugs of Category II and Regulations on Management of Toxic Drug for stringent approval and control the introduction of newly added drugs.

The Company keeps focus on the industry trend, maintains consistent with Chinese laws and regulations, and always releases notices or announcements timely, to ensure its operation meets the latest Chinese laws and regulations.

After the Changchun Changsheng vaccine incident occurred, the Company timely launched self-examination on 26 subsidiaries engaging with vaccine operation and delivery, and actively cooperated with local various-level regulators' inspections. All these subsidiaries were not involved with tainted vaccine, their vaccine operation and delivery activities complied with national regulation requirements.

Cases

- In 2018, the Company's headquarters has successively passed the special examination on the narcotic and psychotropic drugs by the Shanghai Food and Drug Administration for 12 times with 100% passing rate of the special examination;

- In 2018, the Company's headquarters received a GSP certification on-site inspection from Shanghai Food and Drug Administration, a replacement certification on-site inspection of medical devices from Changning District Market Supervision and Administration, no major and severe defects were found, the rectification was completed and corresponding certifications were obtained.

- In 2018, the Company's subsidiaries have got examinations by external inspectors for totally 1,515 times, there was no major inconformity and all the requirements were met.

Customer Satisfaction and Complaint Handling

With the philosophy of "Customer is the foundation of the enterprise", the Company has committed itself to providing customers with efficient and high-quality services to meet their needs and gain their satisfaction and loyalty to create a super brand. The Company has developed the Regulations on Management of Customer Satisfaction. It gained the customer perception through home visits, written questionnaires and other ways, and indirectly confirmed the customer satisfaction through comparison with other competitors in the industry. In addition, it periodically prepared the Analysis Report of Customer Satisfaction, and included the customer satisfaction rate and customer satisfaction trends into the performance management as important assessment indicators of relevant departments.

The Company developed a series of management systems related to customer inquiry and complaint, such as Regulations on Management of Quality Inquiry and Regulations on Management of Customer Complaint Handling. When customers have questions or demands on the Company's operation of drugs or medical devices, they can submit a query to the Company by visits, letters, fax, telephone, mail and other ways, and the Company shall upon the receipt of the query, make an investigation and provide feedback. In the event that any customer is unsatisfied for the quality of products and services does not confirm to the standards, the quality management department shall timely take containment measures such as product recall/recovery after verification through investigation to prevent further loss to the customer. Relevant departments shall determine jointly the cause of the complaint and make correct measures to better satisfy customers.

Product Recovery

The Company has made active response to the reasonable return request put forward by customers to improve both customer satisfaction and corporate reputation, and has formulated the Regulations on Management of Sales Return which puts clear rules on return requirement, return way, returned material acceptance inspection, system operation process and approval authority, etc. The Company has prepared the Regulations on Management of Recall/Recovery. For products recalled actively by suppliers, after receiving notices from suppliers, the quality management department will issue recall notices (except for the drugs that cannot be recalled as stipulated by Chinese laws and regulations) to recall relevant varieties. For recall or unqualified products after spot check noticed by CFDA, the quality management department will implement recall at the earliest time and the procurement department will inform immediately relevant suppliers, and suppliers can communicate with manufacturers at the earliest time, requesting them to actively cooperate to tackle with matters related to products with quality problems in positively cooperative manner.

Intellectual Property Rights Protection

In order to strengthen the trademark management, standardize the exclusive right to use trademark and give full play to the efficiency of trademark assets, the Company has prepared the Measures on the Management of Trademark in which the trademark application, renewal, authorization management, rights protection and other work are clearly defined. The Office of General Manager of the Company is responsible for establishing and perfecting trademark files and database and implementing dynamic management of trademark. In addition, it takes charge of organizing publicity and learning of legal knowledge related to trademark, collecting actively evidences against the infringement of trademark rights and timely submitting to the industry and commerce administration authorities for handling or bringing a lawsuit to the people's court.

Consumer Privacy Protection

In order to further strengthen the Company's confidentiality management, standardize the construction of the Company's confidentiality system, and better safeguard the security interests of enterprises and consumers, the Company prepared the Interim Provisions of Sinopharm Group Co., Ltd on the Confidentiality Work. The departments and the subsidiaries at all levels of the Company are responsible for implementing the comprehensive management requirements of the Company's confidentiality work, detailing and establishing measures of confidentiality work management of related functions, and clarifying confidentiality requirements according to the actual as well as conducting the assessment, inspection, verification and improvement of the implementation process within the scope of duties. Besides, the labor contract signed by subsidiaries and employees include confidentiality provisions.

GuoDa Drug Store subordinated to the Company has prepared the Administrational Measures for Membership which stipulates specifically that to protect the security of membership data, subsidiaries shall conduct authorization management and approval process management of data export for membership information and subordinate stores shall not modify membership information. At the same time, subsidiaries are required to conduct membership data sorting and analysis at least once a month. In case of abnormal number of transactions, amount and discount information, track management needs to be performed in order to better protect the privacy and interests of members.

3. Environmental Protection

Following the enterprise philosophy of "Caring for Life and Attending to Health", the Company includes the environmental protection and sustainable development into the enterprise development strategy, guarantees the compliance with environmental protection laws and rules, energy conservation, emission reduction, consumption reduction and efficiency enhancement in the production and operation process, strives to reduce the impact of the production activities on the environment and human health and safety, realizes the coordinated development between production management and environmental protection, and achieves the harmony between the enterprise and the nature.

Environmental protection system

Since its establishment, the Company has established the environmental protection management system according to the Chinese laws, regulations, technical specifications, technical standards and systems relating to the environmental protection. It provides guidance and assistance in the environment protection work assigned in the budget objective and work scheme for all the companies affiliated to the subsidiaries, and then conducts supervision, management and appraisal. Each affiliated company has included the environmental protection, energy conservation and emission reduction into their medium and long-term development planning and annual plan, established and improved the management system and various rules and regulations in relation to the environmental protection, energy conservation and emission reduction, abided by relevant local and national laws, regulations and emission standards, and fulfilled the measures and responsibilities for the environmental protection, energy conservation and emission reduction. The industrial enterprise subordinate to the Company has established and implemented the ISO 14001 Environmental Management System Certification.

The Company has formulated a series of management systems including the Administrative Measures for Environmental Protection, the Administrative Measures for Clean Production, the Administrative Measures for Hazardous Waste and the Emergency Plan for Environmental Accidents, specifying responsibilities of employees at various levels in terms of the environmental protection, energy conservation and emission reduction, and strengthening the environmental protection consciousness of all the companies. The responsible person of the subsidiary shall be primarily responsible for the environmental protection of all the subsidiaries, and the performance shall be included into the annual appraisal index of the responsible person of the subsidiaries, in order to enhance the environmental protection responsibility and consciousness of the leaders of all the subsidiaries. The target-oriented responsibility system shall be adopted in the management with the responsible person of the subsidiary primarily responsible for the environmental protection. At the beginning of 2018, the Company entered into the Target Responsibility Statement for Quality Management, Safe Production, Energy Conservation and Environmental Protection with all its subsidiaries with signing rate of 100%.

Publicity of environmental protection

In order to enhance the environmental protection consciousness and capability of the subsidiaries and employees, the Company includes the environmental protection training into its overall training system, actively organizes employees to participate in the training related to environmental protection organized by the external environmental protection organizations, issues the Brief News on Environmental Protection on a regular basis, and conducts the activities themed at “Running for Energy Conservation and Green Development”, etc.

Energy conservation and emission reduction

With the aim of strengthening the environmental protection, energy conservation and emission reduction, effectively controlling the key pollutant discharge, promote the sustainable and efficient development, and preventing the adverse impact of the planning and construction projects upon implementation on the environment, the Company formulates the Detailed Rules for the Implementation of the Environmental Protection, Energy Conservation and Emission Reduction in accordance with relevant laws, regulations, emission standards and industrial policies such as the revised Environmental Protection Law of the People’s Republic of China, the Law of the People’s Republic of China on Conserving Energy, and the Interim Measures for the Supervision and Management of Energy Conservation and Emission Reduction by Central Enterprises.

All the industrial enterprises subordinate to the Company have signed the monitoring contract with the local environmental monitoring authority, entrusting the local environmental monitoring station with the regular monitoring of the waste gas, waste water and noise at boundary of industrial enterprises. In order to further standardize the environmental protection management and strengthen the pollution prevention and control, in addition to accepting the supervision by external organizations such as the local environmental protection authority, all the subordinate industrial enterprises have established and improved the statistical monitoring system for the environmental protection, energy conservation and emission reduction, strengthened the statistical monitoring of the energy consumption and pollutant emission in the production and operation, eliminated the possible environmental risks and hidden hazards in the production and operation, and improved the appraisal system and reward & punishment measures in accordance with the Administrative Measures for the Supervision and Appraisal of the Environmental Protection, Energy Conservation and Emission Reduction by Sinopharm Holding. In 2018, all the major emissions from the subordinate industrial enterprises including COD and SO2 were disposed of, and all the sewage and waste gas were discharged in consistency with relevant standards.

The subordinate industrial enterprises have also formulated the Analysis System for Energy Utilization Situations, stipulating that the technical and economic analysis shall be made on the main energy-consuming equipment, process system and energy utilization conditions on a regular basis. Necessary tests and statistical analysis of energy consumption are combined to determine the level of energy consumption, explore the potential of energy conservation, fix the direction of energy conversation, and provide the scientific basis for the improvement of energy management, transformation of energy-saving technology and enhancement of energy utilization ratio.

The Company encourages its subsidiaries to apply new technology, new material, new process and new equipment in the energy conservation and emission reduction, and obvious energy-saving effect has been achieved through the energy-saving modification works such as boiler retrofitting, energy conservation of motor system, optimization of energy system and utilization of residual heat and pressure.

In 2018, the amount of pollutants emitted by the Company was set out below:

	2017	**2018**	*Change*
Exhaust emission (ton)			
total emission amount of NO_x	54.79	**65.78**	20.06%
total emission amount of SO_x	0.16	**0.19**	18.75%
total emission amount of PM	5.03	**6.04**	20.08%
Greenhouse gas emission (ton)			
total greenhouse gas emission amount of range 1	26,641.98	**30,741.54**	15.39%
total greenhouse gas emission amount of range 2	78,460.51	**88,611.47**	12.94%
Unit greenhouse gas emission (ton per person)			
greenhouse gas emission of range 1	0.43	**0.44**	2.33%
greenhouse gas emission of range 2	1.27	**1.27**	0.00%
Total amount of direct/indirect energy consumption by type (MWh)			
electricity	101,342.54	**115,208.83**	13.68%
heat	23,913.87	**25,709.94**	7.51%
diesel	52,044.82	**62,795.17**	20.66%
gasoline	45,029.14	**50,502.28**	12.15%
Unit amount of direct/indirect energy consumption (MWh per person)			
electricity	1.64	**1.65**	0.61%
heat	0.39	**0.37**	-5.13%
diesel	0.84	**0.90**	7.14%
gasoline	0.73	**0.72**	-1.37%
Total water consumption amount (cubic meter)	1,080,989.78	**1,191,321.36**	10.21%
Unit water consumption amount (cubic meter per person)	17.52	**17.09**	-2.45%
Total amount of non-hazardous waste (ton)			
office waste	2,392.57	**2,703.91**	13.01%
unit amount of office waste (ton per person)	0.04	**0.04**	0.00%
Total amount of hazardous waste (ton)			
Chemical Oxygen Demand (COD)	6.88	**0.84**	-87.79%
Biochemical Oxygen Demand (BOD)	0.34	**0.13**	-61.76%
NH3-N	0.45	**0.22**	-51.11%
Unit amount of hazardous waste (kg per person)			
Chemical Oxygen Demand (COD)	0.11	**0.01**	-90.91%
Biochemical Oxygen Demand (BOD)	0.01	**0.00**	-100.00%
NH3-N	0.01	**0.00**	-100.00%
Total amount of packaging material used by finished products (ton)			
carton	1,985.00	**2,210.00**	11.34%
packing bottle	2,539.60	**2,890.87**	13.83%

Notes:

(1) range 1 includes direct greenhouse gas emission generated by businesses owned or controlled by the Group; range 2 includes indirect greenhouse gas emission generated by the Group's internal consumption.

(2) Due to statistical error made by a subsidiary, the total amount of carton used by finished products in 2017 is inaccurate, the correct amount should be 1985.00 tons.

Green office

The green office can not only promote energy conservation but also mitigate environmental pollution. It can not only protect the environmental but also bring low cost to the company. The Company takes several measures to realize the green office with saved energy and reduced emission as follows: strengthening the management of power conservation in lighting, reducing the power consumption of lighting equipment by making full use of natural lighting, turning off lights before leaving the office to prevent the lighting in the daytime and always-on lighting, and reducing the lighting in the public area in the night; strengthening the daily maintenance and management of the water-consuming equipment, and preventing the running, spillage, dripping, leakage and constant running of water to save water; making the general notification and data transmission via the Internet to reduce the data printing (copying) in paper, and making repeated use of the low-value consumables such as document envelopes and clips.

4. Protection of Rights and Interests

Regarding employees as the core resources and most precious treasure, following the principle of respect for employees, cultivation of employees and service for employees, the Company conducts the people-oriented management and strives to provide a safe and healthy working environment and a harmonious cultural environment for all the employees, in order to promote the Company's development and social progress.

The Company has formulated a set of HR management systems such as the Administrative Measures for the Employee Remuneration of the Functional Departments of Sinopharm Holding and the Administrative Measures for the Annual Income of the Operators of the Secondary Subsidiaries of Sinopharm Holding in strict accordance with relevant policies, laws and regulations such as the Labor Law of the People's Republic of China and the Labor Contract Law of the People's Republic of China, and established a fair, reasonable and competitive remuneration system that can attract and retain core employees of the Company based on the principle of fairness and incentive.

Honors in 2018

"440th on Forbes World's Best Employers List"— Forbes Magazine
"China HR Pioneer Employer Award"— First Resource
"2018 Employer with Outstanding Innovation"-Liepin.com
" αi Excellent Job Market Award"-China Business Network

Equal employment

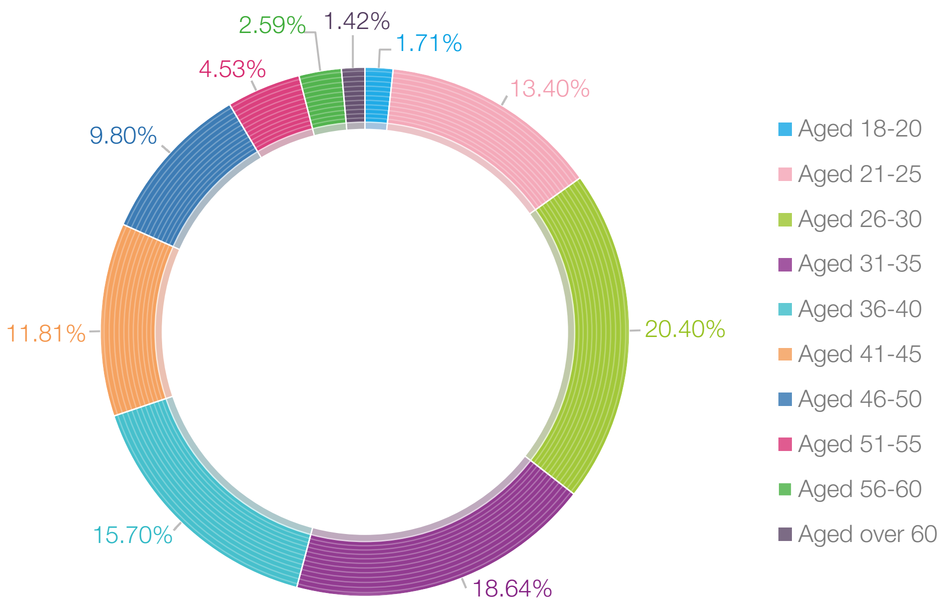
The Company recruits employees on an equal and selective basis following the principle of openness and fairness, opposes the employment discrimination in various forms, enters into labor contracts with employees, and protects employees from any discrimination due to the race, religion, physical disability, gender, sexual orientation, association member, marital status, etc. Meanwhile, the Company prohibits the employment of child laborers, compulsory work and arrangement of the underage employees with the prohibited work. All the employees comply with the statutory working age.

The Company has established the information management platform based on the HR information system, covering 665 subsidiaries at all levels. As an effective HR management tool, the HR information system has realized the basic HR management in the electronic form, strengthened the supervision on the organization setting, staffing management and employee recruitment and dismissal, and exported five statements of organization and personnel module and analysis of 25 HR indexes on a regular basis, which prevents any employment in violation of the Labor Law of the People's Republic of China such as employment of child laborers.

The Company explicitly stipulates that employees may rescind the labor contract at any time where the Company forces the work by means of violence, threat or illegal restriction of personal freedom, fails to pay the labor remuneration in full amount or provide working conditions, or has other circumstances that violate the provisions of the Labor Contract Law of the People's Republic of China.

Meanwhile, the Company chooses outstanding talents suitable to the Company's development through multi-channel social recruitment and internal selection, and notifies the newly recruited employees of the recruitment conditions and working situations such as the working contents, qualification, working environment, workplace, occupational hazard, safe production conditions and labor remuneration in the form of recruitment ads, job specification and interview before the recruitment procedures. Employees may directly inquire the HR Department in case of any questions.

As at December 31 2018, the Group had 69,722 employees in total, among whom female employees accounted for 58.76%, and male employees accounted for 41.24%. The proportion of employees at various ages is as follows:



Employee benefits

The Company strictly standardizes the setting and standards for the employee benefits, and establishes the secure and competitive benefit system. The benefit system of the Company includes three parts, namely, statutory benefits, caring benefits and incentive benefits.

Statutory benefits

- The Company offers various social security benefits for all the employees such as the social insurances and housing provident funds in strict accordance with Chinese policies relating to social security, realizing a contribution rate of 100%, and guarantees all the legal holidays for employees.

Caring benefits

- The Company provides caring benefits in response to the needs of employees, including lunch allowance, high-temperature/environmental allowance, physical examination, festival allowance, labor protection expenses, cash for employees' birthday/marriage/birth as gifts, and consolation money for employees' funeral and hospitalization.

Incentive benefits

- The Company offers incentive benefits in order to stimulate employees to fulfill the work tasks and achieve outstanding performance, including the vehicle and travel allowance, communication allowance, supplementary housing benefits, commercial insurances, enterprise annuity and local benefits, etc.

In order to provide a healthy and comfortable working and living environment, the Company conducts various activities for employees to balance their work and life. It organizes the badminton activities on a regular basis, holds basketball, table tennis and swimming contests from time to time, and carries out sports activities such as long running and healthy walking, in order to improve the health of employees, relieve their working pressure, enhance the sense of belonging, and build a happy, open, healthy, friendly and harmonious working and living atmosphere for employees.

Development of labor union

Under the leadership of the Party Committee of the Company, the labor union strengthens the standardized development of the grassroots labor union, promotes the establishment of the labor union organization according to the law, gradually improves the quality of leaders in the grassroots labor unions, and strives to improve the labor union of enterprises at all levels to a new level.

5. Health and Safety

Employees' health

The Company strives to build a comfortable and healthy working and living environment for employees. It has continuously perfected the health management strictly in accordance with the Labor Law of the People's Republic of China, the Law on the Prevention and Control of Occupational Diseases and local regulations related to prevention and control of occupational diseases. Since 2009, it has gradually established and implemented the international SA8000 Social Accountability System, and set up the social accountability leading team led by the Party Committee Secretary and President according to requirements in the Guiding Opinions on the Fulfillment of Social Accountability by Central Enterprises of the State-owned Assets Supervision and Administration Commission of the State Council, in order to protect the legitimate rights and interests of the employees through the continuous and effective operation and improvement of the system. The Company comprehensively classifies the existing rules, regulations and management archives according to the requirements of the SA8000 Social Accountability System, distinguishes the health and safety hazards, and establishes the occupation health and safety management system giving top priority to the physical and mental health of employees. There were not any employees suffering from occupational diseases in the Company and its subsidiaries in 2018.

Occupational health management

✓ Detect the occupational hazards at the workplace on a regular basis, erect signboards at the detection station, and record the detection result into the employees' occupational health archives.

✓ Install alarming devices at the poisonous and hazardous workplace susceptible to acute occupational hazards, and formulate emergency plans.

✓ Special persons shall be designated for the custody, regular inspection and maintenance of all the safety protection devices.

✓ On-site first-aid articles, equipment and protective articles shall be inspected and maintained on a regular basis to guarantee they are in normal conditions.

Notification and warning of occupational hazards

✓ Notify the workers of the possible occupational hazards, consequences and protective measures in work, and specify them in the labour contract.

✓ Publicize the occupational hazards, preventive and emergency measures among workers and related parties.

✓ Erect warning signboards and instructions for the posts with occupational hazards.

Report of occupational hazards

✓ The Company and its subsidiaries shall report the existing occupational hazards in the production promptly and faithfully to the local competent authority according to relevant Chinese regulations, and accept the supervision according to the law.

Management of protective articles for occupational hazards

✓ Provide protective articles for occupational hazards of employees in accordance with the Rules for Selection of Labour Protective Articles, Chinese standards for allocation of labour protective articles and relevant regulations.

✓ Conduct proper management of the purchase, inspection, custody, distribution, usage, replacement and scrapping of labour protective articles according to relevant Chinese regulations.

✓ Educate, urge and guide employees to wear and use the labour protective articles in a correct manner according to the usage instructions.

"Three simultaneousness" in the development of occupational health

✓ Entrust the qualified technical service organization for occupational health with the pre-assessment of the new engineering construction projects with possible occupational hazards in the phase of feasibility demonstration.

✓ The construction unit shall entrust the qualified technical service organization for occupational health with the assessment of the occupational hazard control effect before the completion inspection of the construction project according to relevant regulations.

✓ The protective facilities for occupational hazards shall be put into production and operation after they pass the inspection and obtain the approval document in the completion inspection of the construction project.

Safety management

The Company has formulated the Sinopharm Holding Safety Management Standard Manual, specifying the contents, requirements, specifications, processes and measures of the production safety management of the Company and its subsidiaries in accordance with relevant laws and regulations such as the Production Safety Law of the People's Republic of China and the Interim Measures for the Supervision and Management of Production Safety of Central Enterprises, with the purpose of further strengthening the supervision and management of the production safety of the Company, fulfilling the safe production responsibilities of the enterprise, establishing the long-term mechanism for production safety, preventing and reducing safety accidents in the production, and guaranteeing the personal health and safety of employees and the masses. In response to the needs of production safety, the Company establishes the Production Safety Committee with a subordinate office as the daily agency.

The Company and its subsidiaries have established the production safety emergency management system, emergency management organization and team, formulated and continuously perfected the emergency plans, made on-site emergency proposals or measures for key posts and major hazard sources, set up the production safety emergency plan system, and carried out training and drilling on the emergency plans on a regular basis based on their actual situations according to the requirements in the Production Safety Law of the People's Republic of China, in order to strengthen the emergency management of the production safety.

Safety agreements were signed with all subsidiaries with signing rate of 100%. Professional safety personnel were assigned to industrial and high-risk enterprises in accordance with CNPGC's requirement, safety administration department was established with completion rate of 100%. The Company continued to increase spending on safe production, the total spending on safe production reached RMB35.04 million in 2018, representing an increase of RMB3.20 million compared with previous year.

Meanwhile, the Company also strengthens the safety publicity and education, enhances the safety consciousness of all the employees and improves the safety management level of the Company, in order to prevent the occurrence of accidents.

6. Development and Training

Employee training

The Company always regards human resources as the core resources, and gives top priority to the cultivation and development of employees. Relevant training is offered in response to actual demands of different employees and various posts, following the strategy of the Company. It has formulated the Administrative Measures for Employee Training of Sinopharm Holding Co., Ltd., the Administrative Measures for the Credit System of Employee Training of Sinopharm Holding Co., Ltd., etc., and initially established a set of standardized training management system.

The Company provides training for employees in diversified forms such as on-site teaching, case sharing, on-line study and real-time interaction, and conducts multi-level training activities for the development of general ability, professional ability and management ability. Each year it organizes over 100 training programs for employees, which broadens the insight, enriches the knowledge of employees, and fully enhances the competitiveness of the enterprise.

Under the great support of the Company's leaders, the Company founded Sinopharm University in 2011, in order to provide large-scale standard and systematic training for employees, and cultivate pharmaceutical elites with international insight. The university cultivates internal part-time lecturers by making full use of the wisdom and strength of the team, develops a series of Sinopharm-featured courses through the study of employee competency model, and creates systematic training service products. After several years of exploration and practice, the Company has cultivated a professional and powerful internal and external faculty, continuously and efficiently providing training service for employees in the companies at all levels.

