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国药集团
SINOPHARM

國藥控股股份有限公司

SINOPHARM GROUP CO. LTD.*

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

(Stock Code: 01099)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

The board of directors (the “**Board**”) of Sinopharm Group Co. Ltd. (the “**Company**” or “**Sinopharm**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “**Group**”) prepared under the Hong Kong Financial Reporting Standards (“**HKFRSs**”) for the year ended 31 December 2020 (the “**Reporting Period**”).

CHAIRMAN’S STATEMENT

I would like to express my heartfelt gratitude to the shareholders and the community for your concern and strong support to the Group. The year 2020 was an extremely extraordinary year for Chinese society, the pharmaceutical industry and Sinopharm. Faced with the sudden outbreak of the COVID-19, all employees of the Group spared no effort to ensure the supply of medical supplies to fight the pandemic despite difficulties and hardships, making great contributions to the control of the pandemic nationwide and even worldwide, and fully demonstrating that staff of Sinopharm are great-minded and willing to take on responsibilities. Under the challenging economic situation, in the environment of the ever-changing industrial policies and in the face of increasingly fierce market competition, the Board of Directors, management and all staff of the Group always remained strategy alignment and timely adjusted our business strategies, optimized our business layout and enhanced its management and control, and as a result, the Group achieved good operating results for the year, and continued to reward our shareholders who care for and support the Group with long-term stable growth.

In 2020, the “13th Five-Year Plan” came to a successful conclusion. The year saw a steady growth of China’s economy with achievement of over RMB100 trillion of China’s GDP, a continuously optimizing economic structure and significant improvement in people’s living standards. A significant contribution was made by China to the global economic recovery. During this period, China has established the world’s largest health care system, with more than 1.3 billion people covered by basic health insurance and a continuous transformation and upgrading of its health care service model. The pharmaceutical industry continued to develop at a fast pace, with the industry progress driven by technological innovation and the industrial structure continuously diversified and optimized, laying a solid foundation for the industry’s continued transformation and upgrading.

In the past five years, Sinopharm continued to adhere to strategic guidance, fully stimulated the vitality of the enterprise, continued to consolidate the advantages of the network, and maintained its industry leading position. In the past five years, Sinopharm continued to optimize the business structure, improved the layout of the industrial chain with mutual empowering and synergistic development of the pharmaceutical distribution, medical devices and retail pharmacy. In the past five years, Sinopharm took solid steps and achieved a remarkable performance by doubling its sales revenue, total profit and total assets, and fully accomplished the objectives of the “13th Five-Year Plan”.

The year 2021 marks the start of the “14th Five-Year Plan” and the beginning of the visionary goal of building a modern socialist country and a “Healthy China”. China will adopt a “dual circulation” strategy, which dictates an economic development pattern that takes domestic development as the mainstay, with domestic and international development reinforcing each other. China will continue to deepen the reform of the medical and health system, accelerate the expansion of high-quality medical resources and the balanced regional layout, build a hierarchical diagnosis and treatment system and provide people with all-round and comprehensive health services.

Looking ahead, the Group will continue to remain true to its original aspiration and philosophy of “All for Health, Health for All”, further grasp the opportunities arising from the strategic industry transformation and follow the development trend of the health China. Meanwhile, it will improve the network layout, optimize resource allocation and continue to strengthen the core business. Moreover, it plans to promote digital transformation, increase investment in technological innovation, expand the industrial chain and ecosystem so as to cultivate steady long-term growth, enhance the Group’s core competitiveness, continually create corporate value, lead the industry trend and achieve high-quality development.

The Board of Directors of the Group is committed to providing sound corporate governance, continuously refining decision-making capabilities and supervisory wisdom, optimizing operational management efficiency, pursuing sustainable development and ensuring long-term stable performance. Once again, I would like to thank the shareholders, partners and people from all walks of life for your long-term support and help to Sinopharm. We look forward to working together with you towards a prosperous future.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
(All amounts in Renminbi thousand unless otherwise stated)
YEAR ENDED 31 DECEMBER 2020

	<i>Notes</i>	2020	2019
Revenue	4	456,414,611	425,272,726
Cost of sales	8	(416,091,300)	(387,741,423)
Gross profit		40,323,311	37,531,303
Other income	5	652,002	441,164
Selling and distribution expenses	8	(14,141,741)	(12,556,928)
Administrative expenses	8	(7,049,812)	(6,912,227)
Impairment losses on financial and contract assets	6	(750,224)	(416,391)
Losses on disposal of financial assets measured at amortised cost		(1,273,561)	(1,950,177)
Operating profit		17,759,975	16,136,744
Other gains – net	7	138,880	53,179
Other expenses	8	(341,207)	(173,723)
Finance income		673,532	513,397
Finance costs		(3,620,547)	(3,656,861)
Finance costs – net	10	(2,947,015)	(3,143,464)
Share of profits and losses of:			
Associates		985,562	876,381
Joint ventures		1,901	10,693
		987,463	887,074
Profit before tax		15,598,096	13,759,810
Income tax expense	11	(3,500,805)	(3,139,738)
Profit for the year		12,097,291	10,620,072
Attributable to:			
Owners of the parent		7,187,278	6,252,537
Non-controlling interests		4,910,013	4,367,535
		12,097,291	10,620,072
Earnings per share attributable to ordinary equity holders of the parent (expressed in RMB per share)			
– Basic	12	2.31	2.11
– Diluted	12	2.31	2.10

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousand unless otherwise stated)

YEAR ENDED 31 DECEMBER 2020

	Notes	2020	2019
Profit for the year		12,097,291	10,620,072
Other comprehensive income/(loss):			
<i>Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:</i>			
Remeasurements of post-employment benefit obligations	11	(20,043)	(17,333)
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value	11	20,443	8,716
Income tax effect	11	(5,111)	(2,179)
Fair value changes on financial asset, net of tax		15,332	6,537
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods		(4,711)	(10,796)
<i>Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations		8,595	(3,582)
Share of other comprehensive loss of associates		(1,967)	(703)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		6,628	(4,285)
Other comprehensive income/(loss) for the year, net of tax		1,917	(15,081)
Total comprehensive income for the year		12,099,208	10,604,991
Attributable to:			
– Owners of the parent		7,188,059	6,239,015
– Non-controlling interests		4,911,149	4,365,976
		12,099,208	10,604,991

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in Renminbi thousand unless otherwise stated)

31 DECEMBER 2020

	Notes	2020	2019
ASSETS			
Non-current assets			
Right-of-use assets		6,828,091	6,350,157
Investment properties		634,050	699,431
Property, plant and equipment		12,067,755	11,712,879
Intangible assets		10,729,302	8,988,850
Investments in joint ventures		35,341	34,274
Investments in associates		7,735,431	7,018,107
Equity investments designated at fair value through other comprehensive income		87,353	38,284
Financial assets at fair value through profit or loss		614,750	729,892
Finance lease receivables		33,504	18,288
Deferred tax assets		1,601,660	1,448,853
Other non-current assets		3,259,496	2,849,668
Total non-current assets		43,626,733	39,888,683
Current assets			
Inventories		47,085,450	42,594,396
Trade and bills receivables	13	145,336,963	122,266,917
Contract assets		711,114	353,688
Prepayments, other receivables and other assets		14,208,872	14,930,966
Financial assets at fair value through profit or loss		39,141	156
Finance lease receivables		1,130	7,965
Pledged deposits and restricted cash		10,029,693	10,653,633
Cash and cash equivalents		50,178,265	39,191,967
		267,590,628	229,999,688
Non-current assets held for sale		19,345	-
Total current assets		267,609,973	229,999,688
Total assets		311,236,706	269,888,371
EQUITY			
Equity attributable to owners of the parent			
Share capital		3,120,656	2,971,656
Treasury shares held for share incentive scheme		(3,838)	(60,212)
Reserves		53,242,027	44,510,702
		56,358,845	47,422,146
Non-controlling interests		33,588,476	29,517,221
Total equity		89,947,321	76,939,367

NOTES:

(All amounts in Renminbi thousand unless otherwise stated)

1 GENERAL INFORMATION

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

On 6 October 2008, the Company was converted into a joint stock limited liability company under the PRC Company Law by converting its registered share capital and reserves as at 30 September 2007 with the proportion of 1:0.8699 into 1,637,037,451 shares of RMB1 each. In September 2009, the Company issued overseas-listed foreign-invested shares (“**H Shares**”), which were listed on the Main Board of The Stock Exchange of Hong Kong Limited (“**Hong Kong Stock Exchange**”) on 23 September 2009. The Company issued 204,561,102 domestic shares to China National Pharmaceutical Group Co., Ltd. (“**CNPGC**”) under general mandate at the issue price of RMB24.97 per consideration share on 13 December 2018. On 23 January 2020, the Company placed and issued 149,000,000 new H shares at the price of HKD27.30 per H share. The actual net proceeds of the placing were HKD4,026,710,000, equivalent to RMB3,567,383,000.