In 2018, Sinopharm University achieved four targets through three big measures of carefully design program, solidify internal management and innovate on service model.

1. Closely follow business demand, design training program, contribute to the execution of the Company's strategy
   - Taking the talents cultivation stairs program as the guide, the professional ability development program as the principle line, the staff quality improving program as the footstone, more than 20,000 people received training during the whole year, with satisfaction rate of more than 90%. Management's strategic view was broadened, middle management's professional execution capabilities were developed and all employees' capabilities were strengthened.

2. Accumulate program experience, integrate internal and external resources, improve training management
   - Guided by "solve the problem", weak points such as training management efficiency, development of training resources and digital learning were focused, various work standards were improved, online and offline courses were developed and optimized, internal part-time lecturers were trained, which effectively secured the implementation of whole year training program and laid a developing foundation for 2019.

3. Innovate on training method, lower training cost, improve training result
   - Through innovative measures such as assisting business departments with establishing "business discussion platform" with suppliers, cooperating with regional subsidiaries to establish "regional learning platform" and introducing "live streaming" technology, internal and external resources were integrated, training effectiveness was strengthened, training coverage was increased, and training cost was significantly lowered.

4. Launch program competition, learn through doing and do through learning, extend training results to business operation and management
   - Program competition mechanism was introduced to the training for subsidiaries' middle-&high-management, trainees were guided with key jobs such as "breakthrough with direct sales" and "integration of provincial platform" with connection to the real problems in operation and management, program workgroups were established to push forward for solution. Meanwhile, guidance workgroups were established consisting of chairmen, corporate management being trained and Sinopharm University to start program management guidance. Through "learn through doing and do through learning", training results were extended to corporate operation and management, pushing forward jobs such as "breakthrough with direct sales" and "integration of provincial platform".

Appraisal and promotion

The Company adopts the performance appraisal for all the employees ranging from grassroots employees to superintendents of departments of the Company and its subsidiaries. It strives to establish a perfect performance appraisal mechanism with the annual operation and management objective decomposed level by level from top to bottom and realizes the full coverage of the appraisal by enhancing the width and depth of the performance appraisal. It formulates and perfects performance appraisal methods and scientifically and reasonably determines relevant indexes for employees at different posts with different responsibilities according to the type of business and characteristics of different development phases, following the overall operation objective and development strategy of the Company. Employees' opinions will be solicited for the appraisal of senior managers of subsidiaries at all levels, and the appraisal method, process and result will be made public within a certain scope for the supervision by employees.

The Company has established a clear rank system to build career development path for employees and encourage employees to realize career development. With performance appraisal and in accordance with the Company's relevant rules, through cadre selection and appointment and rank promotion review, the Company conducts employee promotion each year, so as to achieve the Company's development goals and employee's personal development goals. To further optimize human resource management system and integration construction and to provide strong human resource supply for the Company's continuous and stable development, the Company strives to build professional manager team and various level talent portfolio.

7. Supply Chain Management

Adhering to the win-win cooperation concept, the Company makes concerted efforts with suppliers to build a collaborative development mechanism for mutual growth, mutual trust and mutual benefits, and create a safe and reliable green supply chain. It commits itself to establishing strategic partnership with suppliers to realize mutual progress and development, and powerful competitive advantages in the industry.

Code of conduct of suppliers

The Company not only abides by the laws and regulations, and bears relevant social responsibilities, but also plays an active role in promoting its partners to establish the social accountability management system and enhance the social accountability consciousness. It has entered into the Quality Assurance Agreement respectively with suppliers for medicines, other goods and services, stipulating that suppliers shall promise to fulfill the social responsibilities within the scope of contract, which promotes the fulfillment of social responsibilities by suppliers, and gives play to the leading role of the Company in the industry.

Supplier management

The Company implements the strict and fair supplier admission procedures and assessment mechanism, and formulates the Management Regulations of New Enterprises, in order to review the legal compliance of manufacturers or operators firstly engaged in medicine and medical instruments, as well as the intactness, authenticity and validity of relevant data. ERP system is adopted to maintain the information of suppliers, and strictly review any changes in the aforesaid information.

In order to improve the purchase business process, guarantee the purchased medicines or medical instruments are produced or operated by legitimate enterprises, provide better service for suppliers, and build a good reputation, the Company formulates the Purchase Management Regulations, explicitly stipulating on the purchase plan, purchase order, purchase contract, supplier performance monitoring, confirmation of goods arrival, import commodity inspection, import custom clearance, etc.

The Company formulates the supplier assessment standard: the Management Regulations on the Re-appraisal of Qualified Suppliers, and conducts supplier assessment on a regular or irregular basis, in order to supervise suppliers to comply with quality, environmental protection and technology requirements, and continuously enhance the supply chain management level. All the subsidiaries of the Company conduct annual review of suppliers according to their actual situations on an annual basis, and list the suppliers that pass the review as qualified suppliers upon completion of review.

8. Anti-corruption

Perfect anti-corruption mechanism

The Company establishes a perfect anti-corruption mechanism with combat on corruption and advocacy of integrity in order to build an incorrupt, efficient and harmonious business environment, and prevent the possible bad practice in various operation and management activities.

Sign the Responsibility Statement of Improvement of Party Conduct and Government Integrity with superintendents of subsidiaries

Sinopharm Group enhanced the incorruption of leaders at all levels, prevented the corruptive behavior and protected the interest of shareholders, and signed the Responsibility Statement of Improvement of Party Conduct and Government Integrity with superintendents of subsidiaries.

Transparent reporting platform

The Company establishes and perfects the supervision and restriction mechanism in accordance with the Several Regulations on the Incorruption of Leaders of State-owned Enterprises of SASAC of the State Council and the Implementation Outline for the Establishment and Perfection of Corruption Punishment and Prevention System of CPC Central Committee for Discipline Inspection, and the Discipline Inspection Office, Audit Department, etc. fully crack down upon the corruption through the acceptance of complaint letters, visits and reports, internal audit, supervision and inspection. The Company and its subsidiaries also actively deal with the feedback from its employees, social citizens, legal person and other organizations received via the reporting hotline and email.

Launch of internal inspection

Pursuant to the general requirement of Inspection and Examination Work Plan of CNPGC Party Committee (2018-2022), a new round of internal inspection was fully launched, 2nd-level subsidiaries were organized to launch internal inspection in order to extend the tentacle of finding problem to prefecture-level companies and extend supervision to "nerve end".

"Eight regulations" of incorruption

The Company further improved and implemented the requirement by the Political Bureau of the Central Committee's "Eight Regulations", improved the working style, kept close ties with the masses, served the employees, established a good team image, promoted the development of the Company, implemented The Implementation Methods to Deeply Implement Eight Regulations and Further Strengthen Working Style Construction by CNPGC Party Committee, and advanced Sinopharm Group's work on party conduct and anti-corruption in the process of fully advancing reform of mixed-ownership.

Improvement in research work	Simplify the meeting	Simplify the document and bulletin
• Understand actual situations among the grassroots • Sufficient preparations and full implementation • Simplify the reception • Reduce the accompanying persons	• Control the number of meetings • Establish the meeting approval system • Control the meeting scale and duration • Control the meeting expenditure	• Reduce various documents and bulletins • Improve the quality of high-grade bulletins • Enhance the timeliness

Improvement in news propaganda	Be diligent and thrifty	Supervise and urge the implementation
• Standardize and improve the news propaganda • Strengthen the communication with the public • Make public the information	• Strictly implement benefit standards • Strengthen the management of business trips abroad • Strictly control entertainment expenses	• Take the lead in the implementation • Make rigid restraints with regulations • Strengthen the inspection

9. Returning the Society

The Company not only grasps the production, operation and economic benefits, but also focuses on public welfare activities to return the society. It has released and continuously improved relevant policies in support for the public welfare activities conducted by all the subsidiaries such as the donation to the disaster area, voluntary diagnosis and treatment, education support, and poverty relief, and actively supervised and urged internal departments and subsidiaries of the Company to fulfill the due social responsibilities.

Voluntary medical treatment

The Company not only engages in the donation to public welfare career, but also carries out voluntary diagnosis, donation of medical supplies and blood donation without payment by making use of its own advantages, in order to make contributions to the improvement of medical treatment and health conditions of the masses.

Fixed-point poverty relief

Following the cultural tent of "caring for life and attending to health", the Company actively fulfills the social responsibilities as a central enterprise. Over years through measures such as fixed-point poverty relief, foundation, Charity Federation, Red Cross and disaster relief, relevant subsidiaries made donation to society's relevant organizations and fixed-point help locations, resulting in returning to the society and bringing benefits to the people. In 2018, Sinopharm's various subsidiaries launched poverty relief to 12 fixed-point counties (towns, villages).

Poverty relief

The Company not only strives to realize further development, but also actively returns the society. It actively participates in the construction of local residential areas, fulfills its social responsibilities, cares about the hardship of employees in difficulty, and eliminates the difficulty and trouble for them by making use of its own fund, manpower and technology. The Company also encourages its subsidiaries to actively fulfill social responsibilities. In 2018, Sinopharm's various subsidiaries spent RMB4.5211 million on poverty relief.

Independent Auditor's Report

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the shareholders of Sinopharm Group Co. Ltd.
(Established in the People's Republic of China with limited liability)

Opinion

We have audited the consolidated financial statements of Sinopharm Group Co. Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 99 to 248, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill	
The carrying value of goodwill amounted to RMB4,899 million as at 31 December 2018 was allocated to the Group's cash-generating units ("CGUs") of pharmaceutical distribution, retail pharmacy, medical devices and other business segments. Under HKFRSs, the Group is required to perform the impairment test for goodwill annually. The impairment test is based on the recoverable amounts of the respective CGUs to which the goodwill is allocated. Management performed the impairment test using the value-in-use calculation based on the discounted cash flow method and also involved external experts to perform an impairment assessment on part of CGUs. Assumptions such as the discount rate and the long-term growth rate were set up applying estimates and significant judgements. The Group's disclosures about impairment of goodwill are included in note 4(8) and note 17 to the financial statements, which specifically explains the key assumptions that management used in the valuation.	Our audit procedures included, among others, assessing the competence, capabilities and objectivity of its external experts and involving our valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group and external experts, in particular, the discount rate and the long-term growth rate. We assessed reasonableness of the forecasts used in the impairment test by comparing the forecasts with the historical performance of the respective CGUs and the business development plan. We also read and assessed the Group's disclosures of goodwill.

Key audit matters (continued)

Key audit matter (continued)	How our audit addressed the key audit matter (continued)

Impairment of trade and bills receivables

At as 31 December 2018, the carrying value of trade receivable amounted to RMB97,845 million, for which RMB1,250 million loss allowance was recorded.

Management applied judgement in assessing the expected credit losses ("ECLs"). Receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for loss allowance. ECLs are also estimated by grouping the remaining receivables based on shared credit risk characteristics, ageing of billing and collectively assessed for likelihood of recovery, taking into account the nature of the customers, product types, and ageing category, and applying expected credit loss rates to the respective gross carrying amounts of the receivables.

The ECLs rates are determined based on historical credit loss experience and are adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables. We focused on this area due to the magnitude of the trade receivables and the estimation and judgement involved in determining the expected credit losses allowance of the trade receivables.

The Group's disclosures about loss allowance for trade receivables are included in note 3(1)(iii), note 4(4), and note 27 to the financial statements.

Our procedures in relation to management's ECLs assessment on trade receivables included:

- Reviewing and assessing the application of the Group's policy for calculating the ECLs;

- Evaluating techniques and methodology in the ECLs model against the requirements of HKFRS 9;

- Assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are adjusted based on current economic conditions and forward-looking information and assessing whether there was an indication of management bias when recognising loss allowances;

We also read and assessed the relevant disclosures made in the financial statements, including disclosures of the basis for this estimation.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong
22 March 2019

Consolidated Statement of Profit or Loss

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000 (Restated)
Revenue	6	344,525,821	308,353,579
Cost of sales	9	(313,297,729)	(282,304,714)
Gross profit		31,228,092	26,048,865
Other income	7	413,764	428,241
Selling and distribution expenses	9	(10,369,831)	(8,369,078)
Administrative expenses	9	(5,517,883)	(4,967,640)
Impairment losses on financial and contract assets	9	(357,336)	–
Operating profit		15,396,806	13,140,388
Other gains – net	8	81,828	379,251
Finance income		494,781	343,063
Finance costs		(4,608,644)	(3,112,782)
Finance costs – net	11	(4,113,863)	(2,769,719)
Share of profits and losses of:			
Associates	19	833,203	466,926
Joint ventures		9,966	9,953
Profit before tax		12,207,940	11,226,799
Income tax expense	12	(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	13	1.97	1.88
– Diluted	13	1.96	1.88

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	Notes	**2018** **RMB'000**	2017 RMB'000 (Restated)
Profit for the year		**9,404,484**	8,664,978
Other comprehensive (loss)/income:			
Other comprehensive (loss)/income that will not to be reclassified to profit or loss in subsequent periods:			
Remeasurements of post employment benefit obligations	12	**(14,650)**	10,121
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value	12	**(10,833)**	–
Income tax effect	12	**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:			
Changes in fair value	12	**–**	(35,343)
Income tax effect	12	**–**	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

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000 (Restated)
ASSETS			
Non-current assets			
Prepaid land lease payments	14	1,667,325	1,585,043
Investment properties	15	583,557	627,955
Property, plant and equipment	16	11,025,136	9,008,497
Intangible assets	17	7,476,734	7,253,448
Investments in joint ventures		23,571	13,230
Investments in associates	19	6,358,496	5,479,340
Equity investments designated at fair value through other comprehensive income	20	28,375	–
Financial assets at fair value through profit or loss	22	654,672	–
Available-for-sale investments	20	–	790,579
Finance lease receivables	21	9,665	13,515
Deferred tax assets	24	1,072,142	920,198
Other non-current assets	25	2,216,831	2,230,220
Total non-current assets		31,116,504	27,922,025
Current assets			
Inventories	26	35,388,863	30,273,437
Trade and bills receivables	27	106,423,594	81,299,231
Contract assets	28	250,294	–
Prepayments, other receivables and other assets	29	15,058,178	13,889,015
Financial assets at fair value through profit or loss	22	41,199	–
Available-for-sale investments	20	–	516
Finance lease receivables	21	4,917	5,026
Pledged deposits and restricted cash	30	7,188,543	5,063,354
Cash and cash equivalents	30	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	31	2,971,656	2,767,095
Treasury shares held for share incentive scheme	48	(135,318)	(193,003)
Reserves	32	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

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000 (Restated)
LIABILITIES			
Non-current liabilities			
Interest-bearing bank and other borrowings	33	**4,951,167**	5,452,260
Deferred tax liabilities	24	**864,906**	846,566
Post-employment benefit obligations	34	**415,461**	409,895
Contract liabilities	38	**39,427**	–
Other non-current liabilities	35	**1,149,968**	1,454,058
Total non-current liabilities		**7,420,929**	8,162,779
Current liabilities			
Interest-bearing bank and other borrowings	33	**50,085,218**	31,649,038
Trade and bills payables	36	**83,682,927**	72,492,039
Contract liabilities	38	**6,101,607**	–
Accruals and other payables	37	**18,790,632**	19,259,309
Dividends payable	39	**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

The accompanying notes are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 22 March 2019 and were signed on its behalf by

Li Zhiming
Director

Tan Wee Seng
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Notes	Attributable to owners of the parent					
		Share capital	Treasury shares held for share incentive scheme	Reserves	Total	Non-controlling interests	Total Equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note 31)	(Note 48)	(Note 32)			
At 1 January 2017							
As previously reported		2,767,095	–	29,043,833	31,810,928	12,721,508	44,532,436
Business combination under common control		–	–	2,884,459	2,884,459	3,149,111	6,033,570
At 1 January 2017 (Restated)		2,767,095	–	31,928,292	34,695,387	15,870,619	50,566,006
Total comprehensive income		–	–	5,583,828	5,583,828	3,079,245	8,663,073
Effects of transactions with non-controlling interests		–	–	(378,856)	(378,856)	(298,284)	(677,140)
Capital injection from non-controlling shareholders of subsidiaries		–	–	–	–	2,037,858	2,037,858
Acquisition of subsidiaries		–	–	–	–	108,063	108,063
Deemed disposal of subsidiaries		–	–	(3,210)	(3,210)	(115,974)	(119,184)
Purchase of shares for the share incentive scheme		–	(203,290)	–	(203,290)	–	(203,290)
Dividends on shares held by the share incentive scheme		–	3,285	–	3,285	–	3,285
Release of shares from the share incentive scheme		–	7,117	–	7,117	–	7,117
Dividend on shares released from the share incentive scheme		–	(115)	115	–	–	–
Equity-settled share incentive scheme		–	–	23,979	23,979	3,554	27,533
Dividends paid to non-controlling interests		–	–	–	–	(1,022,768)	(1,022,768)
Dividend declared		–	–	(1,383,548)	(1,383,548)	–	(1,383,548)
Share of changes in equity other than comprehensive income and distributions received from associates		–	–	16,498	16,498	–	16,498
Other changes of investment in an associate		–	–	(2,027)	(2,027)	–	(2,027)
Deemed disposal of investments in associates		–	–	47,424	47,424	–	47,424
Distributions of acquiree of business combinations under common control before the acquisition date		–	–	(133,276)	(133,276)	–	(133,276)
Others		–	–	28,170	28,170	(16,604)	11,566
At 31 December 2017 (Restated)		2,767,095	(193,003)	35,727,389	38,301,481	19,645,709	57,947,190

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Notes	Share capital RMB'000 (Note 31)	Treasury shares held for share incentive scheme RMB'000 (Note 48)	Reserves RMB'000 (Note 32)	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
		Attributable to owners of the parent					
At 1 January 2018							
Total comprehensive income		-	-	5,809,984	5,809,984	3,564,787	9,374,771
Issue of ordinary shares		204,561	-	(204,561)	-	-	-
Effects of transactions with non-controlling interests	43	-	-	307,797	307,797	1,995,908	2,303,705
Capital injection from non-controlling shareholders of subsidiaries		-	-	-	-	1,036,707	1,036,707
Acquisition of subsidiaries	44	-	-	-	-	229,447	229,447
Disposal of subsidiaries	42	-	-	-	-	(1,157)	(1,157)
Transfer of treasury shares upon vesting of share incentive scheme		-	48,097	-	48,097	-	48,097
Dividends on shares held by the share incentive scheme		-	2,509	-	2,509	-	2,509
Release of shares from the share incentive scheme		-	7,293	-	7,293	-	7,293
Dividend on shares released from the share incentive scheme		-	(214)	214	-	-	-
Equity-settled share incentive scheme		-	-	(4,695)	(4,695)	(794)	(5,489)
Dividends paid to non-controlling interests		-	-	-	-	(1,039,216)	(1,039,216)
Dividend declared		-	-	(1,577,244)	(1,577,244)	-	(1,577,244)
Share of changes in equity other than comprehensive income and distributions received from associates		-	-	46,409	46,409	34,660	81,069
Other changes of investment in an associate		-	-	(103,356)	(103,356)	(12,329)	(115,685)
Others		-	-	(16,449)	(16,449)	219	(16,230)
At 31 December 2018		2,971,656	(135,318)	39,985,488	42,821,826	25,453,941	68,275,767

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000 (Restated)
Cash flows from operating activities:			
Cash generated from operations	40(a)	**6,421,228**	5,940,580
Income tax paid		**(2,767,489)**	(2,731,912)
Net cash generated from operating activities		**3,653,739**	3,208,668
Cash flows from investing activities:			
Proceeds from disposal of intangible assets		**4,518**	932
Proceeds from disposal of prepaid land lease payments		**30,252**	28,239
Proceeds from disposal of property, plant and equipment		**169,775**	126,792
Proceeds from disposal of investment properties		**1,797**	774
Proceeds from disposal of financial assets at fair value through profit or loss		**60,113**	–
Proceeds from disposal of available-for-sale investments		**–**	111,578
Proceeds from disposal of an associate		**–**	17,799
Proceeds from disposal of other non-current assets		**3,059**	5,228
Interest received from long-term deposits		**76,049**	62,367
Disposal of subsidiaries, net of cash disposed of	42	**341**	(125,859)
Dividends received from associates		**383,378**	193,633
Dividends received from financial assets at fair value through profit or loss		**12,464**	–
Interest income from asset-backed securities		**18,635**	–
Dividends received from financial assets at fair value through other comprehensive income		**850**	–
Dividends received from available-for-sale investments		**–**	36,261
Purchase of prepaid land lease payments		**(138,090)**	(53,398)
Purchase of property, plant and equipment		**(3,239,849)**	(2,120,382)
Purchase of intangible assets		**(26,181)**	(96,691)
Purchase of investment properties		**(45)**	(782)
Payments of long-term deposits		**(307,000)**	(237,530)
Payments for acquisition of industry investment funds		**(260,000)**	(195,000)
Acquisition of financial assets at fair value through profit or loss		**(277,040)**	–
Acquisition of available-for-sale investments		**–**	(380,907)
Acquisition of subsidiaries, net of cash acquired of	44	**(51,381)**	(296,139)
Consideration paid for prior year acquisition of subsidiaries		**(222,706)**	(298,953)
Acquisition of associates and joint ventures		**(21,374)**	(194,633)
Increase/(decrease) in restricted cash	30	**(2,125,189)**	257,018
Net cash used in investing activities		**(5,907,624)**	(3,159,653)

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000 (Restated)
Cash flows from financing activities:			
Proceeds from borrowings from banks		**49,774,665**	47,316,471
Proceeds from borrowings from related parties		**23,479**	161,378
Proceeds from borrowings from other financial institutions		**1,950,832**	797,716
Repayments of borrowings from banks		**(46,946,008)**	(37,776,987)
Repayments of borrowings from related parties		**(18,867)**	(49,600)
Repayments of borrowings from other financial institutions		**(797,716)**	(690,000)
Repayments of bonds		**(19,000,000)**	(6,000,000)
Proceeds from issuing of bonds		**29,296,528**	3,992,345
Capital injections from non-controlling shareholders of subsidiaries		**1,036,707**	1,975,586
Dividends paid to owners of the parent of the Company		**(1,577,030)**	(1,383,433)
Dividends paid to non-controlling shareholders of subsidiaries		**(1,042,619)**	(1,253,639)
Transactions with non-controlling interests of subsidiaries		**1,668,093**	(577,674)
Advance from employees for purchase of shares under incentive scheme		**–**	96,241
Release/(purchase) of shares under the share incentive scheme		**2,833**	(196,218)
Interest paid		**(4,052,378)**	(2,433,301)
Net cash from financing activities		**10,318,519**	3,978,885
Increase in cash and cash equivalents		**8,064,634**	4,027,900
Cash and cash equivalents at beginning of year	30	**32,240,796**	28,205,005
Effect of foreign exchange rate changes, net		**(6,445)**	7,891
Cash and cash equivalents at end of year	30	**40,298,985**	32,240,796

The accompanying notes are an integral part of these financial statements.

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 ("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 Company and its subsidiaries (together, the "Group") are mainly engaged in: (1) the distribution of medicines, medical devices and pharmaceutical products to hospitals, other distributors, retail drug stores and clinics, (2) the operation of pharmaceutical chain stores, (3) the distribution of laboratory supplies, manufacture and distribution of chemical reagents, and (4) the distribution of scientific instruments and medical equipments.

The ultimate holding company of the Company is China National Pharmaceutical Group Co., Ltd. ("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 principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(1) Basis of preparation

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 preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

(i) New and revised HKFRSs adopted by the Group

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:

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

(i) New and revised HKFRSs adopted by the Group (continued)

HKFRS 15 Revenue from Contracts with Customers (continued)

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.

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

(i) New and revised HKFRSs adopted by the Group (continued)

HKFRS 9 Financial Instruments (continued)

Classification and measurement (continued)

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 equity investments and investment in funds previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss.

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 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.

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

(i) New and revised HKFRSs adopted by the Group (continued)

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.

The information about the credit risk exposure on the Group's trade receivables using a provision matrix was disclosed in note 3(1)(iii) to the financial statements.

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 ageing of the balance, location of customers, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties.

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

The effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECL") is insignificant.

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

(ii) Issued but not yet effective HKFRSs

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 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Except for the new HKFRS mentioned below, the Group do not anticipate that the application of other new and revised HKFRSs and Interpretations will have material impact on the consolidated financial statements of the Group.

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

(ii) Issued but not yet effective HKFRSs (continued)

HKFRS 16 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 will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. The directors expect that the estimated amount of leased asset is not more than 5% of total assets.

2. Summary of significant accounting policies (continued)

(2) Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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.

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.

2. Summary of significant accounting policies (continued)

(2) Subsidiaries (continued)

(i) Business combinations not under common control

The Group applies the acquisition method of accounting to account for business combinations not under common control. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquire over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of the consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

(ii) Merger accounting for common control combinations

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

2. Summary of significant accounting policies (continued)

(2) Subsidiaries (continued)

(ii) Merger accounting for common control combinations (continued)

The consolidated statement of profit or loss include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter year, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous financial year end or when they first came under common control, whichever is shorter.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using the merger accounting is recognised as an expense in the year in which it is incurred.

(iii) Changes in ownership interests in subsidiaries without loss of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iv) Disposal of subsidiaries

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 earnings, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2. Summary of significant accounting policies (continued)

(2) Subsidiaries (continued)

(v) Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

(vi) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2. Summary of significant accounting policies (continued)

(3) Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

(4) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the operating committee (comprising the CEO and the CEO office) that makes strategic decisions.

2. Summary of significant accounting policies (continued)

(5) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional currency and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the respective functional currencies using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from settlement of such transactions and from translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of financial year end;

(b) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised in other comprehensive income.

2. Summary of significant accounting policies (continued)

(5) Foreign currency translation (continued)

(iii) Group companies (continued)

On consolidation, exchange differences arising from translation of net investments in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income.

(6) Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the statement of profit or loss during the year in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives as follows:

Buildings	20-40 years
Plant and machinery	5-15 years
Furniture, fittings and equipment	3-12 years
Motor vehicles	3-10 years

Construction in progress represents buildings, plant and machinery under construction or pending installation and is stated at cost. Cost includes the costs of construction of buildings and costs of plant and machinery. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial year end.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other gains – net, in the consolidated statement of profit or loss.

2. Summary of significant accounting policies (continued)

(7) Investment property

Investment property is defined as property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production of supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.

The land component of leasehold investment property is accounted for as a prepaid land lease payment.

The building component of investment properties is initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses (if any). Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives of 25 to 50 years.

The residual values and useful lives of investment properties are reviewed, and adjusted as appropriate, at each financial year end. The effects of any revision are included in the statement of profit or loss when the changes arise.

(8) Prepaid land lease payments

Prepaid land lease payments are stated at cost less accumulated amortisation and accumulated impairment losses (if any). Cost represents the consideration paid for the rights to use the land for years ranging from 40 to 50 years. Amortisation of prepaid land lease payments is calculated on a straight-line basis over the year of the rights.

(9) Intangible assets other than goodwill

(i) Sales network

Sales network represents customer relationship and distribution channels acquired in business combinations, which are recognised at fair value at the acquisition date and are amortised using the straight-line method over their estimated useful lives of 3 to 20 years.

(ii) Trademarks and patent rights

Separately acquired trademarks are shown at historical cost. Trademarks acquired in business combinations are recognised at fair value at the acquisition date. Trademarks with a finite useful life are amortised using the straight-line method over their estimated useful lives of 5 to 20 years. Trademarks with an indefinite useful life are not subject to amortisation and are tested annually for impairment.

Patent rights are initially recorded at cost and are amortised using the straight-line method over the estimated useful lives of 5 to 15 years.

(iii) Exclusive distribution rights

Exclusive distribution rights are measured initially at cost and amortised using the straight-line method over their useful life of 10 years according to the contracts.

2. Summary of significant accounting policies (continued)

(9) Intangible assets other than goodwill (continued)

(iv) Favourable leasing rights

Favourable leasing rights acquired in business combinations are recognised at fair value at the acquisition date and are amortised using the straight-line method over 17 to 20 years.

(v) Software

Acquired software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 3 to 10 years.

(vi) Internally generated product development cost

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset upon the completion of the project.

Expenditure on the research phase is recognised in profit or loss in the period in which it is incurred. Expenditure on the product development phase is recognised as intangible asset only if all of the following conditions are satisfied:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset, and use or sell it;
- there is an ability to use or sell the product development result;
- it can be demonstrated how the intangible asset will generate economic benefits;
- adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development phase can be reliably measured.

Other development expenditures that do not meet the conditions above are recognised in profit or loss in the period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as intangible asset in the statement of financial position.

Internally generated product development costs recognised as assets are amortised over their estimated useful lives of 3 to 5 years.

The assets' useful lives are reviewed, and adjusted if appropriate, at each financial year end.

2. Summary of significant accounting policies (continued)

(10) Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the lessee, other than legal title, are accounted for as finance leases. When the Group is a lessor under a finance lease, an amount representing the minimum lease payment receivables and initial direct costs is included in the statement of financial position as finance lease receivable. Any unguaranteed residual value is also recognised at the inception of the lease. The difference between the sum of the minimum lease payment receivables, initial direct costs, the unguaranteed residual value and their present values is recognised as unearned finance income. Unearned finance income is recognised over the period of the lease using the effective interest rate method.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

(11) Fair value measurement

The Group measures its equity investments and debt investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

2. Summary of significant accounting policies (continued)

(11) Fair value measurement (continued)

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(12) Impairment of non-financial assets

Assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(13) Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" above.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

2. Summary of significant accounting policies (continued)

(13) Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Initial recognition and measurement (continued)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

2. Summary of significant accounting policies (continued)

(13) Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement (continued)

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2. Summary of significant accounting policies (continued)

(14) Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Classification

The Group classifies its financial assets in the following categories: loans and receivable and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the financial year end. These are classified as non-current assets. The Group's loans and receivables comprise finance lease receivables, trade and other receivables, pledged bank deposits and cash and cash equivalents in the statement of financial position.

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale investments are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the consolidated statement of profit or loss as other gains.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated statement of profit or loss as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of profit or loss as part of other income when the Group's right to receive payments is established.

2. Summary of significant accounting policies (continued)

(15) Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(16) Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

2. Summary of significant accounting policies (continued)

(16) Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2. Summary of significant accounting policies (continued)

(16) Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

(17) Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

(i) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of profit or loss.

2. Summary of significant accounting policies (continued)

(17) Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

(ii) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost also indicates that the assets are impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss.

(18) Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings and payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

2. Summary of significant accounting policies (continued)

(18) Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement (continued)

Loans and borrowings

After initial recognition, bank loans are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in profit or loss.

(19) Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

(20) Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(21) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2. Summary of significant accounting policies (continued)

(22) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks and other financial institutions, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated and separate statement of financial positions, bank overdrafts are shown within borrowings in current liabilities.

(23) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(24) Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(25) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the financial year end.

(26) Borrowing costs

General and specific borrowing costs directly attributable to construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2. Summary of significant accounting policies (continued)

(27) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, except for deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for associates and joint ventures, only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint ventures only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

2. Summary of significant accounting policies (continued)

(27) Current and deferred income tax (continued)

(iii) Offsetting

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(28) Share-based payments

The Company operates a share incentive scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Asian Options model.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and service conditions are satisfied.

2. Summary of significant accounting policies (continued)

(28) Share-based payments (continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(29) Other employee benefits

Pension scheme

The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 5% of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

2. Summary of significant accounting policies (continued)

(30) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(31) Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

Some contracts for the sale of goods provide customers with rights of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

2. Summary of significant accounting policies (continued)

(31) Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(32) Revenue recognition (applicable before 1 January 2018)

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sales of services – pharmaceutical distribution

The Group sells a range of medicine, medical devices, pharmaceutical and other products in the wholesale market. Sales of goods are recognised when a group entity has delivered products to the wholesaler (including hospital and distributor), the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been delivered to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Medicine products are often sold with volume discounts. Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts at the time of sale. Accumulated experience is used to estimate and provide for the discounts. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with credit terms of 30 to 210 days, which is consistent with the market practice.

2. Summary of significant accounting policies (continued)

(32) Revenue recognition (applicable before 1 January 2018) (continued)

(ii) Sales of goods – retail pharmacy

The Group operates a chain of retail outlets for selling medicines and other pharmaceutical products. Sales of goods are recognised when a group entity sells a product to the customer. Retail sales are usually in cash or by debit or credit cards.

(iii) Sales of services

The Group provides import agency service, consulting service and other miscellaneous services. Revenue from fixed-price contracts for delivering services is recognised in the year when the services are provided.

(iv) Operating lease income

Operating lease income from investment property is recognised in the statement of profit or loss on a straight-line basis over the term of the lease.

(v) Finance lease income

Finance lease income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the net investment of the finance lease or a shorter period, when appropriate, to the net carrying amount of the net investment of the finance lease.

(vi) Franchise income

Franchise income is recognised as revenue when all material services relating to the contract have been substantially performed.

(vii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the investment, and continues unwinding the discount as interest income.

(viii) Dividend income

Dividend income is recognised when the right to receive payment is established.

(33) Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

(34) Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

2. Summary of significant accounting policies (continued)

(35) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the statement of profit or loss over the year necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of profit or loss on a straight-line basis over the expected lives of the related assets.

(36) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

(37) Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

3. Financial risk management

(1) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and fair value and cash flow interest rate risk), credit risk and liquidity risk.

The Group's risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group has not used derivative financial instruments to hedge its risk exposures on changes in foreign currency exchange rates and interest rates.

(i) Foreign currency risk

The Group mainly operates in the PRC with most of the Group's transactions denominated and settled in RMB. However, the Group has certain cash and cash equivalents, borrowings from banks and other financial institutions and trade payables denominated in foreign currencies, mainly United States dollars ("USD"), Hong Kong dollars ("HKD") and Euro ("EUR"), which are exposed to foreign currency translation risk. The Group has not hedged its foreign currency risk.

As at 31 December 2018, if RMB had strengthened/weakened by 10% against USD, HKD and EUR with all other variables held constant, the impact on post-tax profit for the year ended 31 December 2018 would be immaterial.

(ii) Fair value and cash flow interest rate risk

Except for deposits in banks or other financial institutions which earn interest at floating rates, the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk.

As at 31 December 2018, if interest rates on borrowings had been 50 basis points higher/lower with all other variables held constant, the post-tax profit for the year ended 31 December 2018 would have been RMB121,835,000 (2017: RMB94,172,000) lower/higher, mainly as a result of higher/lower interest expense on borrowings.

3. Financial risk management (continued)

(1) Financial risk factors (continued)

(iii) Credit risk

The carrying amounts of pledged bank deposits, cash and cash equivalents, trade and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix at 31 December 2018 was set as below:

As at 31 December 2018

	Expected credit loss rate	Gross carrying amount (RMB'000)	Expected credit losses (RMB'000)
Provision on individual basis		1,185,751	79,852
Provision on collective basis - Ageing			
Within 1 year	1%	95,488,848	989,224
1 to 2 years	10%	972,372	97,237
2 to 3 years	30%	133,347	40,004
3 to 4 years	50%	34,897	17,448
4 to 5 years	80%	17,202	13,761
Over 5 years	100%	12,928	12,928
		97,845,345	1,250,454

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases.

3. Financial risk management (continued)

(1) Financial risk factors (continued)

(iii) Credit risk (continued)

For Contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix at 31 December 2018 was set as below:

As at 31 December 2018

Expected credit loss rate	3%
	RMB'000
Gross carrying amount	**259,225**
Expected credit losses	**8,930**

For the financial assets included in other receivables to which the Group applies the general approach for impairment, information based on the provision matrix was set as below:

	12-month ECLs	Lifetime ECLs	
	Stage 1	Stage 2	Stage 3
Financial assets included in prepayments, other receivables	2,806,486	1,865,698	76,404

Maximum exposure as at 31 December 2017

The Group has policy in place to ensure credit sales are made to customers with an appropriate credit history. Credit terms are approved after credit evaluations/reviews. The majority of trade receivables are with customers having an appropriate credit history.

The Group has policies to place its cash and cash equivalents only with major financial institutions and other financial institutions controlled by CNPGC. As at 31 December 2018, most of the restricted bank deposits and cash and cash equivalents were deposited with major financial institutions in Mainland China and Hong Kong except the deposit placed in a related party as disclosed in Note 45.

3. Financial risk management (continued)

(1) Financial risk factors (continued)

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities, discounting of bank acceptance notes to banks or other financial institutions. The Group's objective is to maintain adequate committed credit lines to ensure sufficient and flexible funding is available to the Group.

At the reporting date, the Group held cash and cash equivalents of RMB40,298,985,000 (2017 (Restated): RMB32,240,796,000) and trade and bills receivables of RMB106,423,594,000 (2017 (Restated): RMB81,299,231,000) that are expected to readily generate cash inflows for managing liquidity risk. The Group also has agreed to receive bank acceptance notes from certain customers with long-term business trading history and most of these notes are guaranteed by major banks in Mainland China. The maturity of these bank acceptance notes ranges from 3 to 6 months. To maintain flexibility in the Group's funding requirements, a major portion of these bank acceptance notes are discounted to banks or other financial institutions with effective interest rates ranging from 3.33% to 5.20% per annum.

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2018					
Interest-bearing bank and other borrowings	**51,010,291**	**1,353,980**	**3,922,477**	**–**	**56,286,748**
Trade and other payables	**99,901,576**	**–**	**–**	**–**	**99,901,576**
Dividends payable	**185,662**	**–**	**–**	**–**	**185,662**
Other non-current liabilities	**–**	**40,667**	**27,267**	**–**	**67,934**
	151,097,529	**1,394,647**	**3,949,744**	**–**	**156,441,920**
As at 31 December 2017 (Restated)					
Interest-bearing bank and other borrowings	32,152,978	4,325,817	1,258,520	–	37,737,315
Trade and other payables	84,067,165	–	–	–	84,067,165
Dividends payable	175,482	–	–	–	175,482
Other non-current liabilities	–	224,031	19,924	–	243,955
	116,395,625	4,549,848	1,278,444	–	122,223,917

Note: The calculation of expected interest to be paid is based on borrowings as at 31 December 2018 and 2017 and the interest rates as at 31 December 2018 and 2017.

3. Financial risk management (continued)

(2) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated based on the total liabilities divided by the total assets.

The gearing ratios are as follows:

	2018 RMB'000	2017 RMB'000 (Restated)
Total liabilities	**167,495,310**	132,746,210
Total assets	**235,771,077**	190,693,400
Gearing ratio	**71.04%**	69.61%

3. Financial risk management (continued)

(3) Fair value estimation

The table below analyses financial instruments carried at fair value, by the valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The table below presents the Group's assets and liabilities that are measured at fair value at 31 December 2018 and 2017.

	Level 1 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000	**Total** RMB'000
At 31 December 2018				
Equity investments designated at fair value through other comprehensive income	**22,325**	**870**	**5,180**	**28,375**
Financial assets at fair value through profit or loss	**399**	**3,700**	**691,772**	**695,871**
Bills receivable held both to collect cash flows and to sell	**–**	**–**	**5,571,562**	**5,571,562**
	22,724	4,570	6,268,514	6,295,808
At 31 December 2017 (Restated)				
Available-for-sale investments	33,084	4,570	383,066	420,720

(i) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

3. Financial risk management (continued)

(3) Fair value estimation (continued)

(ii) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all inputs that are significant to fair value measurement are observable, the instrument is included in level 2.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.

- The fair value of interest rate swaps that is calculated as the present value of the estimated future cash flows based on observable yield curves.

- The fair value of forward foreign exchange contracts that is determined using forward exchange rates at the end of reporting period, with the resulting value discounted back to the present value.

- Other techniques, such as a discounted cash flow analysis, used to determine fair value for the remaining financial instruments.

During the year, there were no transfers of financial assets between level 1 and level 2.

(iii) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The investments in level 3 included unlisted equity investments and asset-backed securities.

As at 31 December 2018, the Group recognised RMB656,152,000 unlisted equity investments in level 3 as these investments and instruments are not traded in an active market, majority of their fair values have been determined using applicable valuation techniques including comparable transactions approach and other option pricing approach. These valuation approaches require significant judgment, assumptions and inputs, including risk-free rates, expected volatility, relevant underlying financial projections, and market information of recent transactions (such as recent fund raising transactions undertaken by the investees) and other exposure, etc.

As at 31 December 2018, the Group invested in asset-backed securities which were issued by special purpose trusts. The Group entered into securitisation transactions in the normal course of business by transferring Trade receivables to special purpose trusts which in turn issued asset-backed securities to investors. The Group acquired some subordinated tranches of securities and accordingly parts of the risks and rewards of the transferred credit assets.

3. Financial risk management (continued)

(3) Fair value estimation (continued)

(iii) Financial instruments in level 3 (continued)

As at 31 December 2018, the Group continued to involve in the asset-back securities transactions to some extent. The Group continued to recognise the relevant assets amounting to RMB40,800,000. The associated liabilities were RMB40,800,000 which represented the maximum cash flows exposure due to the subordinated tranches of securities held by the Group, and its secondary earnings appropriation.

The recurring fair value measurement for the Group's financial assets at fair value through profit or loss was performed using significant unobservable inputs (Level 3) as at 31 December 2018. Below is a summary of the valuation techniques used and the key input to the valuation:

	Valuation technique	Significant unobservable input	Sensitivity of fair value to the input
Unlisted equity investments, at fair value	Valuation multiples	Average P/B multiple of peers	5% increase/decrease would result in increase/decrease in fair value by 5%
Asset-backed securities, at fair value	Discounted cash flow method	Discount rate per annum	5% increase/decrease would result in decrease/increase in fair value by 0.6%
Investments in funds, at fair value	Valuation multiples	Average P/B multiple of peers	5% increase/decrease would result in increase/decrease in fair value by 5%
Bills receivable held both to collect cash flows and to sell	Discounted cash flow method	Discount rate per annum	5% increase/decrease would result in decrease/increase in fair value by 0.2%

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4. Critical accounting estimates and judgements (continued)

(1) Useful lives and residual values of property, plant and equipment

The Group determines the estimated useful lives and residual values and consequently the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future years.

(2) Useful lives of sales network, trademarks and patent rights

The Group determines the estimated useful lives and consequently the related amortisation charges for its sales network, trademarks and patent rights. These estimates are based on the historical experience of the actual useful lives of sales network, trademarks and patent rights of similar nature and functions and considering the current market environment in the PRC and estimations of future changes. Management will increase the amortisation charges where useful lives are less than previously estimated lives, it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in useful lives and therefore amortisation expenses in future years.

(3) Impairment of property, plant and equipment and prepaid land lease payments

Property, plant and equipment and prepaid land lease payments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rates assumptions in the cash flow projections, could materially affect the net present value in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated statement of profit or loss.

4. Critical accounting estimates and judgements (continued)

(4) Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based ageing for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

(5) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of technical innovations, changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each financial year end.

(6) Income taxes and deferred income tax

The Group is subject to income taxes in Mainland China and Hong Kong. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the year in which such estimates are changed.

4. Critical accounting estimates and judgements (continued)

(7) Post-employment benefit obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Discount rate is one of the assumptions used in determining the net cost (income) for pensions. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of PRC government bonds that are denominated in RMB (the currency in which the benefits will be paid), and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are partially based on current market conditions.

(8) Impairment of goodwill and trademarks with an indefinite useful life

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These calculations require the use of estimates (Note 17).

(9) Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 3(3) to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 2 and Level 3. The fair value of the unlisted equity investments at 31 December 2018 was RMB517,033,000 (2017: RMB4,570,000). Further details are included in note 20 and note 22 to the financial statements.

5. 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 medicine and pharmaceutical products to hospitals, other distributors, retail drug stores and clinics;

(ii) Retail pharmacy – operation of medicine chain 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.

5. Segment information (continued)

(1) Years ended 31 December 2018 and 2017

	Pharmaceutical distribution RMB'000	Retail pharmacy RMB'000	Medical devices RMB'000	Other business RMB'000	Eliminations RMB'000	Group RMB'000
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

5. Segment information (continued)

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

	Pharmaceutical distribution RMB'000	Retail pharmacy RMB'000	Medical devices RMB'000	Other business RMB'000	Eliminations RMB'000	Group RMB'000
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

5. Segment information (continued)

(1) Years ended 31 December 2018 and 2017

	Pharmaceutical distribution RMB'000	Retail pharmacy RMB'000	Medical devices RMB'000	Other business RMB'000	Eliminations RMB'000	Group RMB'000
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.

6. Revenue

An analysis of revenue is as follows:

	2018 RMB'000	2017 RMB'000 (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 (Note 15)	**221,451**	188,336
	344,525,821	308,353,579

Revenue from contracts with customers

Disaggregated revenue information

For the year ended 31 December 2018

Segments	Pharmaceutical distribution RMB'000	Retail pharmacy RMB'000	Medical devices RMB'000	Others RMB'000	Total RMB'000
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 Period by delivering products and services.

6. Revenue (continued)

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.

7. Other income

	2018 RMB'000	2017 RMB'000 (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.

8. Other gains – net

	2018 RMB'000	2017 RMB'000 (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	**(59,372)**	(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**	–
Financial assets 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	**3,588**	(21,476)
	81,828	379,251

9. Expenses by nature

	2018 RMB'000	2017 RMB'000 (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 10)	**8,448,589**	7,118,376
Impairment of financial and contract assets, net:		
– Impairment of trade and bills receivables, net (Note 27)	**335,318**	(29,393)
– Impairment of contract assets, net (Note 28)	**(852)**	–
– Impairment of other receivables, net (Note 29)	**26,790**	44,568
– Impairment of other non-current assets, net (Note 25)	**(788)**	(426)
– Impairment of finance lease receivable, net	**–**	40,450
Provision for impairment of inventories (Note 26)	**49,569**	68,382
Provision for impairment of property, plant and equipment (Note 16)	**–**	917
Operating lease rental in respect of land and buildings	**1,297,948**	1,030,060
Depreciation of property, plant and equipment (Note 16)	**1,048,381**	912,296
Depreciation of investment properties (Note 15)	**42,840**	52,016
Amortisation of intangible assets (Note 17)	**260,107**	239,922
Amortisation of prepaid land lease payments (Note 14)	**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

10. Employee benefit expenses

	2018 RMB'000	2017 RMB'000 (Restated)
Salaries, wages, allowances and bonuses	**6,547,004**	5,632,221
Contributions to pension plans (i)	**752,990**	629,795
Post-employment benefits (Note 34)	**45,943**	(111,002)
Housing benefits (ii)	**281,534**	238,042
Share incentive expenses (Note 48)	**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: 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.

10. Employee benefit expenses (continued)

Notes: (continued)

(iv) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2017: three) directors whose emoluments are reflected in the analysis shown in Note 49. The emoluments payable to the remaining three (2017: two) individuals during the year are as follows:

	2018 RMB'000	2017 RMB'000 (Restated)
Basic salaries, housing allowances, other allowances and benefits in kind	10,940	2,709
Bonuses	2,959	2,673
Contributions to pension schemes	347	236
Incentive bonuses	–	4,620
Share incentive expenses	817	869
	15,063	11,107

	2018 Number	2017 Number
Emolument bands		
HK$1,500,001 – HK$2,000,000 (RMB1,314,301 – RMB1,752,400)	1	–
HK$6,000,001 – HK$6,500,000 (RMB5,257,201 – RMB5,695,300)	–	1
HK$6,500,001 – HK$7,000,000 (RMB5,695,301 – RMB6,133,400)	1	–
HK$7,000,001 – HK$7,500,000 (RMB6,133,401 – RMB6,571,500)	–	1
HK$8,000,001 – HK$8,500,000 (RMB7,009,601 – RMB7,447,700)	1	–

(v) For the years ended 31 December 2017 and 2018, no director received emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office. No director waived or had agreed to waive any emoluments.

11. Finance income and costs

	2018 RMB'000	2017 RMB'000 (Restated)
Interest expense:		
– Borrowings	**2,522,857**	1,646,215
– Discount of bills receivable	**510,756**	342,745
– Factoring of Trade receivable	**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 (Note 16)	**(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

12. Taxation

	2018 RMB'000	2017 RMB'000 (Restated)
Current income tax	**2,982,039**	2,729,045
Deferred income tax (Note 24)	**(178,583)**	(167,224)
	2,803,456	2,561,821

12. Taxation (continued)

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 RMB'000	2017 RMB'000 (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 established 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.

12. Taxation (continued)

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

	2018			2017		
	Before tax RMB'000	Tax credit RMB'000	After tax RMB'000	Before tax RMB'000	Tax (charge)/ credit RMB'000	After tax RMB'000
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)

13. 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 calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the restricted shares expected to be unlocked in the future. 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.

13. Earnings per share (continued)

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

	2018 RMB'000	2017 RMB'000 (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
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

14. Prepaid land lease payments

	2018 RMB'000	2017 RMB'000 (Restated)
Cost	**2,003,406**	1,882,789
Accumulated amortisation	**(336,081)**	(297,746)
Net carrying amount	**1,667,325**	1,585,043
Opening carrying amount	**1,585,043**	1,565,066
Additions	**119,888**	85,479
Acquisition of subsidiaries (Note 44)	**32,084**	–
Disposal	**(26,339)**	(29,692)
Amortisation (Note 9)	**(43,351)**	(35,810)
Closing carrying amount	**1,667,325**	1,585,043

All land in Mainland China is state-owned and no individual land ownership rights exist. The Group acquires the right to use certain land and the considerations paid for such right are recorded as prepaid land lease payments, which are amortised over the lease terms of 40 to 50 years using the straight-line method.