The address of the Company’s registered office is 1st Floor, No.385 East Longhua Road, Huangpu District, Shanghai, the PRC.

The Company and its subsidiaries (together, the “**Group**”) are mainly engaged in: (1) the distribution of pharmaceutical products to hospitals, other distributors, retail pharmacy stores and clinics, (2) the operation of chain pharmacy stores, (3) distribution of medical devices, and (4) the distribution of laboratory supplies, manufacture and distribution of chemical reagents, production and sale of pharmaceutical products.

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

These financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand, unless otherwise stated. These financial statements were approved for issue by the Board of Directors on 19 March 2021.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the “**Conceptual Framework**”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“**RFR**”). The amendments provide temporary reliefs which enable hedge accounting to continue during

the period of uncertainty before introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

- (d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group's plant and machinery have been reduced or waived by the lessors as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB15,524,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

- (e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

3 SEGMENT INFORMATION

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

- (i) Pharmaceutical distribution – distribution of pharmaceutical products to hospitals, other distributors, retail pharmacy stores and clinics;
- (ii) Retail pharmacy – operation of chain pharmacy stores;
- (iii) Medical devices – distribution of medical devices;
- (iv) Other business – distribution of laboratory supplies, manufacture and distribution of chemical reagents, production and sale of pharmaceutical products.

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 right-of-use assets, 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 right-of-use assets, investment properties, property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

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

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

(i) Years ended 31 December 2020 and 2019

	Pharmaceutical distribution	Retail pharmacy	Medical devices	Other business	Eliminations	Group
Year ended 31 December 2020						
Segment results						
External segment revenue	338,611,186	23,742,115	87,978,460	6,082,850	-	456,414,611
Inter-segment revenue	9,683,196	422,224	1,423,786	1,568,829	(13,098,035)	-
Revenue	348,294,382	24,164,339	89,402,246	7,651,679	(13,098,035)	456,414,611
Operating profit	12,288,233	676,880	4,305,677	806,605	(317,420)	17,759,975
Other gains – net	201,165	(8,181)	(66,999)	12,895	-	138,880
Other expenses	(234,828)	-	(106,379)	-	-	(341,207)
Share of profits and losses of associates and joint ventures	16,326	3,141	(12,189)	980,185	-	987,463
	12,270,896	671,840	4,120,110	1,799,685	(317,420)	18,545,111
Finance costs – net						(2,947,015)
Profit before tax						15,598,096
Income tax expense						(3,500,805)
Profit for the year						12,097,291
Other segment items included in the consolidated statement of profit or loss						
Provision for impairment of financial and contract assets	533,462	13,451	200,161	3,150		750,224
Provision/(reversal of provision) for prepayment	(1,433)	-	77,663	-		76,230
Provision/(Reversal of provision) for impairment of inventories	36,469	2,601	30,123	(537)		68,656
Provision for impairment of property, plant and equipment	123	-	-	-		123
Provision for impairment of intangible assets	236,261	-	28,716	-		264,977
Depreciation of property, plant and equipment	999,556	180,695	260,211	28,734		1,469,196
Depreciation of investment properties	21,889	1,134	22,196	2,695		47,914
Depreciation of right-of-use assets	574,752	813,564	245,732	55,922		1,689,970
Amortisation of intangible assets	354,242	35,597	-	195		390,034
Capital expenditures	1,879,875	2,033,890	641,699	29,778		4,585,242

(i) Years ended 31 December 2020 and 2019 (continued)

	Pharmaceutical distribution	Retail pharmacy	Medical devices	Other business	Eliminations	Group
Year ended 31 December 2019						
Segment results						
External segment revenue	332,091,107	19,519,671	69,013,006	4,648,942	-	425,272,726
Inter-segment revenue	5,225,524	283,619	280,533	388,188	(6,177,864)	-
Revenue	337,316,631	19,803,290	69,293,539	5,037,130	(6,177,864)	425,272,726
Operating profit	12,585,599	497,658	2,772,873	426,096	(145,482)	16,136,744
Other gains – net	48,248	1,245	(26,919)	30,605	-	53,179
Other expenses	(154,760)	-	(18,963)	-	-	(173,723)
Share of profits and losses of associates and joint ventures	20,520	2,399	(29)	864,184	-	887,074
	12,499,607	501,302	2,726,962	1,320,885	(145,482)	16,903,274
Finance costs – net						(3,143,464)
Profit before tax						13,759,810
Income tax expense						(3,139,738)
Profit for the year						10,620,072
Other segment items included in the consolidated statement of profit or loss						
Provision for impairment of financial and contract assets	275,530	2,862	137,252	747		416,391
Provision/(reversal of provision) for impairment of inventories	(67,153)	1,968	71,431	(857)		5,389
Provision for impairment of property, plant and equipment	1,831	-	6,461	-		8,292
Provision for impairment of intangible assets	173,723	-	-	-		173,723
Depreciation of property, plant and equipment	869,403	123,381	288,166	32,446		1,313,396
Depreciation of investment properties	15,069	1,123	22,204	2,696		41,092
Depreciation of right-of-use assets	423,211	609,246	216,498	52,237		1,301,192
Amortisation of intangible assets	420,241	17,803	19,107	1,245		458,396
Capital expenditures	3,807,802	296,956	734,471	28,664		4,867,893

(ii) As at 31 December 2020 and 2019

	Pharmaceutical distribution	Retail pharmacy	Medical devices	Other business	Eliminations	Group
As at 31 December 2020						
Segment assets and liabilities						
Segment assets	233,447,454	13,618,173	60,062,154	18,055,657	(15,548,392)	309,635,046
Segment assets include:						
Investments in associates and joint ventures	300,074	26,312	129,743	7,314,643	-	7,770,772
Unallocated assets – Deferred tax assets						<u>1,601,660</u>
Total assets						<u><u>311,236,706</u></u>
Segment liabilities	<u>115,094,500</u>	<u>9,419,158</u>	<u>41,696,886</u>	<u>5,306,920</u>	<u>(15,217,501)</u>	<u>156,299,963</u>
Unallocated liabilities – Deferred tax liabilities and borrowings						<u>64,989,422</u>
Total liabilities						<u><u>221,289,385</u></u>
As at 31 December 2019						
Segment assets and liabilities						
Segment assets	194,842,420	14,093,474	50,711,498	13,143,861	(4,351,735)	268,439,518
Segment assets include:						
Investments in associates and joint ventures	280,118	23,926	55,076	6,693,261	-	7,052,381
Unallocated assets – Deferred tax assets						<u>1,448,853</u>
Total assets						<u><u>269,888,371</u></u>
Segment liabilities	<u>96,238,554</u>	<u>9,696,935</u>	<u>37,593,774</u>	<u>2,577,672</u>	<u>(5,106,604)</u>	<u>141,000,331</u>
Unallocated liabilities – Deferred tax liabilities and borrowings						<u>51,948,673</u>
Total liabilities						<u><u>192,949,004</u></u>

The Group's operations are mainly located in the PRC and substantially all non-current assets are located in the PRC.