Amortisation expense charged to the consolidated statement of profit or loss is as follows:

	2018 RMB'000	2017 RMB'000 (Restated)
Cost of sales	**3,437**	2,068
Administrative expenses	**39,914**	33,742
	43,351	35,810

As at 31 December 2018, the prepaid land lease payments with a net carrying amount of approximately RMB85,441,000 (2017: RMB56,374,000) were pledged as collateral for the Group's bank borrowings (Note 33).

15. Investment properties

	2018 RMB'000	2017 RMB'000 (Restated)
Cost	**999,246**	1,007,033
Accumulated depreciation and impairment	**(415,689)**	(379,078)
Net carrying amount	**583,557**	627,955
Opening carrying amount	**627,955**	663,147
Additions	**45**	782
Transfer from property, plant and equipment (Note 16)	**32,914**	22,817
Transfer to property, plant and equipment (Note 16)	**(32,720)**	(6,064)
Disposal	**(1,797)**	(711)
Depreciation (Note 9)	**(42,840)**	(52,016)
Closing carrying amount	**583,557**	627,955

Investment properties are located in Mainland China on land with the land use periods of 25 to 50 years (2017: 25 to 50 years).

As at 31 December 2018, investment properties with a carrying amount of approximately RMB29,000 (2017: RMB74,000) were pledged as collateral of the Group's bank borrowings (Note 33).

As at 31 December 2018, the fair value of the investment properties was estimated to be approximately RMB3,211,446,000 (2017: RMB3,332,096,000). The valuation was determined using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square metre.

Rental income from investment properties has been included in the consolidated statement of profit or loss as follows:

	2018 RMB'000	2017 RMB'000 (Restated)
Revenue (Note 6)	**221,451**	188,336

16. Property, plant and equipment

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2017 (Restated)						
Cost	6,220,842	2,415,824	1,318,160	709,219	458,234	11,122,279
Accumulated depreciation and impairment	(1,315,545)	(899,673)	(772,099)	(407,078)	–	(3,394,395)
Net carrying amount	4,905,297	1,516,151	546,061	302,141	458,234	7,727,884
At 1 January 2017, net of accumulated depreciation and impairment	4,905,297	1,516,151	546,061	302,141	458,234	7,727,884
Acquisition of subsidiaries	110,510	1,101	5,297	2,611	366	119,885
Additions	471,489	442,432	219,670	79,279	960,419	2,173,289
Transfers	137,906	42,521	14,132	–	(194,559)	–
Transfer from investment properties (Note 15)	6,064	–	–	–	–	6,064
Transfer to investment properties (Note 15)	(22,817)	–	–	–	–	(22,817)
Impairment charge (Note 9)	–	(917)	–	–	–	(917)
Disposals	(36,619)	(19,264)	(13,861)	(3,873)	(5,609)	(79,226)
Deemed disposal of subsidiaries	(546)	–	(1,940)	(883)	–	(3,369)
Depreciation (Note 9)	(325,966)	(338,898)	(177,684)	(69,748)	–	(912,296)
At 31 December 2017, net of accumulated depreciation and impairment	5,245,318	1,643,126	591,675	309,527	1,218,851	9,008,497
At 31 December 2017 and 1 January 2018						
Cost	**6,857,409**	**2,871,913**	**1,513,110**	**752,955**	**1,218,851**	**13,214,238**
Accumulated depreciation and impairment	**(1,612,091)**	**(1,228,787)**	**(921,435)**	**(443,428)**	**–**	**(4,205,741)**
Net carrying amount	**5,245,318**	**1,643,126**	**591,675**	**309,527**	**1,218,851**	**9,008,497**
At 1 January 2018, net of accumulated depreciation and impairment	**5,245,318**	**1,643,126**	**591,675**	**309,527**	**1,218,851**	**9,008,497**
Acquisition of subsidiaries (Note 44)	**127,945**	**26,539**	**8,048**	**7,205**	**2,956**	**172,693**
Additions	**417,785**	**535,009**	**199,870**	**95,259**	**1,805,326**	**3,053,249**
Transfers	**462,744**	**132,225**	**29,412**	**370**	**(624,751)**	**–**
Transfer from investment properties (Note 15)	**32,720**	**–**	**–**	**–**	**–**	**32,720**
Transfer to investment properties (Note 15)	**(32,914)**	**–**	**–**	**–**	**–**	**(32,914)**
Disposals	**(34,821)**	**(62,809)**	**(14,629)**	**(9,153)**	**(39,316)**	**(160,728)**
Depreciation (Note 9)	**(388,191)**	**(422,484)**	**(158,409)**	**(79,297)**	**–**	**(1,048,381)**
At 31 December 2018, net of accumulated depreciation and impairment	**5,830,586**	**1,851,606**	**655,967**	**323,911**	**2,363,066**	**11,025,136**
At 31 December 2018						
Cost	**7,851,922**	**3,480,085**	**1,697,790**	**814,882**	**2,363,066**	**16,207,745**
Accumulated depreciation and impairment	**(2,021,336)**	**(1,628,479)**	**(1,041,823)**	**(490,971)**	**–**	**(5,182,609)**
Net carrying amount	**5,830,586**	**1,851,606**	**655,967**	**323,911**	**2,363,066**	**11,025,136**

16. Property, plant and equipment (continued)

Depreciation expense was charged to the consolidated statement of profit or loss as follows:

	2018 RMB'000	2017 RMB'000 (Restated)
Cost of sales	**222,292**	126,581
Selling and distribution expenses	**307,655**	280,349
Administrative expenses	**518,434**	505,366
	1,048,381	912,296

As at 31 December 2018, property, plant and equipment with a net carrying amount of approximately RMB90,333,000 (2017: RMB113,464,000) were pledged as collateral of the Group's bank borrowings (Note 33).

Details of the borrowing costs capitalised into cost of property, plant and equipment are as follows:

	2018	2017 (Restated)
Borrowing costs capitalised (Note 11)	**6,511**	9,841
Weighted average rate of borrowing costs	**4.35%**	4.26%

17. Intangible assets

	Goodwill RMB'000	Sales network RMB'000	Trademarks and patent rights RMB'000	Exclusive distribution rights RMB'000	Software RMB'000	Product development costs RMB'000	Favourable leasing rights RMB'000	Total RMB'000
At 1 January 2017 (Restated)								
Cost	4,324,402	2,569,287	157,222	280,802	469,258	32,109	93,242	7,926,322
Accumulated amortisation and impairment	(122,240)	(766,746)	(82,265)	(77,221)	(213,565)	–	(9,891)	(1,271,928)
Net carrying amount	4,202,162	1,802,541	74,957	203,581	255,693	32,109	83,351	6,654,394
At 1 January 2017, net of amortisation and impairment	4,202,162	1,802,541	74,957	203,581	255,693	32,109	83,351	6,654,394
Additions	–	9,061	193	–	83,906	18,849	–	112,009
Acquisition of subsidiaries	496,791	171,823	26,372	–	1,377	–	34,244	730,607
Transfers	–	–	4,400	–	–	(4,400)	–	–
Deemed disposal of subsidiaries	–	–	–	–	(2,708)	–	–	(2,708)
Disposal	–	–	–	–	(932)	–	–	(932)
Amortisation (Note 9)	–	(138,571)	(4,688)	(28,317)	(61,616)	–	(6,730)	(239,922)
At 31 December 2017, net of amortisation and impairment	4,698,953	1,844,854	101,234	175,264	275,720	46,558	110,865	7,253,448
At 31 December 2017 and 1 January 2018								
Cost	4,821,193	2,750,411	188,187	280,802	551,400	46,558	127,486	8,766,037
Accumulated amortisation and impairment	(122,240)	(905,557)	(86,953)	(105,538)	(275,680)	–	(16,621)	(1,512,589)
Net carrying amount	4,698,953	1,844,854	101,234	175,264	275,720	46,558	110,865	7,253,448

17. Intangible assets (continued)

	Goodwill RMB'000	Sales network RMB'000	Trademarks and patent rights RMB'000	Exclusive distribution rights RMB'000	Software RMB'000	Product development costs RMB'000	Favourable leasing rights RMB'000	Total RMB'000
At 1 January 2018, net of amortisation and impairment	4,698,953	1,844,854	101,234	175,264	275,720	46,558	110,865	7,253,448
Additions	-	176	9,650	-	30,003	24,351	-	64,180
Acquisition of subsidiaries (Note 44)	200,431	223,300	-	-	-	-	-	423,731
Transfers	-	-	5,651	-	15,211	(20,862)	-	-
Disposal	-	-	-	-	(4,518)	-	-	(4,518)
Amortisation (Note 9)	-	(136,587)	(11,440)	(29,327)	(76,023)	-	(6,730)	(260,107)
At 31 December 2018, net of amortisation and impairment	4,899,384	1,931,743	105,095	145,937	240,393	50,047	104,135	7,476,734
At 31 December 2018:								
Cost	5,021,624	2,973,887	203,488	280,802	591,127	50,047	127,486	9,248,461
Accumulated amortisation and impairment	(122,240)	(1,042,144)	(98,393)	(134,865)	(350,734)	-	(23,351)	(1,771,727)
Net carrying amount	4,899,384	1,931,743	105,095	145,937	240,393	50,047	104,135	7,476,734

Amortisation expense charged to the consolidated statement of profit or loss is as follows:

	2018 RMB'000	2017 RMB'000 (Restated)
Selling and distribution expenses	**142,870**	173,646
Administrative expenses	**117,237**	66,276
	260,107	239,922

17. Intangible assets (continued)

Impairment tests for goodwill:

Goodwill is allocated to the Group's cash-generating units ("CGUs"), identified by the operating segment, as follows:

2018	Opening RMB'000	Additions RMB'000	Impairment RMB'000	Disposal of subsidiaries RMB'000	Closing RMB'000
Pharmaceutical distribution	3,237,492	194,488	–	–	3,431,980
Medical devices	704,510	–	–	–	704,510
Retail pharmacy	711,663	5,943	–	–	717,606
Other businesses	45,288	–	–	–	45,288
Total	4,698,953	200,431	–	–	4,899,384

2017 (Restated)	Opening RMB'000	Additions RMB'000	Impairment RMB'000	Disposal of subsidiaries RMB'000	Closing RMB'000
Pharmaceutical distribution	2,975,367	262,125	–	–	3,237,492
Medical devices	500,134	204,376	–	–	704,510
Retail pharmacy	681,373	30,290	–	–	711,663
Other businesses	45,288	–	–	–	45,288
Total	4,202,162	496,791	–	–	4,698,953

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rates for the businesses in which the CGUs operate.

17. Intangible assets (continued)

The key assumptions, long-term growth rates and discount rates used for value-in-use calculations of significant CGUs in 2018 are as follows:

	CGU1	CGU2	CGU3	CGU4	CGU5
Segment			**Pharmaceutical distribution**		
Goodwill (RMB'000)	1,081,882	191,420	189,465	184,055	143,835
Revenue growth rates in the budget period	8.35%-14.73%	10.00%	5.00%-21.13%	3.80%-6.95%	3.00-5.00%
Gross margin	7.25%-7.58%	6.70%	6.70%-6.80%	4.70%	6.10%
Growth rates to extrapolate cash flows beyond the budget period	3.00%	3.00%	3.00%	3.00%	3.00%
Discount rate	16.68%	14.75%	16.27%	16.98%	16.74%

Management determined the budgeted gross margin and growth rates based on past performance of the CGUs and expectations for market development. The discount rates used are before tax after reflecting specific risks of the relevant businesses.

In 2018, by comparing the carrying values of the CGUs containing the goodwill with the recoverable amounts, the Group considered no additional impairment for goodwill was required.

18. Subsidiaries

The principal subsidiaries of the Company are set out in Note 46.

Material non-controlling interests

The total non-controlling interests as at 31 December 2018 amounted to RMB25,453,941,000 (31 December 2017 (Restated): RMB19,645,709,000), of which RMB5,171,903,000 (2017: RMB4,610,827,000) was attributed to China National Medicines Corporation Ltd. ("National Medicines") and RMB7,474,099,000 (2017: RMB4,646,166,000) was attributed to China National Accord Medicines Co., Ltd. ("Sinopharm Accord"). The non-controlling interest in respect of each other subsidiaries is not material.

Summarised financial information of subsidiaries with material non-controlling interests

Set out below are the summarised financial information of each subsidiary that has non-controlling interests that are material to the Group.

18. Subsidiaries (continued)

Material non-controlling interests (continued)

Summarised statement of financial position

	National Medicines		Sinopharm Accord	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current				
Assets	**19,323,293**	18,317,272	**24,495,616**	18,320,779
Liabilities	**(10,625,174)**	(10,465,057)	**(14,757,811)**	(12,130,238)
Total current net assets	**8,698,119**	7,852,215	**9,737,805**	6,190,541
Non-current				
Assets	**2,186,476**	1,848,683	**4,428,073**	4,022,864
Liabilities	**(274,943)**	(244,455)	**(266,551)**	(285,903)
Total non-current net assets	**1,911,533**	1,604,228	**4,161,522**	3,736,961
Net assets	**10,609,652**	9,456,443	**13,899,327**	9,927,502

Summarised statement of profit or loss

	National Medicines		Sinopharm Accord	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Revenue	**38,739,827**	36,284,746	**43,122,386**	41,263,629
Profit before income tax	**2,023,214**	1,740,695	**1,673,553**	1,466,029
Income tax expense	**(430,557)**	(401,496)	**(330,498)**	(309,290)
Post-tax profit	**1,592,657**	1,339,199	**1,343,055**	1,156,739
Other comprehensive loss	**(7,815)**	(26,507)	**–**	–
Total comprehensive income	**1,584,842**	1,312,692	**1,343,055**	1,156,739
Total comprehensive income allocated to non-controlling interests	**815,834**	688,729	**667,621**	563,741
Dividends paid to non-controlling interests	**247,584**	102,001	**123,138**	112,255

18. Subsidiaries (continued)

Material non-controlling interests (continued)

Summarised cash flows

	National Medicines		Sinopharm Accord	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Cash flows from operating activities				
Cash generated from operations	**1,417,546**	1,461,551	**1,641,091**	1,595,543
Income tax paid	**(435,892)**	(387,060)	**(318,485)**	(310,251)
Net cash from operating activities	**981,654**	1,074,491	**1,322,606**	1,285,292
Net cash from/(used in) investing activities	**(194,590)**	(102,903)	**(222,458)**	(286,181)
Net cash from/(used in) financing activities	**(1,072,905)**	1,621,707	**2,858,781**	(477,023)
Net increase in cash and cash equivalents	**(285,841)**	2,593,295	**3,958,929**	522,088
Cash and cash equivalents at beginning of year	**5,339,722**	2,746,427	**3,673,499**	3,150,915
Effect of foreign exchange rate changes, net	**(268)**	–	**(311)**	496
Cash and cash equivalents at end of year	**5,053,613**	5,339,722	**7,632,117**	3,673,499

The information above is the amounts before inter-company eliminations.

19. Investments in associates

	2018 RMB'000	2017 RMB'000 (Restated)
Share of net assets	**6,332,163**	5,453,007
Goodwill	**26,333**	26,333
	6,358,496	5,479,340

	2018 RMB'000	2017 RMB'000
At 1 January	**5,479,340**	3,592,320
Other additions	**476,000**	194,633
Reclassification from investments in subsidiaries upon cessation of control	**3,500**	1,357,609
Share of results	**833,203**	466,926
Unrealised (gain)/loss on transactions with associates	**(8,014)**	914
Share of other comprehensive loss	**(600)**	(645)
Deemed disposal of investment in associates	**–**	47,424
Share of changes in equity other than comprehensive income and distributions received from associates	**81,069**	16,498
Other changes in an investment in an associate (ii)	**(115,685)**	(2,027)
Dividends declared by associates attributable to the Group	**(390,317)**	(165,738)
Disposal of an investment in an associate	**–**	(17,799)
Reclassification to investments in subsidiaries upon transfer of control to the Group	**–**	(10,775)
At 31 December	**6,358,496**	5,479,340

19. Investments in associates (continued)

Particulars of the material associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of equity interest attributable to the Group 2018	Percentage of equity interest attributable to the Group 2017	Principal activity
Shanghai Modern Pharmaceutical Co., Ltd. (上海現代製藥股份有限公司)(i)	Ordinary shares of RMB1 each	Mainland China	**18.14%(ii)**	18.56%	Pharmaceutical manufacturing

(i) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

(ii) The Group's investment in this associate is accounted for under the equity method of accounting because the Group has significant influence over it by way of representation on the board of directors and participation in the policy-making process, despite the fact that the Group's equity interests in it were lower than 20% for the year ended 31 December 2018.

In 2016, the Company disposed of a 26% equity interest in Sinopharm Holding A-Think Pharmaceutical Co., Ltd. ("Sinopharm A-Think") and a 51% equity interest in China National Pharmaceutical Group Sanyi Pharmaceutical (Wuhu) Co., Ltd. ("Sanyi Pharmaceutical"), a 51% equity interest in Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd. ("Zhijun Pharmaceutical"), a 51% equity interest in Shenzhen Zhijun Pharmaceutical Trade Co., Ltd. ("Zhijun Pharmaceutical Trade"), a 51% equity interest in Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd. ("Pingshan Pharmaceutical"), and Pingshan Base to Shanghai Modern Pharmaceutical Co., Ltd. ("Modern Pharmaceutical") for an aggregate consideration of approximately RMB2,997,533,000, which shall be satisfied by issuance of 103,149,769.00 consideration shares in total at the issue price of RMB29.06 per consideration share by Modern Pharmaceutical to the Company. According to certain conditions stipulated by the supplementary agreements on the above transactions, the Company is required to compensate Modern Pharmaceutical in the form of consideration shares obtained in the above transactions based on the achievement of the profit targets of Sinopharm A-Think, Sanyi Pharmaceutical, Zhijun Pharmaceutical, Zhijun Pharmaceutical Trade and Pingshan Pharmaceutical. As Zhijun Pharmaceutical, Zhijun Pharmaceutical Trade and Pingshan Pharmaceutical did not achieve the profit target in 2017, the Company shall compensate Modern Pharmaceutical 3,872,786 consideration shares. Then, the Company recognised a decrease in equity of RMB18,073,000. As Sinopharm A-Think and Zhijun Pharmaceutical did not achieve the profit target in 2018, the Company shall compensate Modern Pharmaceutical 15,825,286 consideration shares. Then, the Company recognised a decrease in equity of RMB97,612,000.

The above transactions resulted in shareholding of the Group in Modern Pharmaceutical decreasing from 18.56% to 18.14%.

19. Investments in associates (continued)

The following table illustrates the summarised financial information of Shanghai Modern Pharmaceutical Co., Ltd. extracted from its financial statements, reconciled to the carrying amount in the consolidated financial statements:

	2018 RMB'000
Current assets	8,465,395
Non-current assets	7,944,263
Current liabilities	(6,581,000)
Non-current liabilities	(1,452,100)
Non-controlling interests	(1,638,191)
Net assets	6,738,367
Proportion of the Group's ownership	18.14%
Carrying amount of the investment	1,222,340
Revenue	11,320,781
Profit for the year	1,008,525
Total comprehensive income for the year	1,008,525
Dividend declared	9,598

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2018 RMB'000
Share of the associates' profit for the year	707,019
Share of the associates' other comprehensive income	(600)
Share of the associates' total comprehensive income	706,419
Aggregate carrying amount of the Group's investments in the associates	5,136,156

20. Equity investments designated at fair value through other comprehensive income/Available-for-sale investments

Equity investments designated at fair value through other comprehensive income

	2018 RMB'000	2017 RMB'000
Listed equity investment, at fair value		
Jiangsu Lianhuan Pharmaceutical Group Co., Ltd	**22,325**	–
	22,325	–
Unlisted equity investment, at fair value		
Suzhou Liuliu Vision Technology Co., Ltd.	**2,284**	–
Horgos Boyun Limin E-commerce Co., Ltd.	**1,127**	–
Beijing Guokong Cloud Pharmacy Co., Ltd.	**553**	–
Zhejiang Wahaha Industrial Co., Ltd.	**500**	–
Sinopharm (Shanghai) E-commerce Co., Ltd.	**470**	–
Hunan Zhongbai Pharmaceutical Investment Co., Ltd.	**315**	–
Shanghai Guoda Shuguang Pharmacy Co., Ltd.	**271**	–
Jinzhou Guoyaotang Pharmacy Co., Ltd.	**250**	–
Wuhan Gaoke Medical Device Enterprise Incubation Co., Ltd.	**150**	–
Shanghai Guoren Pharmacy Co., Ltd.	**100**	–
Guoyatangtang Pharmacy (Shenyang) Co., Ltd.	**30**	–
	6,050	–
	28,375	–

Notes:

(1) The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

(2) During the year ended 31 December 2018, the Group received dividends in the amounts of RMB850,000.

20 Equity investments designated at fair value through other comprehensive income/Available-for-sale investments (continued)

Available-for-sale investments

	2018 RMB'000	2017 RMB'000 (Restated)
Listed equity investments, at fair value	–	33,084
Unlisted equity investments	–	323,979
Investments in funds	–	50,966
Asset-backed securities, at fair value (i)	–	383,066
	–	791,095
Less: Current portion	–	(516)
	–	790,579

Notes:

(i) Please refer to Note 3 (3)(iii) for details of asset-back securities.

21. Finance lease receivables

	2018 RMB'000	2017 RMB'000 (Restated)
Finance lease receivables	16,226	21,425
Less: Unearned finance income	(1,644)	(2,884)
Net finance lease receivables	14,582	18,541
Less: Current portion	(4,917)	(5,026)
	9,665	13,515

22. Financial assets at fair value through profit or loss

	2018 RMB'000	2017 RMB'000
Listed equity investments, at fair value	**399**	–
Unlisted equity investments, at fair value	**510,983**	–
Asset-backed securities, at fair value (i)	**40,800**	–
Investments in funds, at fair value	**143,689**	–
	695,871	–
Less: Current portion	**(41,199)**	–
	654,672	–

Notes:

(i) Please refer to Note 3 (3)(iii) for details of asset-back securities.

23. Financial instruments by category

At 31 December 2018	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit and loss RMB'000	Equity investments at fair value through other comprehensive income RMB'000	Debt investments at fair value through other comprehensive income RMB'000	Total RMB'000
Financial assets included in other non-current assets	1,918,795	–	–	–	1,918,795
Equity investments designated at fair value through other comprehensive income	–	–	28,375	–	28,375
Financial assets at fair value through profit and loss	–	695,871	–	–	695,871
Finance lease receivables	14,582	–	–	–	14,582
Trade and bills receivables	100,852,032	–	–	5,571,562	106,423,594
Financial assets included in prepayments, other receivables and other assets	4,748,588	–	–	–	4,748,588
Pledged deposits and cash	7,188,543	–	–	–	7,188,543
Cash and cash equivalents	40,298,985	–	–	–	40,298,985
Total	155,021,525	695,871	28,375	5,571,562	161,317,333

	Financial liabilities at amortised cost RMB'000
Interest-bearing bank and other borrowings	55,036,385
Trade and bills payables	83,682,927
Dividends payable	185,662
Financial liabilities included in accruals and other payables	16,218,649
Financial liabilities included in other non-current liabilities	67,934
Total	155,191,557

23. Financial instruments by category (continued)

At 31 December 2017 (Restated)	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Total RMB'000
Financial assets included in other non-current assets	1,767,938	195,000	1,962,938
Available-for-sale investments	–	791,095	791,095
Finance lease receivables	18,541	–	18,541
Trade receivables	81,299,231	–	81,299,231
Financial assets included in other receivables	4,934,986	–	4,934,986
Pledged deposits and cash	5,063,354	–	5,063,354
Cash and cash equivalents	32,240,796	–	32,240,796
Total	125,324,846	986,095	126,310,941

	Financial liabilities at amortised cost RMB'000
Interest-bearing bank and other borrowings	37,101,298
Trade and bills payables	72,492,039
Dividends payable	175,482
Financial liabilities included in accruals and other payables	11,575,126
Financial liabilities included in other non-current liabilities	243,955
Total	121,587,900

24. Deferred income tax

The movements in deferred tax assets and liabilities are as follows:

Deferred tax assets

	Employee benefit obligations RMB'000	Impairment provision for assets RMB'000	Unrealised profits RMB'000	Tax losses RMB'000	Share-based payments RMB'000	Sales rebates and others RMB'000	Total RMB'000
At 1 January 2017 (Restated)	211,286	311,723	25,784	37,501	936	275,790	863,020
Acquisition of subsidiaries	–	5,265	835	–	3	–	6,103
Credited/(charged) to the consolidated statement of profit or loss	7,522	14,055	(4,201)	13,464	6,278	103,642	140,760
Charged to other comprehensive income	(2,984)	–	–	–	–	–	(2,984)
Credited to capital surplus	–	–	–	–	584	–	584
Disposal of subsidiaries and disposals in connection with asset restructuring	–	(24,344)	–	–	–	(62,941)	(87,285)
At 31 December 2017 (Restated)	215,824	306,699	22,418	50,965	7,801	316,491	920,198
Acquisition of subsidiaries (Note 44)	**–**	**5,937**	**–**	**–**	**–**	**312**	**6,249**
Credited/(charged) to the consolidated statement of profit or loss	**(58,008)**	**84,219**	**1,093**	**35,798**	**(299)**	**79,727**	**142,530**
Charged to other comprehensive income	**3,797**	**–**	**–**	**–**	**–**	**–**	**3,797**
Credited to capital surplus	**–**	**–**	**–**	**–**	**(632)**	**–**	**(632)**
At 31 December 2018	**161,613**	**396,855**	**23,511**	**86,763**	**6,870**	**396,530**	**1,072,142**

24. Deferred income tax (continued)

Deferred tax liabilities

	Fair value adjustments on assets relating to business combinations	Fair value gains on available investments available-for-sale through investments	Fair value gains on equity investments at fair value through profit and loss	Fair value gains on equity investments at fair value through other comprehensive income	Purchase rebates	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017 (Restated)	749,579	19,013	–	–	23,463	6,245	798,300
Acquisition of subsidiaries	83,566	–	–	–	–	–	83,566
Credited/(charged) to the consolidated statement of profit or loss	(60,735)	–	–	–	33,068	1,203	(26,464)
Charged to other comprehensive income	–	(8,836)	–	–	–	–	(8,836)
At 31 December 2017 (Restated)	772,410	10,177	–	–	56,531	7,448	846,566
Re-classification	–	(10,177)	2,468	7,709	–	–	–
At 1 January 2018	772,410	–	2,468	7,709	56,531	7,448	846,566
Acquisition of subsidiaries (Note 44)	57,321	–	–	–	–	–	57,321
(Credited)/charged to the consolidated statement of profit or loss	(59,014)	–	20,773	–	(15,734)	17,922	(36,053)
Charged to other comprehensive income	–	–	–	(2,815)	–	–	(2,815)
Disposal of subsidiaries (Note 42)	–	–	–	–	–	(113)	(113)
At 31 December 2018	770,717	–	23,241	4,894	40,797	25,257	864,906

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefits through future taxable profits is probable. Based on the above principle, the Group did not recognise deferred tax assets of approximately RMB63,463,000 (2017: RMB21,311,000) in respect of tax losses amounting to approximately RMB253,852,000 (2017: RMB85,244,000). As at 31 December 2018, these unrecognised tax losses amounting to RMB69,571,000, RMB27,129,000, RMB50,473,000, RMB53,911,000 and RMB52,768,000 will expire in 2019, 2020, 2021, 2022 and 2023 respectively.

25. Other non-current assets

	2018 RMB'000	2017 RMB'000 (Restated)
Long-term deposits	**1,819,750**	1,555,383
Contract assets	**53,705**	–
Prepayment for land lease payments	**21,000**	–
Prepayment for acquisition of subsidiaries	**–**	86,931
Prepayment for acquisition of industry investment funds	**–**	195,000
Continuing involvement assets (note)	**–**	102,000
Others	**322,565**	291,298
Impairment	**(189)**	(977)
Other non-current assets – net	**2,216,831**	2,230,220

The movements in the loss allowance for impairment of non-current assets are as follows:

	2018 RMB'000
At beginning of year	**977**
Reversal of provision (Note 9)	**(788)**
At end of year	**189**

Note:

Please refer to Note 3 (3)(iii) for details of continuing involvement assets.

26. Inventories

	2018 RMB'000	2017 RMB'000 (Restated)
Raw materials	**140,407**	157,086
Work in progress	**34,772**	3,967
Finished goods and trading merchandise	**35,420,877**	30,292,170
	35,596,056	30,453,223
Less: Provision for impairment	**(207,193)**	(179,786)
	35,388,863	30,273,437

The cost of inventories recognised as expense and included in cost of sales amounted to RMB312,481,989,000 (2017: RMB281,714,689,000) (Note 9).

Movements in provision for impairment of inventories are as follows:

	2018 RMB'000	2017 RMB'000 (Restated)
At 1 January	**179,786**	158,021
Acquisition of subsidiaries	**277**	615
Provision for the year (Note 9)	**49,569**	68,382
Write-off for the year	**(22,439)**	(47,232)
At 31 December	**207,193**	179,786

27. Trade and bills receivables

	2018 RMB'000	2017 RMB'000 (Restated)
Trade receivables	**97,845,345**	69,687,246
Bills receivable	**9,828,703**	12,520,398
Less: Provision for impairment	**(1,250,454)**	(908,413)
Trade and bills receivables – net	**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 manufacturing 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 RMB'000	2017 RMB'000 (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 Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade receivables. To measure the expected credit losses, these receivables have been grouped based on shared credit risk characteristics and the ageing from billing. See Note 3(i)(ii) and Note 4(4) for further information about expected credit loss provision.

27. Trade and bills receivables (continued)

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

	2018 RMB'000	2017 RMB'000 (Restated)
At beginning of year	908,413	930,230
Acquisition of subsidiaries	6,855	18,761
Provision for impairment (reversal of provision) (Note 9)	335,318	(29,393)
Other increase/(decrease) for the year	5,831	(3,964)
Write-off	(5,963)	(7,221)
At end of year	1,250,454	908,413

The maximum exposure to credit risk as at 31 December 2018 was the carrying value of each category of receivables mentioned above and in Note 29.

As at 31 December 2018, bills receivable of RMB386,318,000 (2017: RMB714,039,000) and trade receivable of RMB510,643,000 (2017: RMB373,924,000) were pledged as collateral for the Group's bank borrowings (Note 33).

As at 31 December 2018, bills receivable of RMB699,409,000 (2017: RMB235,345,000) were pledged as collateral for the Group's note payable.

As at 31 December 2018, outstanding trade receivables of RMB25,425,928,000 (2017: RMB21,905,910,000) were derecognised under the trade receivables 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 in Note 37.

28. Contract assets

	31 December 2018 RMB'000
Contract asset arising from:	
Sale of goods	259,224
Impairment	(8,930)
Contract assets – net	250,294

Notes:

The Group has initially applied HKFRS 9 and HKFRS 15 using the cumulative effect transition method and adjusted the opening balances as at 1 January 2018.

A contract asset represents the Group's right to consideration in exchange for services that the Group has transferred to a customer that is not yet unconditional. The contract assets are transferred to trade receivables when the rights become unconditional other than passage of time.

Upon the adoption of HKFRS 15:

The movements in the loss allowance for impairment of contract assets are as follows:

	2018 RMB'000
At Beginning of year	–
Re-classification	9,782
At Beginning of year (Restated)	9,782
Reversal of provision (Note 9)	(852)
At end of year	8,930

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for contract assets. To measure the expected credit losses, these receivables have been grouped based on shared credit risk characteristics and the ageing from billing. See note 3(1)(iii) and note 4(4) for further information about expected credit loss provision.

The expected timing of recovery or settlement for contract assets as at 31 December 2018 is within one year.

29. Prepayments, other receivables and other assets

	2018 RMB'000	2017 RMB'000 (Restated)
Prepayments	**9,428,864**	7,950,299
Value-added tax recoverable	**633,305**	686,980
Deposits	**1,683,696**	1,818,678
Staff advances	**75,272**	60,398
Amounts due from related parties (Note 45)		
– other receivables	**188,569**	393,276
– prepayments	**185,424**	274,781
Continuing involvement assets (i)	**–**	175,098
Purchase rebate	**1,506,441**	1,202,203
Other receivables	**1,592,121**	1,548,789
	15,293,692	14,110,502
Less: Impairment allowance (ii)	**(235,514)**	(221,487)
	15,058,178	13,889,015

(i) Please refer to Note 3 (3)(iii) for details of continuing involvement assets.

(ii) The movements in the loss allowance for impairment of prepayments, other receivables and other assets are as follows:

	2018 RMB'000	2017 RMB'000
At beginning of year	**221,487**	180,764
Re-classification	**(9,782)**	–
At beginning of year	**211,705**	180,764
Acquisition from business combination	**447**	1,411
Impairment losses (Note 9)	**26,790**	44,568
Other increase	**221**	–
Amount written off as uncollectible	**(3,649)**	(5,256)
At end of year	**235,514**	221,487

Deposits and other receivables mainly represent rental deposits and deposits with suppliers. Expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

30. Pledged deposits and restricted cash, and cash and cash equivalents

	2018 RMB'000	2017 RMB'000 (Restated)
Pledged deposits and restricted cash		
Pledged bank deposits	**7,120,543**	5,040,660
Bank deposits with an initial term of over three months	**68,000**	22,694
	7,188,543	5,063,354
Cash and cash equivalents		
– Cash on hand	**10,045**	11,875
– Cash at banks	**36,826,504**	28,745,458
– Cash in other financial institutions (Note 45)	**3,462,436**	3,483,463
	40,298,985	32,240,796
Pledged deposits and restricted cash, and cash and cash equivalents		
Denominated in		
– RMB	**47,289,485**	37,183,389
– USD	**113,313**	78,767
– EUR	**46,307**	7,412
– HKD	**36,711**	33,477
– Others	**1,712**	1,105
	47,487,528	37,304,150

Bank deposits are pledged as collateral for the following:

	2018 RMB'000	2017 RMB'000 (Restated)
Collateral for bank acceptance notes	**6,927,037**	4,832,710
Collateral for borrowings	**6,443**	59,464
Collateral for letters of credit	**119,022**	96,295
Collateral for letters of guarantee	**4,586**	11,776
Others	**63,455**	40,415
	7,120,543	5,040,660

30. Pledged deposits and restricted cash, and cash and cash equivalents (continued)

The maximum exposure to credit risk as at 31 December 2018 and 2017 approximates to the carrying value of pledged deposits and restricted cash, and cash and cash equivalents.

RMB is not a freely convertible currency in the international market. The conversion of RMB into foreign currencies and the remittance of RMB out of the PRC are subject to the rules and regulations of foreign exchange controls promulgated by the PRC authorities.

The effective interest rate of bank deposits in banks and other financial institutions is as follows:

	2018	2017 (Restated)
Weighted average effective interest rate (per annum)	**1.01%**	1.00%

31. Share capital

	Number of shares '000	**Domestic shares with par value of RMB1 per share** RMB'000	**H shares with par value of RMB1 per share** RMB'000	**Total** RMB'000
At 1 January 2017 and 31 December 2017	2,767,095	1,574,284	1,192,811	2,767,095
Issue of shares	204,561	204,561	–	204,561
At 31 December 2018	2,971,656	1,778,845	1,192,811	2,971,656

The Company issued 204,561,102 domestic shares to "GNPGC" at the issue price of RMB24.97 per consideration share on 13 December 2018 to purchase China National Scientific Instruments and Materials Co., Ltd. (including its subsidiaries, together, "CSIMC"). The total number of authorised domestic shares and H shares was 2,971,656,000 (2017: 2,767,095,000) with a par value of RMB1 per share (2017: RMB1 per share). All issued shares were fully paid.

32. Reserves

	Note	Share premium RMB'000	Statutory reserves RMB'000	Revaluation of available-for-sale investments RMB'000	Other reserves Note (c) RMB'000	Retained earnings Note (b) RMB'000	Total RMB'000
At 1 January 2017							
As previously reported		18,077,173	715,869	30,642	(3,217,390)	13,437,539	29,043,833
Business combination under common control	44	–	–	–	2,254,319	630,141	2,884,460
At 1 January 2017 (Restated)		18,077,173	715,869	30,642	(963,071)	14,067,680	31,928,293
Profit for the year		–	–	–	–	5,575,584	5,575,584
Revaluation of available-for-sale investments							
– gross		–	–	(18,736)	–	–	(18,736)
– tax		–	–	4,684	–	–	4,684
Remeasurement on post-employment benefit obligations							
– gross		–	–	–	9,443	–	9,443
– tax		–	–	–	(2,150)	–	(2,150)
Exchange differences on translation of foreign operations		–	–	–	15,648	–	15,648
Share of other comprehensive income of associates		–	–	–	(645)	–	(645)
Appropriation to statutory reserves	(a)	–	163,831	–	–	(163,831)	–
Dividend on shares released from the share incentive scheme		–	–	–	–	115	115
Dividend declared		–	–	–	–	(1,383,548)	(1,383,548)
Effects of transactions with non-controlling interests		–	–	–	(378,856)	–	(378,856)
Equity-settled share incentive scheme		–	–	–	23,979	–	23,979
Deemed disposal of subsidiaries		–	–	–	(3,210)	–	(3,210)
Share of changes in equity other than comprehensive income and distributions received from associates		–	–	–	16,498	–	16,498
Other changes of an investment in an associate		–	–	–	(2,027)	–	(2,027)
Deemed disposal of investments in associates		–	–	–	47,424	–	47,424
Others		–	–	–	28,169	(133,276)	(105,107)
At 31 December 2017 (Restated)		18,077,173	879,700	16,590	(1,208,798)	17,962,724	35,727,389

32. Reserves (continued)

	Notes	Share premium RMB'000	Statutory reserves RMB'000	Revaluation of Equity investments designated at fair value through other comprehensive income RMB'000	Other reserves Note (c) RMB'000	Retained earnings Note (b) RMB'000	Total RMB'000
At 1 January 2018							
As previously reported		18,077,173	879,700	16,590	(3,463,286)	17,173,366	32,683,543
Business combination under common control		–	–	–	2,254,488	789,358	3,043,846
At 1 January 2018 (Restated)		18,077,173	879,700	16,590	(1,208,798)	17,962,724	35,727,389
Profit for the year		–	–	–	–	5,835,842	5,835,842
Issue of ordinary shares		3,145,929	–	–	(3,350,490)	–	(204,561)
Revaluation of available-for-sale investments							
– gross		–	–	(6,031)	–	–	(6,031)
– tax		–	–	1,508	–	–	1,508
Remeasurement on post-employment benefit obligations							
– gross		–	–	–	(17,220)	–	(17,220)
– tax		–	–	–	3,546	–	3,546
Exchange differences on translation of foreign operations		–	–	–	(7,058)	–	(7,058)
Share of other comprehensive income of associates		–	–	–	(600)	–	(600)
Appropriation to statutory reserves	(a)	–	191,386	–	–	(191,386)	–
Dividend on shares released from the share incentive scheme		–	–	–	–	214	214
Dividend declared		–	–	–	–	(1,577,244)	(1,577,244)
Effects of transactions with non-controlling interests	43	–	–	–	307,797	–	307,797
Equity-settled share incentive scheme	48	–	–	–	(4,695)	–	(4,695)
Share of changes in equity other than comprehensive income and distributions received from associates		–	–	–	46,409	–	46,409
Other changes of an investment in an associate		–	–	–	(103,356)	–	(103,356)
Others		–	–	–	(4,891)	(11,561)	(16,452)
At 31 December 2018		21,223,102	1,071,086	12,067	(4,339,356)	22,018,589	39,985,488

32. Reserves (continued)

Notes:

(a) PRC laws and regulations require companies registered in the PRC to maintain certain statutory reserves, which are to be appropriated from the retained earnings (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before distributing retained earnings to their shareholders. Statutory reserves are created for specific purposes. In accordance with the Company Law, PRC companies are required to appropriate 10% of the net profits to statutory surplus reserves. A company may discontinue the appropriation when the balance of its statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the companies or to increase capital of the companies. In addition, a company may make further contribution to a discretionary surplus reserve based on a resolution of the board of directors.

(b) Retained earnings as at 31 December 2018 included the proposed final dividend of RMB1,753,277,000 (2017: RMB1,577,244,000).

(c) Other reserves mainly represent reserves for transactions with non-controlling interests, remeasurement on post-employment benefit obligations and equity-settled share incentive scheme.

33. Interest-bearing bank and other borrowings

	2018 RMB'000	2017 RMB'000 (Restated)
Non-current		
Secured bank borrowings	9,000	–
Unsecured bank borrowings	606,710	430,772
Unsecured borrowings from other financial institutions and related parties	41,600	31,600
Bond (note)	4,293,857	4,989,888
	4,951,167	5,452,260
Current		
Secured bank borrowings	995,068	1,248,317
Unsecured bank borrowings	29,501,455	22,988,821
Unsecured borrowings from other financial institutions and related parties	1,323,904	250,000
Secured borrowings from other financial institutions and related parties	274,817	162,993
Bond (note)	17,989,974	6,998,907
	50,085,218	31,649,038
Total borrowings	55,036,385	37,101,298
The carrying amounts of the Group's borrowings are denominated in the following currencies:		
– RMB	54,929,985	37,101,298
– USD	27,927	–
– EUR	78,473	–
	55,036,385	37,101,298

Note:

On 13 March 2013, the Company completed the issuance of the first tranche of the corporate bonds with an aggregate nominal value of RMB4,000,000,000. The corporate bonds expired on 13 March 2018, for a period of five years commencing from the issue date of 13 March 2013. The annual interest rate of the corporate bonds for the first three years was fixed at 4.54%. Interest was paid on an annual basis. The corporate bonds were matured and were repaid in 2018.

33. Interest-bearing bank and other borrowings (continued)

Note: (continued)

On 9 March 2016, the Company issued 40,000,000 units of bonds at a total par value of RMB4,000,000,000. After deduction of the expenses of approximately RMB12,852,000 in relation to the issuance, the total net proceeds were approximately RMB3,987,148,000. The bonds would mature 5 years from the issue date (i.e., 9 March 2021), and the annual interest rate is 2.92%. The Company has the right for early redemption at the end of the third year, i.e., 9 March 2019. Interest is paid on an annual basis. As at 31 December 2018, the corporate bonds were classified as current liabilities.

On 19 June 2017, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000,000. After deduction of the expenses of approximately RMB3,659,000 in relation to the issuance, the total net proceeds were approximately RMB2,996,341,000. The bonds would mature 270 days from the issue date (i.e., 16 March 2018), and the annual interest rate was 4.77%. The bonds matured and were repaid in 2018.

On 26 October 2017, the Company completed the issuance of the first tranche of the corporate bonds with an aggregate nominal value of RMB1,000,000,000. The corporate bonds will expire on 26 October 2022, for a period of five years commencing from the issue date of 26 October 2017. The Company has the right for early redemption at the end of the third year, i.e., 26 October 2020. The annual interest rate of the corporate bonds for the first three years is fixed at 4.80%. Interest is paid on an annual basis. As at 31 December 2018, the corporate bonds were classified as non-current liabilities.

On 8 February 2018, the Company issued 20,000,000 units of bonds at a total par value of RMB2,000,000,000. After deduction of the expenses of approximately RMB2,325,000 in relation to the issuance, the total net proceeds were approximately RMB1,997,675,000. The bonds would mature 270 days from the issue date (i.e., 5 November 2018), and the annual interest rate was 4.70%. The corporate bonds were matured and were repaid in 2018.

On 9 February 2018, the Company issued 20,000,000 units of bonds at a total par value of RMB2,000,000,000. After deduction of the expenses of approximately RMB1,692,000 in relation to the issuance, the total net proceeds were approximately RMB1,998,308,000. The bonds would mature 180 days from the issue date (i.e., 8 August 2018), and the annual interest rate was 4.70%. As at 31 December 2018, the bonds matured and were repaid in 2018.

On 2 March 2018, the Company issued 40,000,000 units of bonds at a total par value of RMB4,000,000,000. After deduction of the expenses of approximately RMB3,233,000 in relation to the issuance, the total net proceeds were approximately RMB3,996,767,000. The bonds would mature 180 days from the issue date (i.e., 29 August 2018), and the annual interest rate was 4.89%. As at 31 December 2018, the bonds matured and were repaid in 2018.

On 8 March 2018, the Company issued 40,000,000 units of bonds at a total par value of RMB4,000,000,000. After deduction of the expenses of approximately RMB4,753,000 in relation to the issuance, the total net proceeds were approximately RMB3,995,247,000. The bonds would mature 270 days from the issue date (i.e., 3 December 2018), and the annual interest rate was 4.98%. As at 31 December 2018, the bonds matured and were repaid in 2018.

33. Interest-bearing bank and other borrowings (continued)

Note: (continued)

On 9 July 2018, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000,000. After deduction of the expenses of approximately RMB3,843,000 in relation to the issuance, the total net proceeds were approximately RMB2,996,157,000. The bonds will mature 270 days from the issue date (i.e., 5 April 2019), and the annual interest rate is 4.29%. As at 31 December 2018, the corporate bonds were classified as current liabilities.

On 27 August 2018, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000,000. After deduction of the expenses of approximately RMB2,483,000 in relation to the issuance, the total net proceeds were approximately RMB2,997,517,000. The bonds would mature 180 days from the issue date (i.e., 23 February 2019), and the annual interest rate is 3.60%. As at 31 December 2018, the corporate bonds were classified as current liabilities.

On 14 September 2018, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000,000. After deduction of the expenses of approximately RMB3,654,000 in relation to the issuance, the total net proceeds were approximately RMB2,996,346,000. The bonds will mature 270 days from the issue date (i.e., 11 June 2019), and the annual interest rate was 3.70%. As at 31 December 2018, the corporate bonds were classified as current liabilities.

On 21 September 2018, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000,000. After deduction of the expenses of approximately RMB2,483,000 in relation to the issuance, the total net proceeds were approximately RMB2,997,517,000. The bonds would mature 180 days from the issue date (i.e., 20 March 2019), and the annual interest rate is 3.46%. As at 31 December 2018, the corporate bonds were classified as current liabilities.

On 2 November 2018, the Company issued 20,000,000 units of bonds at a total par value of RMB2,000,000,000. After deduction of the expenses of approximately RMB1,573,000 in relation to the issuance, the total net proceeds were approximately RMB1,998,427,000. The bonds will mature 180 days from the issue date (i.e., 2 May 2019), and the annual interest rate is 3.48%. As at 31 December 2018, the corporate bonds were classified as current liabilities.

On 26 November 2018, the Company completed the issuance of the first tranche of the corporate bonds with an aggregate nominal value of RMB3,300,000,000. The corporate bonds will expire on 26 November 2021, for a period of three years commencing from the issue date of 26 November 2018. The annual interest rate of the corporate bonds is fixed at 3.99%. Interest is paid on an annual basis. As at 31 December 2018, the corporate bonds were classified as non-current liabilities.

33. Interest-bearing bank and other borrowings (continued)

The Group's borrowings were repayable as follows:

	Borrowings from banks or other financial institutions As at 31 December		Bonds As at 31 December	
	2018 RMB'000	2017 RMB'000 (Restated)	**2018 RMB'000**	2017 RMB'000 (Restated)
Within 1 year	**32,095,244**	24,650,131	**17,989,974**	6,998,907
Between 1 and 2 years	**176,600**	260,772	**997,252**	3,993,862
Between 2 and 5 years	**480,710**	201,600	**3,296,605**	996,026
	32,752,554	25,112,503	**22,283,831**	11,988,795

All of the Group's borrowings from banks or other financial institutions are with floating rates, as follows:

	2018	2017 (Restated)
Weighted average effective interest rate (per annum)	**4.39%**	4.38%

Interest rates of borrowings from banks or other financial institution are reset periodically according to Hong Kong InterBank Offered Rate, ("HIBOR"); London Interbank Offered Rate, ("LIBOR"); or the benchmark rates announced by the The People's Bank Of China, ("PBOC").

As at 31 December 2018, secured bank borrowings amounting to RMB106,340,000 were guaranteed by third parties (31 December 2017 (Restated): RMB72,286,000). The collateral for the rest of the Group's secured bank borrowings is as follows:

	2018 RMB'000	2017 RMB'000 (Restated)
Cash and cash equivalents (Note 30)	**6,443**	59,464
Property, plant and equipment (Note 16)	**90,333**	113,464
Investment properties (Note 15)	**29**	74
Prepaid land lease payments (Note 14)	**85,441**	56,374
Bills receivable (Note 27)	**386,318**	714,039
Trade receivable (Note 27)	**510,643**	373,924
	1,079,207	1,317,339

33. Interest-bearing bank and other borrowings (continued)

The fair value of the current borrowings approximates to their carrying amount. The carrying amounts and fair values of the non-current borrowings are as follows:

	Carrying amount As at 31 December		Fair value As at 31 December	
	2018 RMB'000	2017 RMB'000 (Restated)	**2018 RMB'000**	2017 RMB'000 (Restated)
Borrowings from banks and other financial institutions	**657,310**	462,372	**761,440**	505,403
Bonds	**4,293,857**	4,989,888	**4,293,857**	4,989,888

The fair values of the current borrowings equal to their carrying amounts, as the impact of discounting is not significant. The fair values are based on discounted cash flows using a rate based on the borrowing rate of 4.39% (2017: 4.38%) and are within level 2 of the fair value hierarchy.