Information about major customers

No revenue from a singular customer in each Reporting Period individually contributed to over 10% of the total revenue of the Group.

4 REVENUE

An analysis of revenue is as follows:

	2020	2019
<i>Revenue from contracts with customers</i>		
Sales of goods	454,252,490	423,617,369
Consulting income	809,352	576,686
Logistics service income	578,028	416,095
Franchise fee and other service fee	129,933	180,447
Import agency income	71,789	27,845
Others	314,179	198,031
<i>Revenue from other sources</i>		
Operating lease income	258,840	256,253
	456,414,611	425,272,726

Revenue from contracts with customers

Disaggregated revenue information

For the year end 31 December 2020

<u>Segments</u>	Pharmaceutical distribution	Retail pharmacy	Medical devices	Others	Total
Type of goods or services					
Sale of goods	337,497,819	23,009,583	87,690,600	6,054,488	454,252,490
Others	1,113,367	473,692	287,860	28,362	1,903,281
Total revenue from contracts with customers					
	338,611,186	23,483,275	87,978,460	6,082,850	456,155,771
Market					
China	338,611,186	23,483,275	87,978,460	6,082,850	456,155,771
Timing of revenue recognition					
Recognised at a point in time	338,611,186	23,483,275	87,978,460	6,082,850	456,155,771

For the year end 31 December 2019

<u>Segments</u>	Pharmaceutical distribution	Retail pharmacy	Medical devices	Others	Total
Type of goods or services					
Sale of goods	331,241,773	18,923,303	68,824,857	4,627,436	423,617,369
Others	849,334	340,115	188,149	21,506	1,399,104
Total revenue from contracts with customers	332,091,107	19,263,418	69,013,006	4,648,942	425,016,473
Market					
China	332,091,107	19,263,418	69,013,006	4,648,942	425,016,473
Timing of revenue recognition					
Recognised at a point in time	332,091,107	19,263,418	69,013,006	4,648,942	425,016,473

Revenue included in the contract liability at the beginning of the Reporting Period will be recognised from performance obligations satisfied in previous periods. RMB4,537,222,000 is recognised in the current year by delivering products and services.

Performance obligations

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

Sale of goods

Revenue is recognised when control of the goods has transferred and payment is generally due within 30 to 210 days from delivery.

Others

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

5 OTHER INCOME

	2020	2019
Government grants	652,002	441,164

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

6 IMPAIRMENT LOSSES ON FINANCIAL AND CONTRACT ASSETS

	2020	2019
Impairment of financial and contract assets - net:		
Trade and bills receivables	660,705	299,290
Contract assets	9,132	15,121
Other receivables	72,650	101,678
Other non-current assets	7,517	302
Finance lease receivables	220	-
	<u>750,224</u>	<u>416,391</u>

7 OTHER GAINS – NET/ OTHER EXPENSES

	2020	2019
Write-back of certain liabilities	68,744	40,823
Gain on disposal of subsidiaries and fair value remeasurement of existing equity in the subsidiaries	113,576	29,790
Gain on disposal of an investment in an associate	17,771	40,384
Gain on disposal of investment properties, property, plant and equipment and intangible assets	24,238	8,700
Gain/(loss) on disposal of right-of-use assets	15,146	(3,890)
Foreign exchange gain/(loss) - net	11,809	(12,812)
Donation	(96,091)	(64,473)
Interest income from asset-backed securities	2,826	6,040
Dividend income from:		
Equity investments at fair value through other comprehensive income	1,001	814
Equity investments at fair value through profit or loss	31,411	1,511
Fair value gains - net:		
Equity investments at fair value through profit or loss	(63,903)	(153)
Debt investments at fair value through profit or loss	-	9,830
Disposal of financial assets at fair value through profit or loss	-	6,297
Provision for impairment of property, plant and equipment	(123)	(8,292)
Provision for impairment of an investment in an associate	-	(1,857)
Others - net	12,475	467
	<u>138,880</u>	<u>53,179</u>
Provision for impairment of intangible assets	(264,977)	(173,723)
Provision for impairment of prepayment	(76,230)	-
	<u>(341,207)</u>	<u>(173,723)</u>

8 EXPENSES BY NATURE

	2020	2019
Raw materials and trading merchandise consumed	415,415,993	386,924,377
Changes in inventories of finished goods and work in progress	(139,377)	20,905
Employee benefit expenses (<i>Note 9</i>)	11,375,429	10,405,896
Impairment of inventories - net	68,656	5,389
Lease payments not included in the measurement of lease liabilities	619,973	475,449
Depreciation of property, plant and equipment	1,469,196	1,313,396
Depreciation of investment properties	47,914	41,092
Depreciation of right-of-use assets	1,689,970	1,301,192
Amortisation of intangible assets	390,034	458,396
Auditor's remuneration		
- statutory audit services	48,690	42,045
- non-statutory audit services	3,560	1,707
- non-audit services	37	2,082
Advisory and consulting fees	379,486	366,995
Transportation expenses	1,408,258	1,395,664
Travel expenses	341,116	452,812
Market development and business promotion expenses	2,737,673	2,555,121
Utilities	215,202	204,371
Others	1,211,043	1,243,689
	<hr/>	<hr/>
Total cost of sales, selling and distribution expenses, and administrative expenses	437,282,853	407,210,578
	<hr/> <hr/>	<hr/> <hr/>

9 EMPLOYEE BENEFIT EXPENSES

	2020	2019
Salaries, wages, allowances and bonuses	9,527,887	8,220,976
Contributions to pension plans (i)	431,048	836,859
Post-employment benefits	1,629	5,281
Housing benefits (ii)	409,674	344,193
Share incentive expenses	(18,569)	5,753
Other benefits (iii)	1,023,760	992,834
	11,375,429	10,405,896

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 8% (2019: 8%) of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group makes contributions of 12% to 20% (2019: 12% to 20%) 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.

Due to the severe impact of COVID-19, the Ministry of Human Resources and Social Security issued Decree No.11 and Decree No.49 to reduce all entities' contribution to the retirement schemes during the period from February 2020 to June 2020. The range of the deduction varies from 50% to 100%. For some subsidiaries, the deduction period was extended to December 2020.

Contributions totaling RMB13,104,000 (31 December 2019: RMB9,864,000) were payable to the fund at the year ended 31 December 2020.

- (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 FINANCE INCOME AND COSTS

	2020	2019
Interest expense:		
– Interest-bearing bank and other borrowings	2,608,142	2,682,134
– Discount of bills receivable	614,428	577,748
– Net interest on net defined benefit liability	11,832	13,188
– Lease liabilities	193,707	172,056
	<hr/>	<hr/>
Gross interest expense	3,428,109	3,445,126
Bank charges	195,791	214,354
Less: capitalised interest expense	(3,353)	(2,619)
	<hr/>	<hr/>
Finance costs	3,620,547	3,656,861
	<hr/>	<hr/>
Finance income:		
– Interest income on deposits in banks and other financial institutions	(584,832)	(430,208)
– Interest income on long-term deposits	(88,700)	(83,189)
	<hr/>	<hr/>
Net finance costs	2,947,015	3,143,464
	<hr/> <hr/>	<hr/> <hr/>

11 TAXATION

	2020	2019
Current income tax	3,715,646	3,538,377
Deferred income tax	<u>(214,841)</u>	<u>(398,639)</u>
	<u>3,500,805</u>	<u>3,139,738</u>