34. Post-employment benefit obligations

The table below outlines where the Group's post-employment amounts and activities are included in the financial statements.

	2018 RMB'000	2017 RMB'000 (Restated)
Obligations for post-employment benefits in the consolidated statement of financial position	**415,461**	409,895

	2018 RMB'000	2017 RMB'000 (Restated)
Charge for post-employment benefits in the consolidated statement of profit or loss	**59,188**	(94,736)
Remeasurement gains recognised in other comprehensive income (Note 12)	**18,447**	(13,105)
Cumulative remeasurement losses recognised in other comprehensive income	**92,822**	74,375

34. Post-employment benefit obligations (continued)

The amounts recognised in the consolidated statement of financial position are analysed as follows:

	2018 RMB'000	2017 RMB'000 (Restated)
Present value of funded obligations	**18,925**	11,066
Fair value of plan assets	**(82,468)**	(56,572)
Surplus of funded plans	**(63,543)**	(45,506)
Present value of unfunded post-employment benefit obligations	**479,004**	455,401
Liability in the consolidated statement of financial position	**415,461**	409,895

The movements in the defined benefit liability during the year are as follows:

	Present value of obligation RMB'000	Fair value of plan assets RMB'000	Total RMB'000
At 1 January 2017 (Restated)	615,880	(46,527)	569,353
Current service cost	5,779	–	5,779
Past service cost	(116,781)	–	(116,781)
Interest expense/(income) (Note 11)	17,868	(1,602)	16,266
	(93,134)	(1,602)	(94,736)
Remeasurements:			
– Return on plan assets, excluding amounts included in interest income	–	(938)	(938)
– Gains from change in financial assumptions	(12,167)	–	(12,167)
	(12,167)	(938)	(13,105)
Contributions:			
– Employers	–	(8,289)	(8,289)
Payments:			
– Benefit payments	(44,112)	784	(43,328)
At 31 December 2017 (Restated)	466,467	(56,572)	409,895

34. Post-employment benefit obligations (continued)

	Present value of obligation RMB'000	Fair value of plan assets RMB'000	Total RMB'000
At 1 January 2018 (Restated)	466,467	(56,572)	409,895
Current service cost	48,271	–	48,271
Past service cost	(2,328)	–	(2,328)
Interest expense/(income) (Note 11)	15,666	(2,421)	13,245
	61,609	(2,421)	59,188
Remeasurements:			
– Return on plan assets, excluding amounts included in interest income	–	916	916
– Gains from change in financial assumptions	17,531	–	17,531
	17,531	916	18,447
Contributions:			
– Employers	–	(25,371)	(25,371)
Payments:			
– Benefit payments	(47,678)	980	(46,698)
At 31 December 2018	497,929	(82,468)	415,461

The significant actuarial assumptions are as follows:

	2018	2017
Discount rate	3.50%	4.00%
Pension growth rate	5.00%	5.00%

Mortality: Average life expectancy of residents in Mainland China

34. Post-employment benefit obligations (continued)

The sensitivity of the defined benefit obligations to changes in the weighted principal assumptions is:

	Impact on defined benefit obligations		
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.25%	Decrease by 2.38%	Increase by 2.49%
Pension growth rate	0.50%	Increase by 0.48%	Decrease by 0.44%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions, the same method (present value of the defined benefit obligations calculated with the projected unit credit method at the end of the reporting period) has been used for calculating the defined benefit obligations recognised in the consolidated statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Expected maturity analysis of undiscounted post-employments benefits:

At 31 December 2018	**Less than 1 year RMB'000**	**Between 1 and 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
Post-employment benefits	**47,330**	**150,312**	**678,975**	**876,617**

35. Other non-current liabilities

	2018 RMB'000	2017 RMB'000 (Restated)
Medical reserve funds		
– general (i)	**505,435**	516,485
– for H1N1 vaccines	**68,407**	68,407
Government grants for construction of logistics centers (ii)	**89,069**	98,783
Government grants for product development	**600**	1,454
Deferred revenue	**261,176**	318,756
Finance lease payables	**67,934**	141,955
Continuing involvement liabilities (iii)	**–**	102,000
Payment for purchase of non-controlling interests	**20,400**	145,003
Payment for acquisition for subsidiaries	**102,194**	–
Others	**34,753**	61,215
	1,149,968	1,454,058

Notes:

(i) Certain medical reserve funds were received by CNPGC from the PRC government for the State reserve requirements of medical products (including medicines) for serious disasters, epidemics and other emergencies. In accordance with a responsibility letter dated 4 January 2006 signed between CNPGC and the Company, CNPGC has re-allocated the funds in relation to medicines to the Group.

The Group received general medical reserve funds of RMB16,950,000 during current year.

The Group will have to sell pharmaceutical products to specific customers at cost when there are any serious disasters, epidemics and other emergencies, and the relevant trade receivables from certain of these customers will be offset with the balance of the fund upon approval from CNPGC and the relevant PRC government authorities. RMB28,000,000 was used to offset trade receivables during the year ended 31 December 2018 (2017: RMB65,000). The Group is required to maintain certain inventories at a level of not less than 70% of the general reserve funds. The medical reserve funds are required to be utilised only for use as mentioned above.

(ii) Certain of the Group's subsidiaries received funds from local governments as subsidies for construction of logistics centers. As at 31 December 2018, the directors expected that the construction will not be completed within one year and therefore, the balance is recorded as other non-current liability.

(iii) Please refer to Note 3 (3)(iii) for details of continuing involvement liabilities.

36. Trade and bills payables

	2018 RMB'000	2017 RMB'000 (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 payables approximates to their carrying amount.

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

	2018 RMB'000	2017 RMB'000 (Restated)
Below 3 months	**56,910,303**	52,110,211
Between 3 and 6 months	**17,747,603**	12,701,467
Between 6 months and 1 year	**5,237,674**	5,538,037
Between 1 and 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 payables are denominated in the following currencies:

	2018 RMB'000	2017 RMB'000 (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

36. Trade and bills payables (continued)

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

During the year ended 31 December 2018, Trade payable 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, the balance of bank borrowings related to this program was RMB398,646,000 (2017: RMB166,835,000).

37. Accruals and other payables

	2018 RMB'000	2017 RMB'000 (Restated)
Accrual of operating expenses	**2,003,143**	1,590,465
Collection of trade receivable on behalf of banks under factoring programs (Note 27)	**3,567,177**	2,717,991
Collection of trade receivable on behalf of related parties under factoring programs (Note 27) & (Note 45)	**465,611**	330,724
Salary and welfare payable	**1,738,889**	1,832,765
Advances from customers	**–**	5,169,479
Other deposits	**6,282,423**	2,806,901
Taxes payable other than income tax	**833,094**	618,132
Interest payable due to unrelated parties	**725,668**	625,581
Interest payable due to related parties (Note 45)	**8,713**	7,745
Other payables due to related parties (Note 45)	**428,200**	422,853
Advances from related parties (Note 45)	**–**	63,807
Payables arising from acquisition of subsidiaries and contingent consideration	**198,018**	308,564
Payables arising from acquisition of non-controlling interests	**217,866**	809,434
Collection on behalf of asset-backed securities	**168,554**	356,245
Continuing involvement liabilities (i)	**40,800**	175,098
Others	**2,112,476**	1,423,525
	18,790,632	19,259,309

The fair value of financial liabilities included in accruals and other payables approximates to their carrying amount.

(i) Please refer to Note 3 (3)(iii) for details of continuing involvement liabilities.

38. Contract Liabilities

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Non-current			
– Amounts received in advance of delivery of products and services	**15,409**	–	–
– Loyalty program	**24,018**	28,357	–
Current			
– Amounts received in advance of delivery of products and services	**6,101,607**	5,233,286	–
	6,141,034	5,261,643	–

39. Dividends

The final dividend for the 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 RMB'000	2017 RMB'000
Proposed final dividend	**1,753,277**	1,577,244

40. Notes to the consolidated statement of cash flows

(a) Cash generated from operations

	2018 RMB'000	2017 RMB'000 (Restated)
Profit before income tax	**12,207,940**	11,226,799
Adjustments for:		
– Share of profits and losses of associates (Note 19)	**(833,203)**	(466,926)
– Share of profits and losses of joint venture	**(9,966)**	(9,953)
– Asset impairment (Note 9)	**410,037**	124,498
– Depreciation (Note 9)	**1,091,221**	964,312
– Amortisation (Note 9)	**303,458**	275,732
– Gain on disposal of prepaid land lease payments, investment properties, property, plant and equipment and intangible assets (Note 8)	**(15,751)**	(46,176)
– Write-back of certain liabilities (Note 8)	**(45,614)**	(100,124)
– Negative goodwill (Note 44)	**(524)**	(401)
– Gain on disposal of available-for-sale investments (Note 8)	**–**	(25,579)
– Gain on fair value remeasurement of existing equity in business combinations not under common control (Note 8)	**–**	(35,239)
– Finance cost	**4,067,959**	2,719,563
– Gain on deemed disposal of subsidiaries and on fair value remeasurement of existing equity in the subsidiary (Note 8)	**(433)**	(219,114)
– Loss on disposal of an investment accounted for the equity method (Note 8)	**–**	263
– Fair value gains on financial assets at fair value through profit or loss	**(86,600)**	–
– Fair value gains on available-for-sale investments	**–**	1,589
– Dividend from financial assets at fair value through profit or loss (Note 8)	**(2,464)**	–
– Dividend from financial assets at fair value through other comprehensive income (Note 8)	**(850)**	–
– Dividend from available-for-sale investments (Note 8)	**–**	(36,261)
– Interest income from asset-backed securities (Note 8)	**(18,635)**	–
– Equity-settled share incentive scheme expense (Note 48)	**19,983**	26,949
	17,086,558	14,399,932
– Inventories	**(4,925,872)**	(1,448,390)
– Trade and bills receivables	**(24,392,238)**	(6,654,135)
– Prepayments, other receivables and other assets	**(971,703)**	(8,702,226)
– Trade and bills payables	**14,735,854**	3,710,297
– Accruals, other payables and other liabilities	**4,888,629**	4,635,102
Cash generated from operations	**6,421,228**	5,940,580

40. Notes to the consolidated statement of cash flows (continued)

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings	**Other liabilities**	**Non-controlling interests**
At 1 January 2018	**35,604,396**	**631,615**	**16,012,019**
Business combination under common control	**1,496,902**	**1,711**	**3,633,690**
At 1 January 2018 (Restated)	**37,101,298**	**633,326**	**19,645,709**
Total comprehensive income attribute to non-controlling interests	**–**	**–**	**3,564,787**
Interest expense	**–**	**4,163,764**	**–**
Capitalised interest expense	**–**	**(6,511)**	**–**
Interest paid classified as operating cash flows	**–**	**(13,245)**	**–**
Effects of transactions with non-controlling interests	**–**	**–**	**1,995,908**
Disposal of subsidiaries	**–**	**–**	**(1,157)**
Business combination not under common control	**149,250**	**–**	**229,447**
Trade payable financing program	**1,943,944**	**–**	**–**
Changes from financing cash flows	**14,282,913**	**(4,052,378)**	**(5,912)**
Changes from operating, investing and non-cash activities	**1,558,980**	**9,425**	**25,159**
At 31 December 2018	**55,036,385**	**734,381**	**25,453,941**

	Interest-bearing bank and other borrowings	Other liabilities	Non-controlling interests
At 1 January 2017	33,497,877	427,245	12,721,508
Business combination under common control	741,406	3,533	3,149,111
At 1 January 2017 (Restated)	34,239,283	430,779	15,870,619
Total comprehensive income attribute to non-controlling interests	–	–	3,079,245
Interest expense	–	2,808,037	–
Capitalised interest expense	–	(9,841)	–
Interest paid classified as operating cash flows	–	(16,266)	–
Effects of transactions with non-controlling interests	–	–	(298,284)
Deemed disposal of subsidiaries	(9,244,059)	–	(115,974)
Business combination not under common control	697,528	–	108,063
Trade payable financing program	3,381,485	–	–
Changes from financing cash flows	7,751,323	(2,433,301)	721,947
Changes from operating, investing and non-cash activities	275,738	(146,082)	280,093
At 31 December 2017 (Restated)	37,101,298	633,326	19,645,709

41. Commitments

(a) Capital commitments

Capital expenditures at the end of reporting period are as follows:

	2018 RMB'000	2017 RMB'000 (Restated)
Property, plant and equipment:		
– contracted but not provided for	**102,033**	1,530,120

(b) Operating lease commitments

(i) The Group as lessee:

The Group leases various land and buildings under non-cancellable operating lease agreements.

Certain of the operating leases contain renewal options which allow the Group to renew the existing leases upon expiry at the then market rental for a specified number of years.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2018 RMB'000	2017 RMB'000 (Restated)
Within 1 year	**1,054,590**	837,790
Later than 1 year but not later than 5 years	**1,739,272**	1,598,768
Later than 5 years	**1,532,678**	943,532
	4,326,540	3,380,090

(ii) The Group as lessor:

The Group leases out certain investment properties under non-cancellable operating lease agreements.

The further aggregate minimum rental receivables under these leases are as follows:

	2018 RMB'000	2017 RMB'000 (Restated)
Within 1 year	**125,680**	17,188
Later than 1 year and not later than 5 years	**84,821**	74,643
Later than 5 years	**18,437**	35,250
	228,938	127,081

42. Disposal of subsidiaries

In September 2018, China Science and Technology Import and Export Hunan Company, former subsidiary of the Company, accepted capital injection from an independent third party amounting to RMB5,250,000. Accordingly, the Company's equity interest in China Science and Technology Import and Export Hunan Company decreased from 100% to 40%. The Company lost its control over China Science and Technology Import and Export Hunan Company after its equity interest in China Science and Technology Import and Export Hunan Company being diluted on 30 September 2018 (the "Deemed Disposal"). Therefore, the investment in China Science and Technology Import and Export Hunan Company and its subsidiaries has not been included in the investments in subsidiaries since 30 September 2018.

The Company had significant influence over China Science and Technology Import and Export Hunan Company after the Deemed Disposal and its remaining equity interests in China Science and Technology Import and Export Hunan Company and its subsidiaries were accounted for as investments in associates as at 31 December 2018.

In August 2018, Sinopharm Holding Hong Kong International Limited was deregistered.

In November 2018, Suzhou Guokang Pharmacy Co., Ltd. was deregistered.

Details of the net assets disposed of are as follows:

	At date of disposal RMB'000
Net assets disposed of:	
Cash and cash equivalents	1,394
Trade and other receivables	4,947
Trade and other payables	(269)
Deferred tax liabilities	(113)
Net assets	5,959
Non-controlling interests	(1,157)
Net assets attributable to the Company	4,802
Gain on deemed disposal of subsidiaries and gain on fair value remeasurement of existing equity in the subsidiary	433
Investments in an associate	3,500
Satisfied by:	
Cash	1,735

42. Disposal of subsidiaries (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2018 RMB'000
Cash consideration	**1,735**
Cash and cash equivalents in the subsidiaries deemed disposed of	**(1,394)**
Net outflow of cash and cash equivalents in respect of the deemed disposal of subsidiaries	**341**

43. Transactions with non-controlling interests

(a) Acquisition of additional interests in subsidiaries

During the year, the Group acquired the following additional equity interests in the subsidiaries from the non-controlling interests:

Subsidiaries	**Equity interests acquired** %	**Cash consideration** RMB'000
Sinopharm Holding Beijing Tianxing Puxin Biomedical Co., Ltd.	4.00%	85,731
Sinopharm Holding Lunan Co., Ltd.	35.00%	170,544
Sinopharm Holding Zhejiang Co., Ltd.	3.67%	185,970
Sinopharm Holding Dalian Pengrun Co., Ltd.	36.29%	40,645
Sinopharm Group Beijing Medical Technology Co., Ltd.	19.00%	951
Sinopharm Holding Nanping Co., Ltd.	40.00%	7,294
Sinopharm Holding Changde Co., Ltd.	30.00%	15,360
Sinopharm Group Guizhou (Zunyi) Medical Devices Co., Ltd.	10.00%	4,000
		510,495

The effect of changes in the equity interests of these subsidiaries on the total equity attributable to owners of the parent during the year is summarised as follows:

	Effect on the total equity RMB'000
Carrying amount of non-controlling interests acquired	273,539
Consideration payable to non-controlling interests	510,495
Excess of consideration paid over the carrying amount acquired	236,956

43. Transactions with non-controlling interests (continued)

(b) Disposal of interests in subsidiaries without loss of control

In July 2018, Sinopharm Guoda obtained a capital injection from a non-controlling shareholder amounting to RMB2,766,700,000. The shareholding of the non-controlling interests in Sinopharm Guoda increased From 0% to 40% and the carrying amount increased by RMB2,223,118,000. The Group recognised an increase in equity attributable to owners of the parent of RMB543,582,000.

Other disposal of interests in subsidiaries without loss of control amounted to RMB47,500,000, resulting in the carrying amount of the shareholding of the non-controlling interests increasing by RMB46,329,000. The Group recognised an increase in equity attributable to owners of the parent of RMB1,171,000.

(c) Effects of transactions with non-controlling interests on the equity attributable to owners of the parent for the year ended 31 December 2018

	Effect on the total equity RMB'000
Changes in equity attributable to owners of the parent arising from:	
– Acquisition of additional interests in subsidiaries	236,956
– Disposal of interests in subsidiaries without loss of control	(544,753)
Net effect for transactions with non-controlling interests on equity attributable to owners of the parent	(307,797)

44. Business combinations

(a) Business combinations not under common control

Acquisitions during the year are as follows:

The Group acquired equity interests from third parties in certain subsidiaries which are mainly engaged in the distribution of medicines and pharmaceutical products and operations of pharmaceutical chain stores in order to extend the market share of the Group. The subsidiaries acquired by the Group during the year are as follows:

Subsidiaries acquired from third parties	Month of acquisition	Acquired interests
Sinopharm Holding Heze Co., Ltd.	January 2018	80.00%
Sinopharm Holdings Tonghua Co., Ltd.	February 2018	70.00%
Xinjiang Lisheng Pharmaceutical Medicine Co., Ltd.	March 2018	51.00%
Xinjiang Haoyouduo Pharmaceutical Chain Co., Ltd.	March 2018	100.00%
Yining Kangzhuo Pharmaceutical Co., Ltd.	March 2018	100.00%
Sinopharm Holding Guangzhou Huadu Co., Ltd.	April 2018	70.00%
Sinopharm Holding Guorun Medical Supply Chain Service (Anhui) Co., Ltd.	April 2018	70.00%
Sinopharm Holding Wende Pharmaceutical Nanjing Co., Ltd.	April 2018	51.00%
Sinopharm Zhihui Minsheng (Tianjin) Pharmaceutical Co., Ltd.	May 2018	60.00%
Lanzhou Shengyuan Pharmaceutical Co., Ltd.	May 2018	70.00%
Sinopharm Binzhou Co., Ltd.	July 2018	70.00%
Yunnan Sinopharm Holdings Dongchang Pharmaceutical Co., Ltd.	July 2018	51.00%
Sinopharm Holding Neijiang Co., Ltd.	July 2018	70.00%
Sinopharm Meichen Zhangzhou Pharmaceutical Co., Ltd.	July 2018	60.00%
Sinopharm Holdings Shaanxi Logistics Co., Ltd.	August 2018	60.00%
Sinopharm Holding Xi'an Co., Ltd.	September 2018	60.00%
Shanxi Zhongao Pharmaceutical Co., Ltd.	September 2018	100.00%
Sinopharm Holding Zibo Co., Ltd.	October 2018	70.00%
Taiyuan Tongxin Liguoda Pharmacy Co., Ltd.	November 2018	100.00%

The effect of the above acquisitions is summarised as follows:

	RMB'000
Purchase consideration	
– Contingent consideration (i)	214,354
– Cash paid	301,243
Total purchase consideration	515,597

44. Business combinations (continued)

(a) Business combinations not under common control (continued)

The details of the assets and liabilities acquired and cash flows relating to these acquisitions are summarised as follows:

	Fair value at acquisition date RMB'000
Cash and cash equivalents	249,862
Property, plant and equipment (Note 16)	172,693
Intangible assets (Note 17)	
– Sales network	223,300
Prepaid land lease payments (Note 14)	32,084
Deferred tax assets (Note 24)	6,249
Inventories	274,686
Other non-current assets	701
Trade and other receivables	1,373,716
Trade and other payables	(1,556,737)
Deferred tax liabilities	(57,321)
Interest-bearing bank and other borrowings	(149,250)
Other non-current liabilities	(24,846)
Total Identifiable net assets at fair value	545,137
Non-controlling interests (ii)	(229,447)
Goodwill (Note 17)	200,431
Negative Goodwill	(524)
Total purchase consideration	515,597
Less: Contingent consideration (i)	(214,354)
	301,243
Less: Non-cash settled consideration	–
Cash consideration paid in 2018	301,243
Cash and cash equivalents in subsidiaries acquired	(249,862)
Cash outflow on acquisition	51,381

44. Business combinations (continued)

(a) Business combinations not under common control (continued)

The goodwill is attributable to the acquired human resources, economies of scale and synergy expected from combining the operations of the Group and above subsidiaries acquired not under common control combination.

Notes:

(i) Contingent consideration

Based on certain conditions stipulated by the agreements on acquisitions, the Group is required to pay a contingent consideration based on achievement of the profit targets of the acquirees. The maximum undiscounted contingent consideration payable is RMB214,354,000.

Based on the projected profit performance of the acquirees, the fair value of the contingent consideration arrangement was estimated to be RMB214,354,000. As at 31 December 2018, there was no adjustment to the contingent consideration arrangement.

(ii) Non-controlling interests

The Group has elected to recognise non-controlling interests measured at the non-controlling interests in the acquiree's net assets excluding goodwill.

(iii) The revenue and net profit of these newly acquired subsidiaries from the respective acquisition dates to 31 December 2018 are summarised as follows:

	From acquisition dates to 31 December 2018 RMB'000
Revenue	**2,857,402**
Net profit	**75,789**

(iv) The revenue and net profit of these newly acquired subsidiaries from 1 January 2018 to 31 December 2018 are summarised as follows:

	From 1 January 2018 to 31 December 2018 RMB'000
Revenue	**4,325,014**
Net profit	**133,323**

44. Business combinations (continued)

(b) Business combination 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 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 will become 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 China Scientific and Materials assets and liabilities at the combination date and the balance sheet date of the previous accounting period are as follows:

	16 October 2018 RMB'000	31 December 2017 RMB'000
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	

44. Business combinations (continued)

(b) Business combination under common control (continued)

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	China Scientific and Materials	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 scheme	(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	China Scientific and Materials	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

45. Significant related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The PRC government, indirectly, owns 100% of CNPGC which is the ultimate holding company of the Company. The Group's significant transactions with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government are a large portion of its sales of goods, purchase of goods, borrowings, interest fee paid, bills receivable discount, key management compensation and guarantees provided to related parties. The Group's significant balances with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government are a large portion of its trade receivables, prepayments and other receivables, trade payables and other payables, borrowings, other non-current liabilities, and cash and cash equivalents.

Beside other PRC government-related entities, the Company's directors and the Group's management consider the following entities are principal related parties of the Group with which the Group had transactions during the year.

Name of related party	Nature of relationship
China National Pharmaceutical Group Co., Ltd.	The ultimate holding company of the Company
Sinopharm Dongfeng Medical and Health Industry Co., Ltd.	Controlled by CNPGC
Xinxiang Central Hospital	Controlled by CNPGC
Dongfeng general hospital of sinopharm	Controlled by CNPGC
Chengdu Rongsheng Pharmaceutical Co., Ltd.	Controlled by CNPGC
Foshan Winteam Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Group Finance Co., Ltd.	Controlled by CNPGC
Lanzhou Institute of Bio-products Co., Ltd.	Controlled by CNPGC
Lanzhou Biotechnology Development Co., Ltd.	Controlled by CNPGC
Guizhou Tongjitang Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Wuhan Blood Products Co., Ltd.	Controlled by CNPGC
Anhui Jingfang Pharmaceutical Co., Ltd.	Controlled by CNPGC
China National Pharmaceutical Industry Co., Ltd.	Controlled by CNPGC
Sino Pharmengin Corporation	Controlled by CNPGC
Sinopharm Group Guizhou Blood Products Co., Ltd.	Controlled by CNPGC
Sinopharm Vanda Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Holding A-Think Pharmaceutical Co., Ltd.	Controlled by CNPGC
China National Pharmaceutical Foreign Trade Corporation	Controlled by CNPGC
Sinopharm Chuankang Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Shanghai Blood Products Co., Ltd.	Controlled by CNPGC
Sinopharm Rongsheng Pharmaceutical Co., Ltd.	Controlled by CNPGC
Huayi Pharmaceutical Co., Ltd.	Controlled by CNPGC
Shanghai Institute of Pharmaceutical Industry	Controlled by CNPGC
Sinopac Puxin Commercial Factoring Co., Ltd.	Controlled by CNPGC

45. Significant related party transactions (continued)

Name of related party	Nature of relationship
China National Corp. of Traditional and Herbal Medicine	Controlled by CNPGC
Shydec Pharmaceutical Marketing Co., Ltd.	Controlled by CNPGC
Shanghai Modern Hasen (Shangqiu) Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Medical And Health Industry Co., Ltd.	Controlled by CNPGC
Xinxiang City Second People's Hospital	Controlled by CNPGC
Wuhan Institute of Biological Products Co., Ltd.	Controlled by CNPGC
Xinxiang Maternity and Child Hospital	Controlled by CNPGC
Sinopharm (Guangdong) Medical Instruments Co., Ltd.	Controlled by CNPGC
Sinopharm Holding (China) Finance Leasing Co., Ltd.	Associate
Yichang Humanwell Pharmaceutical Co., Ltd.	Associate
Wuxi Huihua Pharmaceutical Chain Store Co., Ltd.	Associate
Sinopharm Group Zhijun (Suzhou) Pharmaceutical Co., Ltd.	Associate
China National Pharmaceutical Group Sanyi Pharmaceutical (Wuhu) Co., Ltd.	Associate
Shanghai Modern Pharmaceutical Co., Ltd.	Associate
Shenzhen Main Luck Pharmaceutical Co., Ltd.	Associate
Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Co., Ltd.	Associate
Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd.	Associate
Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd.	Associate
Sinopharm Group Anhui Health Industry Co., Ltd.	Associate
Sinopharm Health Online Co., Ltd.	Associate
Shanghai Beiyi Guoda pharmaceutical Co., Ltd.	Associate
Sinopharm Holding Yibin Pharmaceutical Co., Ltd.	Associate
Hubei Yuan Kang Medicine Co., Ltd.	Associate
Shenzhen Wan Wei Pharmaceutical Trade Co., Ltd.	Subsidiary of an associate
China Otsuka Pharmaceutical Co., Ltd.	Associate of CNPGC
Fresenius Kabi Huarui Pharmaceutical Co., Ltd.	Associate of CNPGC
Foshan Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Wenzhou Geriatric Hospital Limited Company	Subsidiary of Fosun Pharmaceutical
Jinzhou Aohong Pharmaceuticals Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Jiangsu Wanbang Pharmaceutical Marketing Ltd.	Subsidiary of Fosun Pharmaceutical
Chongqing Yaoyou Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Tibet Yaopharma Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Hunan Dongting Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Suzhou Erye Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Sichuan Hexin Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Chongqing Haisiman Pharmaceuticals Co., Ltd.	Subsidiary of Fosun Pharmaceutical

45. Significant related party transactions (continued)

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, excluding other state-owned enterprises, and balances arising from related party transactions.

(a) Significant transactions with related parties

	2018 RMB'000	2017 RMB'000 (Restated)
Sales of goods (i)		
Ultimate holding company	–	23
Associates	528,558	625,750
Companies controlled by CNPGC	910,845	1,004,544
Associates of CNPGC	117	293
Subsidiary of Fosun Pharmaceutical	174,623	139,545
Purchases of goods (ii)		
Associates	2,682,685	2,412,343
Companies controlled by CNPGC	3,227,339	2,358,293
Associates of CNPGC	1,220,501	1,058,953
Subsidiary of Fosun Pharmaceutical	2,193,561	1,530,824
Borrowings (iii)		
Ultimate holding company	–	31,600
Associates	23,479	129,778
Companies controlled by CNPGC	1,950,832	797,716
Interest fee paid for other financial services (iv)		
Ultimate holding company	1,294	2,018
Companies controlled by CNPGC	169,753	112,752
Bills receivable discount (v)		
Companies controlled by CNPGC	3,153,842	2,008,348

45. Significant related party transactions (continued)

(a) Significant transactions with related parties (continued)

(i) Significant sales of goods to related parties were listed as below

	2018 RMB'000	2017 RMB'000 (Restated)
Sales of goods		
Wuxi Huihua Pharmaceutical Chain Store Co., Ltd.	**324,299**	257,696
Sinopharm Medical And Health Industry Co., Ltd.	**236,475**	–
Shanghai Beiyi Guoda pharmaceutical Co., Ltd.	**99,175**	123,109
Foshan Pharmaceutical Co., Ltd.	**87,134**	69,635
Sinopharm Holding Yibin Pharmaceutical Co., Ltd.	**73,711**	59,590
Xinxiang City Second People's Hospital	**70,486**	71,820
Sinopharm Dongfeng Medical and Health Industry Co., Ltd.	**70,115**	–
Wuhan Institute of Biological Products Co., Ltd.	**36,049**	67,669
Xinxiang Maternity and Child Hospital	**12,273**	10,367
Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Co., Ltd.	**796**	59,485
Hubei Yuan Kang Medicine Co., Ltd.	**–**	100,594
Sinopharm (Guangdong) Medical Instruments Co., Ltd.	**–**	224,189

45. Significant related party transactions (continued)

(a) Significant transactions with related parties (continued)

(ii) Significant purchase of goods from related parties were listed as below:

	2018 RMB'000	2017 RMB'000 (Restated)
Purchases of goods		
Yichang Humanwell Pharmaceutical Co., Ltd.	2,092,835	1,840,567
Fresenius Kabi Huarui Pharmaceutical Co., Ltd.	1,005,039	908,014
Jiangsu Wanbang Pharmaceutical Marketing Ltd.	793,738	694,769
Lanzhou Institute of Bio-products Co., Ltd.	637,647	596,111
Chengdu Rongsheng Pharmaceutical Co., Ltd.	573,469	489,467
Chongqing Yaoyou Pharmaceutical Co., Ltd.	524,591	411,873
Jinzhou Aohong Pharmaceuticals Co., Ltd.	312,209	173,280
Shenzhen Main Luck Pharmaceutical Co., Ltd.	225,318	239,535
Shanghai Modern Pharmaceutical Co., Ltd.	215,910	31,281
China Otsuka Pharmaceutical Co., Ltd.	213,888	147,228
Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd.	206,978	61,539
Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Co., Ltd.	176,352	223,736
Foshan Winteam Pharmaceutical Co., Ltd.	160,852	90,218
Guizhou Tongjitang Pharmaceutical Co., Ltd.	159,102	156,140
Shenzhen Wan Wei Pharmaceutical Trade Co., Ltd.	152,126	92,672
Sichuan Hexin Pharmaceutical Co., Ltd.	130,944	36,450
Sinopharm Holding A-Think Pharmaceutical Co., Ltd.	123,188	15,827
China National Pharmaceutical Industry Co., Ltd.	120,056	76,071
Suzhou Erye Pharmaceutical Co., Ltd.	130,261	23,159
Hunan Dongting Pharmaceutical Co., Ltd.	104,994	43,304
China National Pharmaceutical Foreign Trade Corporation	99,205	83,996
Sinopharm Wuhan Blood Products Co., Ltd.	85,863	116,255
Lanzhou Biotechnology Development Co., Ltd.	77,241	2,220
Tibet Yaopharma Pharmaceutical Co., Ltd.	73,056	8,024
Sinopharm Rongsheng Pharmaceutical Co., Ltd.	66,385	18,299
Shydec Pharmaceutical Marketing Co., Ltd.	64,523	137,403
Shanghai Modern Hasen (Shangqiu) Pharmaceutical Co., Ltd.	64,247	24,100
Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd.	62,778	50,077
Anhui Jingfang Pharmaceutical Co., Ltd.	61,351	42,921
Sinopharm Chuankang Pharmaceutical Co., Ltd.	50,867	19,021
Chongqing Haisiman Pharmaceuticals Co., Ltd.	1,414	101,220

45. Significant related party transactions (continued)

(a) Significant transactions with related parties (continued)

(iii) Borrowings from related parties were listed as below:

	2018 RMB'000	2017 RMB'000 (Restated)
Borrowings		
Sinopharm Group Finance Co., Ltd.	**1,950,832**	797,716
Sinopharm Holding (China) Finance Leasing Co., Ltd.	**23,479**	98,318
China National Pharmaceutical Group Co., Ltd.	**–**	31,600
Sinopharm Health Online Co., Ltd.	**–**	31,460

(iv) Interest fee paid for other financial services to related parties were listed as below:

	2018 RMB'000	2017 RMB'000 (Restated)
Interest fee paid for other financial services		
China National Pharmaceutical Group Co., Ltd.	**1,294**	2,018
Sinopharm Group Finance Co., Ltd.	**150,147**	111,796
Sinopac Puxin Commercial Factoring Co., Ltd.	**19,606**	–
Sino Pharmengin Corporation	**–**	956

(v) Bills receivable discount to the related party were listed as below:

	2018 RMB'000	2017 RMB'000 (Restated)
Bills receivable discount		
Sinopharm Group Finance Co., Ltd.	**3,153,842**	2,008,348

The above related party transactions were carried out on terms mutually agreed between the parties. In the opinion of the Company's directors and the Group's management, these transactions were conducted in the ordinary course of business of the Group.

The related party transactions included in items (i), (ii) and (iv) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

45. Significant related party transactions (continued)

(b) Key management compensation

	2018 RMB'000	2017 RMB'000 (Restated)
Salaries and other short-term employee benefits	17,702	22,766
Share incentive scheme expenses	817	869
	18,519	23,635

(c) Guarantees provided to a related party

	2018 RMB'000	2017 RMB'000 (Restated)
Sinopharm Holding (China) Finance Leasing Co., Ltd.	4,091,282	6,659,373

45. Significant related party transactions (continued)

(d) Significant balances with related parties

	2018 RMB'000	2017 RMB'000 (Restated)
Cash in other financial institution (i)		
Companies controlled by CNPGC	**3,462,436**	3,483,463
Trade and bills receivables due from (ii)		
Associates	**316,826**	75,387
Companies controlled by CNPGC	**877,213**	336,413
Associates of CNPGC	**398**	106
Subsidiary of Fosun Pharmaceutical	**67,071**	48,826
Other receivables due from (iii)		
Associates	**50,982**	67,516
Companies controlled by CNPGC	**137,107**	325,063
Associates of CNPGC	**177**	81
Subsidiary of Fosun Pharmaceutical	**303**	616
Prepayments to (iv)		
Associates	**4,696**	3,829
Companies controlled by CNPGC	**124,251**	127,320
Associates of CNPGC	**1,989**	9,327
Subsidiary of Fosun Pharmaceutical	**54,488**	134,305
Trade and bills payables due to (v)		
Associates	**661,413**	633,578
Companies controlled by CNPGC	**807,090**	666,245
Associates of CNPGC	**138,120**	177,194
Subsidiary of Fosun Pharmaceutical	**485,703**	340,234
Other payables due to (vi)		
Ultimate holding company	**39**	6,136
Associates	**657,641**	370,482
Companies controlled by CNPGC	**243,313**	384,627
Associates of CNPGC	**–**	–
Subsidiary of Fosun Pharmaceutical	**1,531**	77

45. Significant related party transactions (continued)

(d) Significant balances with related parties (continued)

	2018 RMB'000	2017 RMB'000 (Restated)
Advanced from (vii)		
Associates	–	–
Companies controlled by CNPGC	–	61,916
Associates of CNPGC	–	1,806
Subsidiary of Fosun Pharmaceutical	–	85
Contract liabilities (viii)		
Associates	469	–
Companies controlled by CNPGC	77,451	–
Subsidiary of Fosun Pharmaceutical	367	–
Borrowing due to (ix)		
Ultimate holding company	31,600	31,600
Associates	19,889	15,278
Companies controlled by CNPGC	1,550,832	397,715
Other non-current liabilities (x)		
Ultimate holding company	753,508	864,073
Associates	113,928	135,388
Companies controlled by CNPGC	2,446	6,906

(i) Significant balance of cash in other financial institution with related parties was listed as below:

	2018 RMB'000	2017 RMB'000 (Restated)
Cash in other financial institution		
Sinopharm Group Finance Co., Ltd.	3,462,436	3,483,463

45. Significant related party transactions (continued)

(d) Significant balances with related parties (continued)

(ii) Significant balances of trade and bills receivables due from related parties were listed as below:

	2018 RMB'000	2017 RMB'000 (Restated)
Trade and bills receivables due from		
Sinopharm Dongfeng Medical and Health Industry Co., Ltd.	784,226	–
Sinopharm Holding (China) Finance Leasing Co., Ltd.	226,446	–
Foshan Pharmaceutical Co., Ltd.	30,657	21,954
Yichang Humanwell Pharmaceutical Co., Ltd.	28,274	–
Wenzhou Geriatric Hospital Limited Company	25,798	12,842
Wuxi Huihua Pharmaceutical Chain Store Co., Ltd.	23,179	14,903
Xinxiang Central Hospital	21,733	20,028
Dongfeng general hospital of Sinopharm	–	87,438

(iii) Significant balances of other receivables due from related parties were listed as below:

	2018 RMB'000	2017 RMB'000 (Restated)
Other receivables due from		
Sinopharm Dongfeng Medical and Health Industry Co., Ltd.	98,500	153,500
Sinopharm Group Zhijun (Suzhou) Pharmaceutical Co., Ltd.	44,000	44,000
China National Pharmaceutical Group Sanyi Pharmaceutical (Wuhu) Co., Ltd.	24,015	26,015
Shanghai Modern Pharmaceutical Co., Ltd.	7,913	125,185
Sinopharm Holding (China) Finance Leasing Co., Ltd.	–	20,409
Sinopharm Group Finance Co., Ltd.	–	10,000

(iv) Significant balances of prepayments to related parties were listed as below:

	2018 RMB'000	2017 RMB'000 (Restated)
Prepayments to		
Chengdu Rongsheng Pharmaceutical Co., Ltd.	42,757	49,085
Foshan Winteam Pharmaceutical Co., Ltd.	25,320	15,101
Jinzhou Aohong Pharmaceuticals Co., Ltd.	23,135	122,111

45. Significant related party transactions (continued)

(d) Significant balances with related parties (continued)

(v) Significant balances of trade and bills payables due to related parties were listed as below:

	2018 RMB'000	2017 RMB'000 (Restated)
Trade and bills payables due to		
Yichang Humanwell Pharmaceutical Co., Ltd.	488,089	514,679
Jiangsu Wanbang Pharmaceutical Marketing Ltd.	227,637	175,652
Chengdu Rongsheng Pharmaceutical Co., Ltd.	182,412	108,615
Lanzhou Institute of Bio-products Co., Ltd.	161,948	112,050
Fresenius Kabi Huarui Pharmaceutical Co., Ltd.	114,307	147,864
Chongqing Yaoyou Pharmaceutical Co., Ltd.	91,600	86,534
Shenzhen Main Luck Pharmaceutical Co., Ltd.	82,682	67,868
Lanzhou Biotechnology Development Co., Ltd.	57,600	–
Guizhou Tongjitang Pharmaceutical Co., Ltd.	52,007	55,658
Jinzhou Aohong Pharmaceuticals Co., Ltd.	48,122	14,460
Foshan Winteam Pharmaceutical Co., Ltd.	45,254	31,210
Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Co., Ltd.	43,433	23,108
Tibet Yaopharma Pharmaceutical Co., Ltd.	41,700	8,839
Shenzhen Wan Wei Pharmaceutical Trade Co., Ltd.	41,671	24,463
Sinopharm Wuhan Blood Products Co., Ltd.	38,128	97,020
Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd.	37,769	13,780
Hunan Dongting Pharmaceutical Co., Ltd.	31,830	16,653
Anhui Jingfang Pharmaceutical Co., Ltd.	22,354	17,029
China Otsuka Pharmaceutical Co., Ltd.	22,178	19,278
China National Pharmaceutical Industry Co., Ltd.	19,568	13,535
Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd.	16,471	10,225
Sino Pharmengin Corporation	16,450	–
Sinopharm Group Guizhou Blood Products Co., Ltd.	16,016	–
Shanghai Modern Pharmaceutical Co., Ltd.	13,194	–
Sinopharm Vanda Pharmaceutical Co., Ltd.	12,405	7,206
Sinopharm Holding A-Think Pharmaceutical Co., Ltd.	12,244	6,976
Suzhou Erye Pharmaceutical Co., Ltd.	11,586	8,557
China National Pharmaceutical Foreign Trade Corporation	10,680	26,572
Sinopharm Chuankang Pharmaceutical Co., Ltd.	10,578	4,972
Sinopharm Shanghai Blood Products Co., Ltd.	10,298	15,000
Sinopharm Rongsheng Pharmaceutical Co., Ltd.	10,250	4,987
Huayi Pharmaceutical Co., Ltd.	10,071	4,258

45. Significant related party transactions (continued)

(d) Significant balances with related parties (continued)

(vi) Significant balances of other payables due to related parties were listed as below:

	2018 RMB'000	2017 RMB'000 (Restated)
Other payables due to		
Sinopharm Group Anhui Health Industry Co., Ltd.	**333,940**	239,000
Sinopharm Holding (China) Finance Leasing Co., Ltd.	**243,062**	83,040
Sinopac Puxin Commercial Factoring Co., Ltd.	**164,452**	–
Sinopharm Health Online Co., Ltd.	**52,284**	47,734
Sinopharm Group Finance Co., Ltd.	**40,569**	330,724

(vii) Significant balance of advances from related parties was listed as below:

	2018 RMB'000	2017 RMB'000 (Restated)
Advanced from		
Shanghai Institute of Pharmaceutical Industry	**–**	8,497

(viii) Significant balance of contract liabilities with related parties was listed as below:

	2018 RMB'000	2017 RMB'000 (Restated)
Contract liabilities		
Shanghai Institute of Pharmaceutical Industry	**25,577**	–

45. Significant related party transactions (continued)

(d) Significant balances with related parties (continued)

(ix) Significant balances of borrowings due to related parties was listed as below:

	2018 RMB'000	2017 RMB'000 (Restated)
Borrowings due to		
Sinopharm Group Finance Co., Ltd.	**1,550,832**	397,716
China National Pharmaceutical Group Co., Ltd.	**31,600**	31,600
Sinopharm Holding (China) Finance Leasing Co., Ltd.	**19,889**	15,278

Borrowings from the above related parties bear interest at rates from 4.00% to 5.43% (2017: from 4.07% to 4.82%). The borrowings from China National Pharmaceutical Group Co., Ltd. have repayment terms over 1 year. The borrowings from the other two related parties have repayment terms within 1 year.

(x) Significant balances of other non-current liabilities with related parties was listed as below:

	2018 RMB'000	2017 RMB'000 (Restated)
Other non-current liabilities		
China National Pharmaceutical Group Co., Ltd.	**753,508**	864,073
China National Corp. of Traditional and Herbal Medicine	**2,446**	6,906
Sinopharm Holding (China) Finance Leasing Co., Ltd.	**113,928**	135,388

Among the other non-current liabilities with Sinopharm Holding (China) Finance Leasing Co., Ltd., RMB9,800,000 is the current portion.

46. Principal subsidiaries

As at 31 December 2018, particulars of the Company's principal subsidiaries are as follows:

Company name	Place and date of registration	Issued and Paid-up capital/ registered capital	Effective interests held by the Group		Principal activities and place of operations
		RMB'000	Direct %	Indirect %	
China National Pharmaceutical Group Shanghai Co., Ltd.* (國藥集團上海有限公司)	PRC, 24 July 1988	40,237	100	–	Property rental in the PRC
China National Pharmaceutical Group Chemical Reagent Co., Ltd.* (國藥集團化學試劑有限公司)	PRC, 24 October 2003	450,000	90	10	Distribution of chemical reagents in the PRC
Beijing Sinopharm Tianyuan Real Estate & Property Management Co., Ltd.* (北京國藥天元物業管理有限公司)	PRC, 28 December 1981	36,130	100	–	Property rental in the PRC
Sinopharm Holding Tianjin Co., Ltd.* (國藥控股天津有限公司)	PRC, 12 December 2003	1,300,000	90	10	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Shenyang Co., Ltd.* (國藥控股瀋陽有限公司)	PRC, 27 November 2003	800,000	90	10	Distribution of pharmaceutical products, laboratory supplies and chemical reagents and provision of pharmaceutical logistics services in the PRC
Sinopharm Holding Shaanxi Co., Ltd.* (國藥控股陝西有限公司)	PRC, 30 May 2001	250,000	60	–	Distribution of pharmaceutical and healthcare products and logistics services in the PRC
Sinopharm Pharmaceutical Logistics Co., Ltd.* (國藥集團醫藥物流有限公司)	PRC, 18 December 2002	300,000	100	–	Provision of pharmaceutical logistics services in the PRC
China National Medicines Corporation Ltd.* (國藥集團藥業股份有限公司)	PRC, 21 December 1999	766,930	55	–	Distribution of pharmaceutical products and laboratory supplies in the PRC
Shanghai Tongyu Information Technology Co., Ltd.* (上海統御信息科技有限公司)	PRC, 27 December 2005	41,000	100	–	Information technology development and medicine consulting in the PRC
Sinopharm Holding Distribution Center Co., Ltd.* (國藥控股分銷中心有限公司)	PRC, 30 January 2002	2,000,000	100	–	Distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Holding Fuzhou Co., Ltd.* (國藥控股福州有限公司)	PRC, 15 September 1998	40,000	70	–	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
Sinopharm Holding Henan Co., Ltd.* (國藥控股河南股份有限公司)	PRC, 11 December 2006	680,310	80	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC

46. Principal subsidiaries (continued)

Company name	Place and date of registration	Issued and Paid-up capital/ registered capital	Effective interests held by the Group		Principal activities and place of operations
		RMB'000	Direct %	Indirect %	
Sinopharm Holding Fujian Co., Ltd.* (國藥控股福建有限公司)	PRC, 20 January 2010	434,000	70	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Hong Kong Co., Ltd.* (國藥控股股份香港有限公司)	PRC, 14 August 2009	US$9.5 million	100	–	Investment; distribution of pharmaceutical and healthcare products; medicine chain store; and provision of pharmaceutical logistics services in the PRC
Sinopharm Holding Shandong Co., Ltd.* (國藥控股山東有限公司)	PRC, 12 April 2006	70,000	67	–	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
Sinopharm Group Xinjiang Province New & Special National Pharmaceutical Co., Ltd.* (國藥集團新疆新特藥業有限公司)	PRC, 30 June 2003	780,637	80	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Hubei Co., Ltd.* (國藥控股湖北有限公司)	PRC, 19 March 2001	844,444	82	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd.* (國藥集團上海立康醫藥有限公司)	PRC, 27 July 1994	70,000	100	–	Distribution of pharmaceutical products, healthcare products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Medical Instruments Co., Ltd. (國藥控股醫療器械有限公司)	PRC, 27 July 2006	320,000	100	–	Distribution of medical instruments in the PRC
Sinopharm Holding Anhui Co., Ltd.* (國藥控股安徽有限公司)	PRC, 29 December 2008	357,160	87	–	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Zhejiang Co., Ltd.* (國藥控股浙江有限公司)	PRC, 9 October 1995	61,106	88	–	Distribution of pharmaceutical products
Sinopharm Holding Hunan Co., Ltd.* (國藥控股湖南有限公司)	PRC, 21 June 2001	520,000	97	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Chongqing Co., Ltd.* (國藥控股重慶有限公司)	PRC, 8 May 2010	30,000	67	–	Distribution of pharmaceutical products and chemical reagents
Sinopharm Holding Jiangsu Co., Ltd.* (國藥控股江蘇有限公司)	PRC, 12 October 2001	1,865,342	100	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC

46. Principal subsidiaries (continued)

Company name	Place and date of registration	Issued and Paid-up capital/ registered capital	Effective interests held by the Group		Principal activities and place of operations
		RMB'000	Direct %	Indirect %	
Sinopharm Holding Yunnan Co., Ltd.* (國藥控股雲南有限公司)	PRC, 20 November 2000	163,948	90	–	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
China National Accord Medicines Co., Ltd.* (國藥集團一致藥業股份有限公司)	PRC, 2 August 1986	428,130	56	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Shanxi Co., Ltd.* (國藥控股山西有限公司)	PRC, 17 January 2004	350,000	90	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Inner Mongolia Co., Ltd.* (國藥控股內蒙古有限公司)	PRC, 14 May 2010	300,000	100	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Group Southwest Medicine Co., Ltd.* (國藥集團西南醫藥有限公司)	PRC, 19 November 1997	63,390	82	3	Distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Lingyun Biopharmaceutical (Shanghai) Co., Ltd.* (國藥控股淩雲生物醫藥(上海)有限公司)	PRC, 3 February 1992	50,000	55	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Holding Jiangxi Co., Ltd.* (國藥控股江西有限公司)	PRC, 13 October 2009	100,000	67	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Holding Gansu Co., Ltd.* (國藥控股甘肅有限公司)	PRC, 14 January 2010	60,000	70	–	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Jilin Co., Ltd.* (國藥控股吉林有限公司)	PRC, 9 July 1999	50,000	70	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Holding Ningxia Co., Ltd.* (國藥控股寧夏有限公司)	PRC, 21 November 2008	97,620	73	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Guizhou Co., Ltd.* (國藥控股貴州有限公司)	PRC, 1 April 2010	50,000	70	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Lerentang Pharmaceutical Co., Ltd.* (國藥樂仁堂醫藥有限公司)	PRC, 29 September 2009	175,000	60	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Hainan Co., Ltd.* (國藥控股海南有限公司)	PRC, 10 July 2000	40,000	68	–	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC