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

	2020	2019
Profit before tax	15,598,096	13,759,810
Less: Share of profits and losses of associates and joint ventures	<u>(987,463)</u>	<u>(887,074)</u>
	<u>14,610,633</u>	<u>12,872,736</u>
Tax calculated at the applicable tax rate	3,652,658	3,218,184
Impact of lower tax rates enacted by local authority	(278,984)	(205,985)
Expenses not deductible for tax purposes	152,262	146,145
Income not subject to tax	(8,718)	(11,900)
Tax losses not recognised	29,094	63,008
Tax losses utilised from previous periods	(8,795)	(4,023)
Impact of change in the applicable income tax rate on deferred tax	(594)	(649)
Adjustments in respect of current tax of previous periods	<u>(36,118)</u>	<u>(65,042)</u>
Income tax expense	<u>3,500,805</u>	<u>3,139,738</u>

Note:

- (i) During 2020, enterprises incorporated in the PRC are normally subject to enterprise income tax (“EIT”) at the rate of 25%, while certain subsidiaries enjoy preferential EIT at a rate of 15% as approved by the relevant tax authorities or due to their operation in designated areas with preferential EIT policies.
- (ii) Two of the Group’s subsidiaries are subject to Hong Kong profits tax at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in or derived from Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2019/2020. The first HK\$2,000,000 (2019: HK\$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

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

	2020			2019		
	Before tax	Tax (charge)/credit	After tax	Before tax	Tax credit	After tax
Equity investments at fair value through other comprehensive income	20,443	(5,111)	15,332	8,716	(2,179)	6,537
Remeasurement of post-employment benefit obligations	(26,210)	6,167	(20,043)	(22,835)	5,502	(17,333)
Total	(5,767)	1,056	(4,711)	(14,119)	3,323	(10,796)

12 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 3,111,293,000 (31 December 2019: 2,971,656,000) in issue excluding restricted shares at the end of the Reporting Period.

The calculation of the amounts of the diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, adjust to reflect the cash dividends 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.

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

	2020	2019
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the parent	7,187,278	6,252,537
Less: Cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future	(74)	(1,182)
Profit attributable to equity holders of the parent used in the basic earnings per share calculation	7,187,204	6,251,355
	Number of shares	
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation ('000)	3,111,169	2,969,653
Effect of dilution – Restricted shares ('000)	124	2,003
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation ('000)	3,111,293	2,971,656
Basic earnings per share (RMB per share)	2.31	2.11
Diluted earnings per share (RMB per share)	2.31	2.10

13 TRADE AND BILLS RECEIVABLES

	2020	2019
Trade receivables	136,340,084	111,058,298
Bills receivable	11,267,761	12,791,131
	<hr/>	<hr/>
	147,607,845	123,849,429
Less: Provision for impairment	(2,270,882)	(1,582,512)
	<hr/>	<hr/>
	145,336,963	122,266,917
	<hr/> <hr/>	<hr/> <hr/>

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

The term of bills receivable are all less than 12 months. Retail sales at the Group's medicine chain stores are generally made in cash or by debit or credit cards. For medicine distribution, medical devices distribution and medicine manufacturing businesses, sales are made on credit terms ranging from 30 to 210 days. The ageing analysis of trade receivables, based on the invoice date and net of provisions, as at the end of the Reporting Period, is as follows:

	2020	2019
Within 1 year	130,854,340	107,850,187
1 to 2 years	2,952,952	1,437,537
Over 2 years	312,690	224,072
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	134,119,982	109,511,796
	<hr/> <hr/>	<hr/> <hr/>

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 and bills receivables. To measure the expected credit losses, these receivables have been grouped based on shared credit risk characteristics and the ageing from billing.

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

	2020	2019
At beginning of year	1,582,512	1,250,454
Acquisition of subsidiaries	27,937	31,745
Provision for impairment - net	660,705	299,290
Other increase for the year	-	5,827
Write-off	(272)	(4,804)
	<hr/>	<hr/>
At end of year	2,270,882	1,582,512
	<hr/> <hr/>	<hr/> <hr/>

As at 31 December 2020, bills receivable of RMB305,282,000 (2019: RMB275,574,000) and trade receivable of RMB2,118,934,000 (2019: RMB691,263,000) were pledged as collateral for the Group's bank borrowings.

As at 31 December 2020, bills receivable of RMB131,860,000 (2019: RMB71,524,000) were pledged as collateral for the Group's bills payable.

As at 31 December 2020, outstanding trade receivables of RMB31,948,573,000 (2019: RMB42,814,154,000) were derecognised under the trade receivables factoring programs without recourse. The ageing of these derecognised trade receivables was basically within one year. As at 31 December 2020, the collection of such trade receivables on behalf of banks amounting to RMB2,876,436,000 (2019: RMB7,415,018,000) and the collection of such trade receivables on behalf of related parties amounting to RMB1,222,736,000 (2019: RMB1,171,691,000) was recorded in other payables.

14 TRADE AND BILLS PAYABLES

	2020	2019
Trade payables	78,687,419	71,012,123
Bills payable	33,944,974	29,321,645
	<u>112,632,393</u>	<u>100,333,768</u>

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

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

	2020	2019
Within 3 months	84,477,049	73,248,556
3 to 6 months	18,497,256	18,772,174
6 months to 1 year	5,902,758	5,362,146
1 to 2 years	2,343,031	1,666,546
Over 2 years	1,412,299	1,284,346
	<u>112,632,393</u>	<u>100,333,768</u>

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

	2020	2019
RMB	111,721,945	99,728,344
USD	897,938	600,015
EUR	12,510	4,885
JPY	-	499
CHF	-	25
	<u>112,632,393</u>	<u>100,333,768</u>

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

During the year ended 31 December 2020, accounts payable of RMB1,645,919,000 (2019: RMB2,244,563,000) were repaid by the banks under this program with the equivalent amount drawn as borrowings. As at 31 December 2020, the balance of bank borrowings related to this program was RMB347,192,000 (2019: RMB186,362,000).

15 DIVIDENDS

The final dividend for the year 2019 of RMB0.60 per share (tax inclusive), amounting to RMB1,872,394,000 in total, was approved by the shareholders at the annual general meeting of the Company held on 11 June 2020.

A final dividend for the year ended 31 December 2020 of RMB0.69 (tax inclusive) per ordinary share, totalling approximately RMB2,153,253,000 is to be proposed at the upcoming annual general meeting according to the resolution passed at the Board meeting held on 19 March 2021. These financial statements have not reflected this proposed dividend.

	2020	2019
Proposed final dividend	<u>2,153,253</u>	<u>1,872,394</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

Orderly macroeconomic recovery and steady recovery of economic growth

The year 2020 was an extraordinary year and China's economy suffered a severe test. In the face of the sudden outbreak of the COVID-19, the Chinese government actively coordinated the prevention and control of the pandemic, promoted the resumption of work and production in an orderly manner, and ensured that the domestic pandemic was effectively controlled. Through a series of relief measures such as special subsidies, tax reductions, loan subsidies, etc., the negative impact of the pandemic on the smooth operation of the economy and society has been counteracted, and the work of economic and social development has been strongly promoted. In the face of the complex domestic and international environment, China's economy, with its structural advantages and strong resilience, became the only major economy in the world to achieve positive growth that year.

According to the relevant information released by the National Bureau of Statistics, China's gross domestic product (GDP) reached RMB101.60 trillion for the year 2020, representing a year-on-year increase of 2.3% from last year. By quarter, while the GDP in the first quarter declined by 6.8% on a year-on-year basis, the second quarter grew by 3.2% on a year-on-year basis, the third quarter grew by 4.9% on a year-on-year basis and the fourth quarter grew by 6.5% on a year-on-year basis. The year saw continuous improvement in various economic indicators and a steady recovery of the economic growth rate. The completion of the main objectives of economic and social development tasks was better than expected.

Medical reform policies continued to advance with the advantages of the leading enterprises emerging

At the beginning of 2020, influenced by various strict prevention and control measures during the pandemic, the daily diagnosis and treatment and surgery services of hospitals were drastically reduced, and the sales of non-pandemic-related drugs and devices were significantly impacted, which had a huge impact on the entire pharmaceutical distribution industry. After the pandemic prevention and control became normalized, the industry showed a significant recovery along with the rebound of China's economy. In the first three quarters of 2020, sales of pharmaceutical distribution market improved significantly as compared to the first half of the year, and the downward trend further slowed down. According to the data from the Ministry of Commerce's Pharmaceutical Distribution Statistics System, the total sales of seven major categories of pharmaceutical commodities nationwide in the first 3 quarters of 2020 amounted to RMB1,723.5 billion, net of non-comparable factors, representing a year-on-year decrease of 0.31%, with a year-on-year decrease of 9.09 percentage points of growth rate. Among them, the principal business income of pharmaceutical distribution direct-reporting enterprises was RMB1,281.2 billion, net of non-comparable factors, representing a year-on-year increase of 0.52%, with a year-on-year decrease of 9.31 percentage points of growth rate; while the pharmaceutical retail market income was RMB374.8 billion, representing a year-on-year increase of 10.87% with an increase of 0.90 percentage point of growth rate.

The continuous reform of the national medical security system has undoubtedly accelerated the deep transformation and reform of China's pharmaceutical industry. Faced with the rigid growth of medical demand driven by the aging population, consumption upgrade, and continuous increase in the government

financial investment, China's multi-level medical security system and the public health emergency management system are gradually improved, and the entire medical and health care industry continues to develop at a higher growth rate than the macroeconomic growth.

The outbreak of the pandemic has not slowed down the government's pace of medical insurance reform. With the implementation of a series of policies, such as "Volume-based Procurement of Drugs and High-value Consumables," "Negotiation for Medical Insurance Catalog" and "Diagnosis Related Groups (DRGs)", the competitive advantages of the leading enterprises have further emerged, which has promoted the continuous increase of market concentration, and strongly promoted the channel reconstruction and service transformation of the distribution industry. The iterative upgrading of business models and the growing demand for innovative services have also brought new opportunities and challenges for the industry's sustainable development.

At the same time, with the rapid development of innovative technologies and service capabilities, including "Internet+" and "artificial intelligence", the entire medical health industry has been further transformed and upgraded. The year saw the rapid rising of new business models such as Internet healthcare, the rapid expansion of the application of innovative business scenarios such as "Internet+medicine+drug+insurance" as well as gradually diversified competition among cross-industry enterprises. It became a new development trend in the industry to seek win-win cooperation in competition.

Business Review

The Group actively overcame the complex and volatile challenges and difficulties during the Reporting Period. It not only achieved milestones in the fight against the pandemic but also pushed all businesses back to the right track. While strictly controlling business risks, the Group focused on improving the operation quality of its businesses, successfully reversing the unfavorable start and achieving counter-trend growth, as well as completing the "13th Five-Year Plan" formulated by the Company. For the year of 2020, the Company achieved business revenue of RMB456,414.61 million, representing a year-on-year increase of 7.32% with growth rate far above the average industry level. Net profit for the year amounted to RMB12,097.29 million, representing a year-on-year increase of 13.91% and net profit attributable to owners of the parent reached RMB7,187.28 million, representing a year-on-year increase of 14.95%, thereby consolidating the Group's leading position in the industry constantly.

Under the superimposed impact of the pandemic outbreak and the deep advancement of the medical insurance reform policy, the medical devices and retail pharmacy segments of the Group effectively followed the development plan of the Company and grasped new development opportunities, and continued to maintain a relatively high growth trend during the Reporting Period. The overall business structure of the Company was further diversified and optimized. For the year of 2020, the proportion of revenue from the pharmaceutical distribution segment decreased by 4.00 percentage points to 74.18%, while the proportion of revenue from medical devices and retail pharmacy segments increased by 2.98 percentage points and 0.56 percentage point to 19.04% and 5.15%, respectively.

Leading position in distribution solidified, and advantages in network emerged at a faster pace

In 2020, reform measures such as "volume-based procurement of drugs" and "Negotiation for Medical

Insurance Catalog” implemented by the National Healthcare Security Administration and provincial healthcare security bureaus continued to expand the implementation scope. Statistics from the National Healthcare Security Administration show that the first three batches of nationally-organized volume-based procurement of drugs involved a total of 112 varieties, and the provincial volume-based procurement of drugs covered 259 varieties. To cope with the transformation to flattened network and downward extension of channels brought by the medical insurance reform, the Group proactively followed the industry trend, continued to explore the scale advantages of the distribution network covering all levels of medical institutions, enhanced its intensive operation capabilities, and actively undertook the market share of volume-based procurement related products. During the Reporting Period, the pharmaceutical distribution business achieved revenue of RMB348,294.38 million, representing a year-on-year increase of 3.25%. With the continuous expansion of lower-tier market business, the terminal networks at provincial, municipal, and autonomous regional levels covered over 500,000 terminals. Benefiting from the expansion of endogenous business and the downward extension of the network, the proportion of revenue derived from the Group’s direct sales business and from non-provincial capital cities continued to grow. As of the end of 2020, the Group’s pharmaceutical distribution business has continuously strengthened its leading advantages, and its regional competitiveness has emerged at a faster pace.

The transformation and upgrade of the distribution industry have further promoted the reconstruction of drug sales and distribution models. During the Reporting Period, the Group actively integrated existing nationwide network and business resources, promoted model innovation, and successfully built nationwide integrated marketing service platforms. Relying on the advantages of long-term, in-depth cooperation and mutual trust with upstream suppliers, the Group has continued to develop marketing projects for innovative drugs including “Vemlidy” in the broad lower-tier market, and successfully achieved horizontal derivation of the business model and service capabilities in addition to traditional pharmaceutical distribution services, injecting new propelling force into the long-term and stable development of the pharmaceutical distribution business.

While further fortifying the competition barrier, the Group also focuses on the adjustment and optimization of business structure and product proportions. During the Reporting Period, the Group accelerated the alignment with upstream business resources and continuously strengthened its ability to undertake varieties under volume-based procurement and innovative drugs. Based on the implementation results of the first three phases of volume-based procurement, the Group’s acquisition rate of related varieties is still leading the industry, and the market share and total distribution volume have increased significantly. The ability to obtain innovative drugs and medical devices products further emerged. While continuously capitalizing on the competitive advantages of a leading enterprise, the Group furthered enrich and optimized the product structure.

Medical devices business grew steadily, and service advantages gradually emerged

In 2020, the strict prevention and control measures adopted by hospitals restricted daily medical operations and hospitalization services, which had a phased impact on the sales and product structure of the medical devices business. During the Reporting Period, the Group actively overcame the challenges posed by the outbreak of the pandemic and continued to promote the construction of the medical devices distribution network and the innovation of the business model. For the whole year of 2020, the medical devices segment recorded a revenue of RMB89,402.25 million, representing a year-on-year increase of 29.02%, the growth potential of the segment emerging at a faster pace.

In November 2020, the volume-based procurement of high-value consumables was officially implemented, marking the transformation and reform of the medical devices distribution industry officially entering the critical stage. The entire medical devices distribution industry is facing a reform path similar to that of pharmaceutical distribution, the implementation of policy may reduce sales revenue and gross profit of medical devices business, with the advantages of leading enterprises in network scale and innovative service capabilities emerging at a faster pace. Facing the new industry situation, the Group continued to improve its medical devices distribution network, and further enhanced its coverage of the broad market through endogenous growth and external expansion. During the Reporting Period, coverage over prefecture-level cities further increased to 76%, and the scale advantage of the network significantly improved.

Besides, the Group also focused on promoting the innovation and upgrading of business models and supply chain service capabilities. Making full use of the competitive advantages of “drug-device synergic development”, promoted business synergy and technological empowerment, continuously driving the rapid development of value-added services such as centralized delivery, in-hospital logistics management, and smart logistics. As of the end of 2020, the Company has carried out a total of 1,735 centralized delivery projects and SPD projects, an increase of 790 from the previous year. Among them, the centralized delivery projects increased by 687 compared with the previous year and the SPD projects increased by 103 compared with the previous year. Some of the projects convincingly demonstrated the strong strength of Sinopharm in the value-added services and technological innovation of the supply chain in the aspects of logistics lean management, supply chain scenario solution, and drug-device coordination, providing plenty of practical experience and a solid first-mover advantage for continuously improving customer adhesion and expanding service models.