46. Principal subsidiaries (continued)

Company name	Place and date of registration	Issued and Paid-up capital/ registered capital	Effective interests held by the Group		Principal activities and place of operations
		RMB'000	Direct %	Indirect %	
Sinopharm Holding Huzhou Co., Ltd.* (國藥控股湖州有限公司)	PRC, 14 August 1978	30,000	69	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Qinghai Co., Ltd.* (國藥控股青海有限公司)	PRC, 24 January 2003	20,000	70	–	Distribution of pharmaceutical products, healthcare products,laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Shangluo Co., Ltd.* (國藥控股商洛有限公司)	PRC, 21 February 2012	10,000	70	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Xingsha Pharmaceutical (Xiamen) Co., Ltd.* (國藥控股星鯊製藥(廈門)有限公司)	PRC, 30 December 1998	95,000	60	–	Medicine manufacture, distribution of chemical, reagents, import and export of goods and technology, business consulting
Sinopharm Holding Donghong Medical (Shanghai) Co., Ltd. * (國藥控股東虹醫藥(上海)有限公司)	PRC, 15 August 1992	12,000	85	–	Distribution of pharmaceutical products, healthcare products, laboratory supplies and chemical reagents in the PRC
Sinopharm Health Solutions (Shanghai) Co., Ltd.* (國藥控股健康發展(上海)有限公司)	PRC, 19 January 2004	31,500	100	–	Health consultation, medical consulting, market information consulting and investigation and convention and exhibition services
Shanghai Meiluo Medical Co., Ltd.* (上海美羅醫藥有限公司)	PRC, 27 May 2002	60,000	100	–	Distribution of pharmaceutical products, medical equipment and chemical reagents, import and export of goods and technology in the PRC
Sinopharm Holding Wenzhou Co., Ltd.* (國藥控股溫州有限公司)	PRC, 31 March 1995	50,000	58	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
China National Pharmaceutical Group Shanxi Co., Ltd.* (國藥集團山西有限公司)	PRC, 14 April 2011	1,000,000	80	–	Distribution of pharmaceutical products, laboratory supplies and healthcare products in the PRC
Sinopharm Holding Lingshang Hospital Management Service Co., Ltd.* (國藥控股菱商醫院管理服務(上海)有限公司)	PRC, 5 July 2013	80,000	60	–	Medical equipment and distribution of goods, information technology services in the PRC
Sinopharm Holding Yanan Co., Ltd.* (國藥控股延安有限公司)	PRC, 25 October 2013	10,000	90	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC

46. Principal subsidiaries (continued)

Company name	Place and date of registration	Issued and Paid-up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
Sinopharm Holding Heilongjiang Co., Ltd.* (國藥控股黑龍江有限公司)	PRC, 11 October 2010	99,000	65	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Chongqing Taimin Pharmaceutical Co., Ltd.* (國藥控股重慶泰民醫藥有限公司)	PRC, 17 August 2012	20,000	60	–	Distribution of pharmaceutical products, medical instruments and chemical reagents in the PRC
Sinopharm Bio-pharmaceutical Co., Ltd.* (國藥控股上海生物醫藥有限公司)	PRC, 3 December 2009	20,000	70	–	Distribution of pharmaceutical products, healthcare products, medical instruments and chemical reagents in the PRC
Sichuan Pharmaceutical Group Co., Ltd. of CNPGC* (國藥四川醫藥集團有限公司)	PRC, 2 September 2001	65,744	66	–	Management of medical project investment, consulting and technology training in PRC
Sinopharm Holding Dalian Hecheng Co., Ltd.* (國藥控股大連和成有限公司)	PRC, 17 January 1994	50,000	80	–	Distribution of pharmaceutical products, Chinese herbal medicine, antibiotics, biological products, chemical reagents and medical instruments in the PRC
Sinopharm Holding Chuangke Medical Technology (Shanghai) Co., Ltd.* (國藥控股創科醫療技術(上海)有限公司)	PRC, 21 October 2015	10,000	55	–	Distribution of pharmaceutical products, medical instruments and chemical reagents In the PRC
Sinopharm Holding Hongrun Medical Business Service (Shanghai) Co., Ltd.* (國藥控股虹潤醫藥商務服務(上海)有限公司)	PRC, 22 August 2016	60,000	60	–	Health consultation, medical consulting, distribution of medical equipment, import and export services In the PRC
Sinopharm Holding GuoDa Drug Store Co., Ltd.* (國藥控股國大藥房有限公司)	PRC, 23 March 2004	1,683,333	–	60	Distribution of pharmaceutical and healthcare products In the PRC
Sinopharm pharmacy (shanghai) Co., Ltd* (國藥控股藥房(上海)有限公司)	PRC, 28 December 2017	1,000	100	–	Distribution of pharmaceutical and healthcare products in the PRC
China National Scientific Instruments and Materials Co., Ltd* (中國科學器材有限公司)	PRC, 2 March 1982	4,000,000	60	–	Distribution of medical instruments in the PRC
Sinopharm Holding Changsha Co., Ltd.* (國藥控股長沙有限公司)	PRC, 27 April 2015	100,000	80	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC

46. Principal subsidiaries (continued)

Company name	Place and date of registration	Issued and Paid-up capital/ registered capital	Effective interests held by the Group		Principal activities and place of operations
		RMB'000	Direct %	Indirect %	
Sinopharm Holding Chuangfu Medical Technology (Shanghai) Co., Ltd. * (國藥控股創服醫療技術(上海)有限公司)	PRC, 18 November 2016	50,000	51	–	Distribution of medical instruments in the PRC
Shanghai Pudong New Area Medicines and Herbs Co., Ltd.* (上海浦東新區醫藥藥材有限公司)	PRC, 11 June 1993	13,896	100	–	Distribution of pharmaceutical and healthcare products, in the PRC
Sinopharm Holding Runda Medical Devices Development (Shanghai) Co., Ltd. (國藥控股潤達醫療器械發展(上海)有限公司)	PRC, 17 August 2015	85,000	51	–	Distribution of medical instruments in the PRC

* English translations of names for identification purposes only

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

China National Accord Medicines Co., Ltd., China Nationals Medicines Corporation Ltd. and Sinopharm Holding Henan Co., Ltd. are joint stock limited companies. Except for the above mentioned companies, other principal subsidiaries of the Company are limited liability companies.

47. Statement of financial position and movements in reserves of the Company

Statement of financial position of the Company

	Note	2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Investment properties		24,689	25,687
Property, plant and equipment		1,942,640	670,346
Intangible assets		211,445	252,129
Investments in subsidiaries		28,053,992	24,013,160
Investments in associates		2,170,457	2,073,577
Investment in a joint venture		22,858	12,893
Available-for-sale investments		–	338,334
Financial assets at fair value through profit or loss		598,378	–
Deferred tax assets		81,620	60,473
Other non-current assets		–	176,931
Total non-current assets		33,106,079	27,623,530
Current assets			
Inventories		875,826	1,007,251
Trade receivables		2,050,913	2,689,030
Prepayments and other receivables		20,861,948	13,008,344
Cash and cash equivalents		14,688,607	9,680,575
Total current assets		38,477,294	26,385,200
Total assets		71,583,373	54,008,730
EQUITY			
Share capital		2,971,656	2,767,095
Treasury shares held for share incentive scheme		(135,318)	(193,003)
Reserves		23,962,449	20,558,103
Total equity		26,798,787	23,132,195

47. Statement of financial position and movements in reserves of the Company (continued)

Statement of financial position of the Company (continued)

	Note	2018 RMB'000	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Interest-bearing bank and other borrowings		4,293,857	4,989,888
Deferred tax liabilities		23,241	2,468
Post-employment benefit obligations		16,743	27,441
Other non-current liabilities		182,451	196,880
Total non-current liabilities		4,516,292	5,216,677
Current liabilities			
Trade payables		2,748,453	2,487,372
Contract liabilities		31,408	–
Accruals and other payables		18,595,983	13,365,920
Dividend payable		2,476	2,690
Tax payable		–	4,969
Interest-bearing bank and other borrowings		18,889,974	9,798,907
Total current liabilities		40,268,294	25,659,858
Total liabilities		44,784,586	30,876,535
Total equity and liabilities		71,583,373	54,008,730

The financial statements were approved by the Board of Directors on 22 March 2019 and were signed on its behalf by

Li Zhiming
Director

Tan Wee Seng
Director

47. Statement of financial position and movements in reserves of the Company (continued)

(i) Movements in reserves of the Company

	Share premium RMB'000	Statutory reserves RMB'000	Revaluation of available-for-sale investments RMB'000	Other reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2017	18,065,998	715,869	7,404	(59,631)	1,500,546	20,230,186
Profit for the year	–	–	–	–	1,638,307	1,638,307
Appropriation to statutory reserves	–	163,831	–	–	(163,831)	–
Deemed disposal of subsidiaries	–	1,844	–	2,691	16,592	21,127
Deemed disposal of investments in associates	–	–	–	36,885	–	36,885
Equity-settled share incentive scheme	–	–	–	7,292	–	7,292
Remeasurement on post-employment benefit obligations						
– gross	–	–	–	(159)	(903)	(1,062)
– tax	–	–	–	39	226	265
Dividend on shares released from the share incentive scheme	–	–	–	–	115	115
Dividend declared	–	–	–	–	(1,383,548)	(1,383,548)
Share of changes in equity other than comprehensive income and distributions received from associates	–	–	–	10,563	–	10,563
Other changes in an investment in an associate	–	–	–	(2,027)	–	(2,027)
As at 31 December 2017	18,065,998	881,544	7,404	(4,347)	1,607,504	20,558,103
Profit for the year	**–**	**–**	**–**	**–**	**1,913,855**	**1,913,855**
Issue of ordinary shares	**3,145,929**	**–**	**–**	**–**	**–**	**3,145,929**
Share of other comprehensive income of associates	**–**	**–**	**–**	**(1,187)**	**–**	**(1,187)**
Appropriation to statutory reserve	**–**	**191,386**	**–**	**–**	**(191,386)**	**–**
Equity settled share incentive scheme	**–**	**–**	**–**	**(565)**	**–**	**(565)**
Remeasurement on post-employment benefit obligations						
– gross	**–**	**–**	**–**	**3,307**	**(1,160)**	**2,147**
– tax	**–**	**–**	**–**	**(827)**	**290**	**(537)**
Dividend on shares released from the share incentive scheme	**–**	**–**	**–**	**–**	**214**	**214**
Dividends declared	**–**	**–**	**–**	**–**	**(1,577,244)**	**(1,577,244)**
Share of changes in equity other than comprehensive income and distributions received from associates	**–**	**–**	**–**	**119**	**–**	**119**
Other changes in an investment in an associate	**–**	**–**	**–**	**(87,626)**	**–**	**(87,626)**
Others	**–**	**–**	**–**	**9,241**	**–**	**9,241**
As at 31 December 2018	**21,211,927**	**1,072,930**	**7,404**	**(81,885)**	**1,752,073**	**23,962,449**

48. Share incentive scheme

The Company operates a share incentive scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme (the "Scheme Participants") include the Company's directors, senior management and mid-level management and other employees of the Group who, in the opinion of the Company's directors, shall be awarded. The Scheme became effective on 18 October 2016 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Pursuant to the Scheme, the Board of Directors (the "Board") shall select the Scheme Participants and determine the number of shares to be awarded (the "Restricted Shares"). An independent trustee appointed by the Board (the "Trustee") shall purchase from the market such number of H Shares to be awarded as specified by the Board. In each grant of such Restricted Shares to the Scheme Participants, the exercise price to be funded by each of the Scheme Participants shall be no less than 50% of the grant reference price and no less than the most recent audited net assets value per share of the Company, and the remaining balance will be funded by the Company.

The maximum total number of Restricted Shares to be granted under the Scheme shall not exceed 10% of the total issued share capital of the Company as at the effective date of the Scheme. The number of Restricted Shares to be awarded to a Scheme Participant will be subject to the criteria specified in the rules of the Scheme. The total number of Restricted Shares granted or to be granted to any Scheme Participant shall not exceed 1% of the total issued share capital of the Company as at the effective date of the Scheme.

On 16 November 2016, the Board resolved to approve the initial grant of the Restricted Shares (the "Initial Grant") under the Scheme to the Scheme participants, pursuant to which Restricted Shares of 7.23 million, representing approximately 0.2613% of the issued share capital of the Company as at 16 November 2016, shall be granted to 190 selected Scheme Participants on 16 November 2016 at the grant reference price of HKD35.46 per Restricted Share (the "Grant Reference Price"). The exercise price under the Initial Grant is HKD17.73 per Restricted Share, being 50% of the Grant Reference Price and no less than the most recent audited net assets value per share of the Company. The exercise price shall be funded by the selected Scheme Participants at his/her own cost, and the remaining balance for purchasing each of the Restricted Shares under the Initial Grant will be funded by the Company.

175 out of 190 of the Scheme Participants have accepted and subscribed the Restricted Shares with their own funds under the Scheme. In June 2017, a total number of 6,570,000 shares of the Company were purchased by the Trustee of the Scheme at a cost of RMB203,290,000 from the market out of cash contributed by the Group and the Scheme Participants and be held in trust for the relevant Scheme Participants until such shares are vested with the Scheme Participants in accordance with the provisions of the Scheme. The Restricted Shares granted and held by the Trustee until vesting are referred to as the treasury shares held under share incentive scheme and each treasury share shall represent one ordinary share of the Company.

48. Share incentive scheme (continued)

In August and September 2017, due to resignation of certain Scheme Participants, a total number of 230,000 relevant Restricted Shares were sold by the Trustee to the market. Proceeds from the sale of those Restricted Shares were used to pay back the funds paid by those Scheme Participants and the Company to subscribe these Restricted Shares.

In June 2018, due to resignation of certain Scheme Participants, a total number of 287,100 relevant Restricted Shares were sold by the Trustee to the market. Proceeds from the sale of those Restricted Shares were used to pay back the funds paid by those Scheme Participants and the Company to subscribe these Restricted Shares.

On 16 November 2018, except for a total number of 273,900 Restrict Shares were expired, 1,752,300 shares with a total amount of RMB56,109,000 were vested under the share incentive scheme, resulting in the transfer out of RMB48,097,000 from the share incentive reserve. The weighted average share price at the date of vest of these shares was RMB32.02.

Conditions for unlocking the Initial Grant

Pursuant to the approval from the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC"), unlocking of the Restricted Shares under the Initial Grant shall be conditional upon fulfilment of the following conditions by the Company and shall be carried out in accordance with the unlocking arrangement as stipulated in the scheme of the Initial Grant:

48. Share incentive scheme (continued)

Conditions for unlocking the Initial Grant (continued)

Unlocking Period	Performance Assessment Target	Proportion of unlocking shares
First unlocking period	The weighted average return on equity ("ROE") for 2017 shall be not lower than 12.7% and not lower than the 75 percentile of benchmarking enterprises. On the basis of the net profit in 2015, the compound growth rate of net profit for 2017 shall be not lower than 12% and not lower than the 75 percentile of benchmarking enterprises. On the basis of the economic value added ("EVA") in 2015, the compound growth rate of EVA for 2017 shall be not lower than the specified objectives determined by the Board.	33%
Second unlocking period	The weighted average ROE for 2018 shall be not lower than 12.7% and not lower than the 75 percentile of benchmarking enterprises. On the basis of the net profit in 2015, the compound growth rate of net profit for 2018 shall be not lower than 12% and not lower than the 75 percentile of benchmarking enterprises. On the basis of the EVA in 2015, the compound growth rate of EVA for 2018 shall be not lower than the specified objectives determined by the Board.	33%
Third unlocking period	The weighted average ROE for 2019 shall be not lower than 12.8% and not lower than the 75 percentile of benchmarking enterprises. On the basis of the net profit in 2015, the compound growth rate of net profit for 2019 shall be not lower than 12% and not lower than the 75 percentile of benchmarking enterprises. On the basis of the EVA in 2015, the compound growth rate of EVA for 2019 shall be not lower than the specified objectives determined by the Board.	34%

Particulars and movements in the share incentive scheme are as follows:

Date of grant	As at 1 January 2018	Granted	Vesting	Bonus issue	Forfeited	Lapsed/ expired	As at 31 December 2018
16 November 2016	6,340,000	–	(1,752,300)	–	(287,100)	(273,900)	4,026,700

The fair value of the Restricted Shares granted was calculated based on the market prices of the Company's shares at the respective grant dates. The Group recognised expenses relating to the Scheme of approximately RMB19,983,000 in the consolidated statement of profit or loss during the year.

The fair value of the Restricted Shares granted was estimated as at the date of grant, using the Asian Options Model, taking into account the terms and conditions upon which the shares were granted. This value is inherently subjective and uncertain due to the assumptions made and the limitation of the valuation model used.

49. Directors', supervisors' and chief executives remuneration

Directors', supervisors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383 (1)(a),(b),(c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

(a) Directors', supervisors' and chief executive's remuneration

2018	Salaries RMB'000	Discretionary bonuses RMB'000	Housing allowance RMB'000	Estimated value of other benefits RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Remunerations paid or receivable in respect of accepting office as director RMB'000	Share incentive scheme expense RMB'000	Incentive bonus RMB'000
Executive directors								
Mr. Li Zhiming (ii)	2,894	1,894	-	-	112	-	1,011	5,030
Mr Yu Qingming (xi)	172	-	-	-	12	-	-	-
Mr. Liu Yong (v)	2,342	1,272	-	-	112	-	817	3,375
Non-executive directors								
Mr. She Lulin (xii)	-	-	-	-	-	-	-	-
Mr. Wang Qunbin (xvii)	-	-	-	-	-	-	-	-
Mr. Deng Jindong	-	-	-	-	-	-	-	-
Mr. Chen Qiyu	-	-	-	-	-	-	-	-
Mr. Li Dongjiu (ix)	-	-	-	-	-	-	-	-
Mr. Lian Wanyong (iii)	-	-	-	-	-	-	-	-
Mr. Wu Yijian (iv)	-	-	-	-	-	-	-	-
Mr. Ma Ping	-	-	-	-	-	-	-	-
Mr. Wen Deyong (vi)	-	-	-	-	-	-	-	-
Ms. Rong Yan (viii)	-	-	-	-	-	-	-	-
Mr. Hu Jianwei (xiii)	-	-	-	-	-	-	-	-
Mr. Guan Xiaohui (xiv)	-	-	-	-	-	-	-	-
Independent non-executive directors								
Ms. Li Ling (xv)	300	-	-	-	-	-	-	-
Mr. Liu Zhengdong	300	-	-	-	-	-	-	-
Mr. Tan Wee Seng	300	-	-	-	-	-	-	-
Mr. Yu Tze Shan Hailson	300	-	-	-	-	-	-	-
Mr. Zhuo Fumin	300	-	-	-	-	-	-	-
Mr. Chen Fangruo (xvi)	-	-	-	-	-	-	-	-
Supervisors								
Mr. Zhang Hong Yu (x)	1,059	501	-	-	112	-	-	-
Mr. Yao Fang	-	-	-	-	-	-	-	-
Mr. Yang Jun (vii)	83	1,088	-	-	11	-	-	-
Ms. Jin Yi	446	72	-	38	112	-	-	-
Mr. Tao Wuping	300	-	-	-	-	-	-	-
Ms. Li Xiaojuan	-	-	-	-	-	-	-	-
	8,796	4,827	-	38	471	-	1,828	8,405

49. Directors', supervisors' and chief executives remuneration (continued)

(a) Directors', supervisors' and chief executive's remuneration (continued)

2017	Salaries RMB'000	Discretionary bonuses RMB'000	Housing allowance RMB'000	Estimated value of other benefits RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Remunerations paid or receivable in respect of accepting office as director RMB'000	Share incentive scheme expense RMB'000	Incentive bonus RMB'000
Executive directors								
Mr. Wei Yulin (i)	463	1,900	–	3	18	–	–	4,188
Mr. Li Zhiming (ii)	1,950	2,043	–	5	105	–	1,076	4,188
Mr. Liu Yong (v)	1,344	1,243	–	5	105	–	869	2,310
Non-executive directors								
Mr. She Lulin	–	–	–	–	–	–	–	–
Mr. Wang Qunbin (xvii)	–	–	–	–	–	–	–	–
Mr. Deng Jindong	–	–	–	–	–	–	–	–
Mr. Chen Qiyu	–	–	–	–	–	–	–	–
Mr. Li Dongjiu (ix)	–	–	–	–	–	–	–	–
Mr. Lian Wanyong (iii)	–	–	–	–	–	–	–	–
Mr. Wu Yijian (iv)	–	–	–	–	–	–	–	–
Mr. Ma Ping	–	–	–	–	–	–	–	–
Mr. Wen Deyong (vi)	–	–	–	–	–	–	–	–
Ms. Rong Yan (viii)	–	–	–	–	–	–	–	–
Independent non–executive directors								
Ms. Li Ling (xv)	300	–	–	–	–	–	–	–
Mr. Liu Zhengdong	300	–	–	–	–	–	–	–
Mr. Tan Wee Seng	300	–	–	–	–	–	–	–
Mr. Yu Tze Shan Hailson	300	–	–	–	–	–	–	–
Mr. Zhuo Fumin	300	–	–	–	–	–	–	–
Supervisors								
Mr. Zhang Hong Yu (x)	–	–	–	–	–	–	–	–
Mr. Yao Fang	–	–	–	–	–	–	–	–
Mr. Yang Jun (vii)	968	1,267	–	5	131	–	–	–
Ms. Jin Yi	429	99	–	41	122	–	–	–
Mr. Tao Wuping	300	–	–	–	–	–	–	–
Ms. Li Xiaojuan	–	–	–	–	–	–	–	–
	6,954	6,552	–	59	481	–	1,945	10,686

49. Directors', supervisors' and chief executives remuneration (continued)

(a) Directors', supervisors' and chief executive's remuneration (continued)

Notes:

(i) Resigned on 24 March 2017 as the Chairman of the Board and the executive director of the Company.

(ii) Elected as the Chairman of the Board on 24 March 2017 and appointed on 9 September 2017.

(iii) Appointed on 21 September 2017, and resigned on 12 January 2018.

(iv) Resigned on 20 September 2017, appointed on 9 March 2018 and resigned on 28 December 2018.

(v) Appointed on 18 December 2017.

(vi) Appointed on 21 September 2017.

(vii) Appointed on 18 June 2015 and resigned on 12 January 2018.

(viii) Appointed on 9 March 2018 and resigned on 28 December 2018.

(ix) Resigned on 12 January 2018.

(x) Appointed on 12 January 2018.

(xi) Appointed on 28 December 2018.

(xii) Resigned on 28 December 2018.

(xiii) Appointed on 28 December 2018.

(xiv) Appointed on 8 March 2019.

(xv) Resigned on 28 December 2018.

(xvi) Appointed on 28 December 2018.

(xvii) Resigned on 22 March 2019.

49. Directors', supervisors' and chief executives remuneration (continued)

(b) Except the contribution to a retirement benefit scheme, no other retirement benefits were paid to any director during the year ended 31 December 2018.

(c) No termination benefits were paid to any director during the year ended 31 December 2018.

(d) No consideration paid to third parties for directors' services during the year ended 31 December 2018.

(e) No loans, quasi-loans or other dealings were entered into by the Company or subsidiary undertaking of the Company, where applicable, in favour of directors of the Company and of the holding company of the Company, or bodies corporate controlled by such directors, or entities connected with such directors, also including a shadow director of any director.

(f) No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

50. Comparative figures

As further explained in Note 44(b), on 16 October 2018, the Group obtained 60% equity interests in China Scientific and Materials from CNPGC. Since China Scientific and Materials 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.

51. Events after the reporting period

There are no subsequent events after the end of reporting period.

SINOPHARM GROUP CO. LTD.
Sinopharm Plaza
No. 1001 Zhongshan West Road
Changning District, Shanghai 200051, the PRC

www.sinopharmgroup.com.cn

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