“Medical device manufacturing” is an important part of the Group’s development plan. During the Reporting Period, the Group acquired preliminary production and manufacturing capabilities for more than one hundred standard varieties in the medical consumables category, with products sales quickly covering 31 major cities across the country, laying a solid foundation for the upstream extension of the Group’s medical devices segment.

Retail network continues to improve, and coordinated development was achieved through resource integration

Due to the impact of the COVID-19 pandemic, trends such as “separation of medical services and pharmaceutical sales” and “prescription outflow” accelerated during the Reporting Period. To align with the new development direction of the industry, the Group focused on implementing the development strategies of “wholesale-retail integration” and “nation-wide integration”, continuously deepening the coordination and collaboration of national procurement and logistics resources in the pharmaceutical retail business line, and exploring business transformation, model innovation and technology upgrade to continuously promote the high-quality growth of the retail pharmacy segment. During the Reporting Period, the Group’s retail pharmacy business recorded a total revenue of RMB24,164.34 million, representing a year-on-year increase of 22.02%.

Supported by the accelerated development of innovative technologies such as the mobile Internet and big data, the Company’s retail segment has comprehensively promoted the integrated development of online and offline businesses. Through continuous improvement of the convenient community service model, the Company expanded the service radius, enhanced service adhesion for consumer members, and further strengthened the

competitiveness of the Group's retail business. Leveraging the significant leading advantage of the distribution business, the Group carried out in-depth cooperation with medical institutions at all levels, undertook online prescription circulation, and focused on improving professional pharmacy service capabilities such as in-store consultation and medication guidance, promoting the continuous growth of specialized pharmacies, such as pharmacies for severe and chronic diseases, medical insurance unification pharmacies and DTP (Direct-To-Patient) pharmacies in which the Group had notable advantages. As of the end of 2020, the total number of retail stores has reached 8,977, representing an increase of 2,773 from the end of the previous year. Specifically, Sinopharm Holding Guoda Drugstore Co., Ltd., a subsidiary of the Group, had 7,660 retail pharmacies, representing an increase of 2,639 from the end of the previous year; and 1,317 professional pharmacies, representing an increase of 134 from the end of the previous year. During the Reporting Period, the Group also successfully completed the merger and integration of retail businesses such as Chengda Fangyuan Pharmaceutical Group Co., Ltd., thereby continuously optimizing its network coverage and strengthening its regional competitive advantage.

To further consolidate the development potential of the retail business, and comply with various national reform measures for medical insurance account payment, the Group deepened the connection with the medical insurance unification account payment channel, while focusing on the development of innovative cooperation projects with commercial insurance companies. Many cooperation projects with commercial insurance companies were established at a faster pace, and the number of stores that have confirmed cooperation intentions grew rapidly.

Continued to improve headquarters' support capabilities and further promote integrated construction

During the Reporting Period, the Group focused on planning for the transformation to "nation-wide integration", vigorously improved the business governance and coordination at the parent company level, integrated superior resources of the distribution and retail segments, and promoted the balanced development of core businesses, thereby continuously optimizing the business structure in a coordinated manner. As of the end of 2020, the Group has completed the construction of a cross-field multi-dimensional pharmaceutical industry service platform and formed a comprehensive supply chain service system including specialty drug service platforms, marketing services, retail e-commerce, and clinical research and development materials auxiliary services. On top of the current network resources, the Group further achieved the derivation of the service model, strengthened upstream and downstream adhesion, and consolidated the core values and position of the Group in the entire pharmaceutical supply chain system.

The Group further accelerated the construction of enterprise digital platforms, promoted data integration and optimization, improved the underlying structure and logic of data, and employed innovative technologies such as artificial intelligence and programmatic processing to accelerate the transformation of the overall business process to flatness and refinement.

The Group actively strengthened various expenses supervision measures, promoted the sharing of the financial system, refined capital budget management and control to continuously promote cost optimization. As of the end of 2020, the overall expense ratio of the Group was 5.29%, representing a year-on-year decrease of 0.03 percentage point; the annual financial expense ratio was 0.65%, decreased by 0.09 percentage point from the end of the previous year.

Actively fulfilled the corporate mission and effectively enhanced the industry influence

In 2020, the various anti-pandemic results achieved by the Group were extremely difficult and extraordinary. Pharmaceutical distribution companies at all levels within the Sinopharm system responded quickly and successfully completed the procurement, storage, and allocation of protective materials, treatment equipment, and anti-pandemic drugs, demonstrating the capability of the “national team” and “main force” of central enterprises, exemplifying Sinopharm’s corporate philosophy of “All for Health, Health for All”, and fully reflecting the Group’s efficient network operation and collaboration capabilities. These performances have been highly recognized by relevant state ministries and commissions and Sinopharm Group, and have also received commendations from the Medical Materials Safeguard Team of the State Council’s Novel Coronavirus Pneumonia Epidemic Joint Prevention and Control Mechanism, and the State-owned Assets Supervision and Administration Commission. This not only enhanced the Group’s corporate image and industry influence but also established the Group’s irreplaceable and important position in China’s medical and health emergency protection system in the future.

Future Plan

Looking ahead to 2021, after the pandemic prevention and control enters the normalization stage, the momentum of China’s domestic economic cycle will further emerge, and the annual economic growth rate is expected to rebound at a faster pace from last year’s low. As an important part of the national economy, the pharmaceutical industry will benefit from the economic recovery, policy support, and the improvement of residents’ quality of life, and maintain a good development trend. The expanded implementation scope of various policies of the medical insurance reform will have constantly emerging impacts on the industry landscape, and the distribution industry will face both challenges and opportunities.

The Group will seize the opportunity of the transformation and development of the pharmaceutical industry. On the basis of consolidating the advantages of the commercial distribution network, it will fully explore the synergy of distribution and retail as well as drugs and medical devices, actively explore development opportunities in innovative business areas, promote the vertical extension of business segments, build a supply chain service system befitting the new competitive landscape under the background of industry transformation, and make a good start for the achievement of the Group’s “14th Five-Year” development plan.

Consolidate the leading position of distribution and strengthen the coordination and integration of resources

To consolidate the Group’s leading position in the pharmaceutical distribution field and continue to expand our market share, it will further consolidate the terminal coverage advantages of the existing network over medical institutions, firmly grasp the opportunity of rapid growth in the lower-tier market, optimize and refine the operating experience, and undertake new business models such as regional hospital consortium and medical community; focus on exploring business opportunities in innovative fields including Internet hospitals and elderly care institutions, and continue to increase the Group’s business share in the incremental market.

In addition, the Group will start with products with strong competitiveness such as innovative drugs and patented drugs to accelerate the integration of procurement and logistics resources across the country, continue to deepen cooperation with upstream suppliers and strengthen the comprehensive service capabilities of channels.

Accelerate the development of medical devices network and promote the vertical extension of the segment

Faced with the major changes brought about by volume-based procurement of high-value consumables to the medical devices distribution industry, the Group will actively seize the opportunity arising from the concentration of the currently segmented market, continue to expand its network coverage through endogenous growth and extended mergers and acquisitions, and accelerate the effective coverage of hospitals above the designated grade, while focusing on promoting the drug-device synergic development to build a national integrated professional service system for medical institutions.

To promote the development of the medical devices business through multiple channels, the Group will also actively explore application scenarios such as “retail channels, communities and families” in addition to expanding the core business of “hospitals with grades”. At the same time, the Group will continue to expand its investment in the medical devices manufacturing segment, focusing on product technology upgrades and application scenario innovation, and promote the organic extension of the medical devices business to upstream manufacturing.

Strengthen the establishment of the omni-channel professional service platform and continuously expand the retail network

As the effects of policies such as “online sales of prescription drugs” and “prescription outflow” emerge at a faster pace, the retail business will further show a diversified development trend. The Group will concentrate its leading pharmaceutical service capability and supply chain resource advantages, promote the professional pharmacy standardization construction, improve chain management capabilities and delivery service efficiency, and continuously expand the service capabilities for chronic diseases, severe diseases, special diseases, serious diseases, and other professional medication fields, to increase user adhesion and service experience.

In addition, the integration of the Internet and the physical business is increasingly strengthened. Faced with the cross-industry participation of Internet companies, the Group will further deepen cross-field cooperation. At the same time, the Group actively responds to technological innovation, explores multi-channel digital marketing strategies, promotes replicable Internet application scenarios, deeply align with the service system of offline traditional and professional pharmacies, construct a differentiated professional pharmaceutical service model, and comprehensively enhance the consumer service capabilities with online-offline coordination.

Further promote digital upgrades to improve business operation efficiency

To further strengthen the integrated logistics operation management and comprehensive supply chain service capabilities, the Group will orderly and deeply promote the digital transformation of enterprises, and further improve the management system and organizational structure of the Group through streamlining and

rebuilding business processes and data assets, thereby laying the foundation for the Group's deepening transition to a supply chain services.

With the gradual improvement of the economy after the pandemic is under control, fiscal, monetary, and taxation policies will further return to normal. The Group will continue to strengthen the daily management and control capabilities of risks and expenses and promote the high-quality and steady growth of the business in multiple dimensions.

2021 is the first year for the Group to implement the new "14th Five-Year" development strategy. Learning from the development experience in the past, the Group will further deepen reforms and comprehensively promote the system and mechanism innovation. Under the active guidance of the Board, the Group will strive to achieve the goals under core development strategies of the enterprise such as "digital transformation, Internet application, organizational structure transformation, and talent training reserve". Leveraging the core advantages of the principal business, the Group will scientifically seize new development opportunities, comprehensively build a new development pattern, and successfully usher in the next "five-year high-quality development" chapter, striving to create a "distinguished global medical and healthcare service provider".

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 RMB456,414.61 million, representing an increase of RMB31,141.89 million or 7.32% as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded a profit of RMB12,097.29 million, representing an increase of RMB1,477.22 million or 13.91% as compared with the corresponding period of last year. Profit attributable to owners of the parent amounted to RMB7,187.28 million, representing an increase of RMB934.74 million or 14.95% as compared with the corresponding period of last year.

During the Reporting Period, basic earnings per share of the Company amounted to RMB2.31, representing an increase of 9.48% as compared with the corresponding period of last year.

Revenue

During the Reporting Period, the Group recorded a revenue of RMB456,414.61 million, representing an increase of 7.32% as compared with RMB425,272.73 million for the twelve months ended 31 December 2019, which was primarily due to the increase in revenue from the Group's pharmaceutical distribution business, retail pharmacy business and medical device business. The Group's revenue grew faster than the average level of development of pharmaceutical market in China.

- **Pharmaceutical distribution segment:** during the Reporting Period, the revenue from pharmaceutical distribution of the Group was RMB348,294.38 million, which accounted for 74.18% of the total revenue of the Group and represented an increase of 3.25% as compared with RMB337,316.63 million for the twelve months ended 31 December 2019. The increase was primarily due to a remarkable development of the pharmaceutical distribution business and the further expansion of its distribution network of the Group.

- Retail pharmacy segment: during the Reporting Period, the revenue from retail pharmacy of the Group was RMB24,164.34 million, which accounted for 5.15% of the total revenue of the Group and represented an increase of 22.02% as compared with RMB19,803.29 million for the twelve months ended 31 December 2019. The increase was primarily due to the growth of the retail pharmaceutical market.
- Medical device segment: during the Reporting Period, the revenue from medical device of the Group was RMB89,402.25 million, which accounted for 19.04% of the total revenue of the Group and represented an increase of 29.02% as compared with RMB69,293.54 million for the twelve months ended 31 December 2019. The increase was primarily due to the expansion through acquisition and business growth of the medical device business of the Group.
- Other business segments: during the Reporting Period, revenue from other business of the Group was RMB7,651.68 million, representing an increase of 51.91% as compared with RMB5,037.13 million for the twelve months ended 31 December 2019.

Cost of Sales

During the Reporting Period, the cost of sales of the Group was RMB416,091.30 million, representing an increase of 7.31% as compared with RMB387,741.42 million for the twelve months ended 31 December 2019. 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 RMB40,323.31 million, representing an increase of 7.44% as compared with RMB37,531.30 million for the twelve months ended 31 December 2019. The gross profit margin of the Group for the twelve months ended 31 December 2019 and 2020 were 8.83% and 8.83%, respectively.

Other Income

During the Reporting Period, other income of the Group was RMB652.00 million, representing an increase of 47.79% as compared with RMB441.16 million for the twelve months ended 31 December 2019. The increase was primarily due to the increase in subsidies obtained by the Group from the central and local governments.

Selling and Distribution Expenses

During the Reporting Period, the selling and distribution expenses of the Group were RMB14,141.74 million, representing an increase of 12.62% as compared with RMB12,556.93 million for the twelve months ended 31 December 2019. The increase in selling and distribution expenses was primarily attributable to the Group's enlarged operation scale, business development and its expansion of the coverage 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 RMB7,049.81 million, representing an increase of 1.99% as compared with RMB6,912.23 million for the twelve months ended 31 December 2019. 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 RMB17,759.98 million, representing an increase of 10.06% from RMB16,136.74 million for the twelve months ended 31 December 2019.

Other Gains – Net

During the Reporting Period, the other net gains of the Group increased to RMB138.88 million from RMB53.18 million for the twelve months ended 31 December 2019. The increase was primarily due to the increase in the gain on disposal of subsidiaries by the Group and fair value remeasurement of existing equity.

Other Expenses

During the Reporting Period, the other expenses of the Group amounted to RMB341.21 million, representing an increase of RMB167.49 million as compared with RMB173.72 million for the twelve months ended 31 December 2019, which was due to the increase of the provision for impairment of intangible assets during the year.

Finance Costs – Net

During the Reporting Period, the finance costs of the Group was RMB2,947.02 million, representing a decrease of 6.25% as compared with RMB3,143.46 million for the twelve months ended 31 December 2019. The decrease was primarily due to the decrease in interest rates under current macroeconomic condition.

Share of Profits and Losses of Associates

During the Reporting Period, the Group's share of profits and losses of associates was RMB985.56 million, representing an increase of 12.46% as compared with RMB876.38 million for the twelve months ended 31 December 2019.

Share of Profits and Losses of Joint Ventures

During the Reporting Period, the Group's share of profits and losses of joint ventures was RMB1.90 million, representing a decrease of 82.22% as compared with RMB10.69 million for the twelve months ended 31 December 2019.

Income Tax Expenses

During the Reporting Period, the Group's income tax expenses were RMB3,500.81 million, representing an increase of RMB361.07 million as compared with RMB3,139.74 million for the twelve months ended 31 December 2019. The increase was primarily due to the increase in profits of the Group, which led to a corresponding increase in income tax expenses. The Group's actual income tax rate decreased to 22.44% during the Reporting Period from 22.82% for the twelve months ended 31 December 2019.

Profit for the Year

As a result of the above-mentioned factors, the profit of the Group for the year of 2020 was RMB12,097.29 million, representing an increase of 13.91% as compared with RMB10,620.07 million for the twelve months ended 31 December 2019. The profit margin of the Group for the twelve months ended 31 December 2020 and 2019 were 2.65% and 2.50%, respectively.

Profit Attributable to Owners of the Parent

During the Reporting Period, profit attributable to owners of the parent was RMB7,187.28 million, representing an increase of 14.95% or RMB934.74 million from RMB6,252.54 million for the twelve months ended 31 December 2019.

Profit Attributable to Non-controlling Interests

During the Reporting Period, profit attributable to non-controlling interests was RMB4,910.01 million, representing an increase of 12.42% or RMB542.47 million from RMB4,367.54 million for the twelve months ended 31 December 2019.

Liquidity and Capital Resources

Working capital

During the Reporting Period, the Group had commercial banking facilities of RMB256,134.04 million, of which approximately RMB148,790.24 million were not yet utilized. As at 31 December 2020, the Group had cash and cash equivalents of RMB 50,178.27 million, which primarily comprise cash, bank deposits 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 2020 and 2019, respectively:

	2020	2019
	<i>RMB million</i>	<i>RMB million</i>
Net cash generated from operating activities	11,154.61	18,777.10
Net cash used in investing activities	(2,202.76)	(6,795.97)
Net cash generated from/(used in) financing activities	2,025.85	(13,084.57)
Increase/(decrease) in cash and cash equivalents	10,977.70	(1,103.44)
Cash and cash equivalents at the beginning of the year	39,191.97	40,298.99
Foreign exchange gain and loss	8.60	(3.58)
Cash and cash equivalents at the end of the year	50,178.27	39,191.97

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 device and other business segments. During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB11,154.61 million, representing a decrease of RMB7,622.49 million from RMB18,777.10 million for the twelve months ended 31 December 2019.

Net cash used in investing activities

During the Reporting Period, the net cash used in investment activities of the Group was RMB2,202.76 million, representing a decrease of RMB4,593.21 million as compared with RMB6,795.97 million for the twelve months ended 31 December 2019.

Net cash generated from/(used in) financing activities

During the Reporting Period, the net cash generated from financing activities of the Group was RMB2,025.85 million. The net cash used in financing activities of the Group for the twelve months ended 31 December 2019 was RMB13,084.57 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 improvement of the level of informatization. The Group's capital expenditures amounted to RMB4,585.24 million and RMB4,867.89 million for the year ended 31 December 2020 and 2019, respectively.

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

Capital Structure

Fiscal resources

During the Reporting Period, the Group made certain improvement and adjustments to its capital structure, so as to relieve fiscal risks and reduce finance costs. Through issuance of corporate bonds and super short-term commercial papers, the Group obtained approximately RMB2.70 billion and RMB23.98 billion 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 2020, the cash and cash equivalents of the Group were mainly denominated in RMB, with certain amount denominated in United States Dollars ("USD") and Hong Kong Dollars ("HKD"), and small amount denominated in Euro ("EUR"), Australian Dollars ("AUD"), Great Britain Pound ("GBP"), Swiss Franc ("CHF") and Japanese Yen ("JPY").

Indebtedness

As at 31 December 2020, the Group had aggregated banking facilities of RMB256,134.04 million, of which RMB148,790.24 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 2020, RMB54,958.95 million will be due within one year and RMB8,918.73 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 2020, the Group's gearing ratio was 71.10% (31 December 2019:71.49%), which was calculated based on the net liabilities divided by the aggregate of its total equity and net liabilities as at 31 December 2020.

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 to some extent on certain cash and cash equivalents, prepayments and other receivables, trade payables and accrued expenses 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 2020, part of the Group's borrowings and bills payable were secured by bank deposits of RMB10,029.69 million, right-of-use assets with book value of RMB5.68 million, investment properties with book value of RMB0.02 million, properties, plant and equipment with book value of RMB35.29 million and trade and bills receivables with book value of RMB2,556.08 million.

Major Acquisitions and Disposals

During the Reporting Period, the Group had no major acquisitions and disposals with respect to subsidiaries, associates and joint ventures.

Major Investment

During the Reporting Period, the Group did not make any 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 2020, the Group neither had any material contingent liability, nor had any material litigation.

Human Resources

As at 31 December 2020, the Group had a total of 108,316 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 also conducts periodic performance reviews on its employees and adjusts their salaries and bonuses accordingly. In addition, the Group has provided training programs to employees with different functions.

For remuneration and performance, the Group has established a normative salary management system based on the principle of “performance-oriented compensation, prioritizing efficiency and considering fairness”. The Group implements top-down performance assessment to establish a compensation system with position and ability as basis and performance as the cornerstone. The employee remunerations include basic salary, performance remuneration, bonus and piece rate wage. Remuneration is adjusted based on factors such as the results of the corporation, work performance and capability as well as job responsibilities of employees.

The Group follows the performance-oriented principle while giving consideration to balance. The Group adopts a diversified structure and makes dynamic adjustments. For the value created, we distribute the incremental value. We share benefits and risks with our employees. Based on the principle of aligning with market benchmarks and international standards, the Group has adopted a combination of short-term and medium- and long-term incentives to determine Directors’ remuneration incentive policies, and designed a compensation structure comprising “basic remuneration, performance-based remuneration, and medium- and long-term incentives”. The basic annual salary is the basic fixed income; the performance-based annual salary is the immediate floating income based on the completion of the annual performance goals, which is paid after evaluation; the “medium and long-term incentive” is the share incentive scheme, which is contingent on the excellent performance in the medium and long term, designed to bind interests and share risks with shareholders.

DIVIDENDS

Relevant resolution was passed at a meeting of the Board held on 19 March 2021 to propose to distribute a final dividend of RMB0.69 per share (tax inclusive) for the year ended 31 December 2020 (the “**Final Dividend**”), totalling approximately RMB2,153,253,000. If the proposal of profit distribution is approved by shareholders at the 2020 annual general meeting to be held on Thursday, 10 June 2021 (the “**AGM**”), the Final Dividend will be distributed to the shareholders whose names appear on the register of members of the Company on Tuesday, 22 June 2021 no later than 10 August 2021.

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 10 June 2021 (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 depository 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 Guo Shui 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, 22 June 2021, unless otherwise stated in the relevant taxation regulations, taxation agreements or the Notice. If individual H Share shareholders consider that the tax rate adopted by the Company for the withholding and payment of individual income tax on their behalf is not the same as the tax rate stipulated in any tax treaties between the PRC and the countries (regions) in which they are domiciled, after receiving the dividends, they may proceed with the subsequent tax related treatment in person or through proxy with competent tax authorities of the Company in accordance with requirements under the tax treaties.

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 the Company expect will take into account factors such as the following:

- (i) the Company's financial results;
- (ii) the Company's shareholders' interests;
- (iii) general business conditions and strategies;
- (iv) the Company's capital requirements;
- (v) contractual restrictions on the payment of dividends by the Company to its shareholders or by the Company's subsidiaries to the Company;
- (vi) taxation considerations;
- (vii) possible effects on the Company's 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 are currently determined to be 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.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain Shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 11 May 2021 to Thursday, 10 June 2021 (both days inclusive), during which period no transfer of Shares will be registered. In order to qualify to attend the AGM and to vote at the meeting, all instruments of transfer of the holders of H-shares of the Company must be lodged at the H-shares registrar of the Company at Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 10 May 2021. Shareholders whose names appear on the register of members of the Company on Tuesday, 11 May 2021 shall be entitled to attend the AGM.

The register of members of the Company will be closed from Thursday, 17 June 2021 to Tuesday, 22 June 2021 (both days inclusive), during which period no transfer of Shares will be registered. In order to qualify to receive the Final Dividend, all instruments of transfer of the holders of H-shares of the Company must be lodged at the H-shares registrar of the Company at Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 16 June 2021. Shareholders whose names appear on the register of members of the Company on Tuesday, 22 June 2021 shall be entitled to receive the Final Dividend.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the Reporting Period, save as disclosed in the section headed "restricted share incentive scheme", none of the Company and its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

RESTRICTED SHARE INCENTIVE SCHEME

The Restricted Share Incentive Scheme (the "Scheme") of the Company took effect on 18 October 2016. According to the initial grant proposal, the restricted shares under the initial grant are subject to three unlocking periods. Since the Company failed to achieve part of the performance targets for 2019, therefore, it failed to meet unlocking conditions for the third unlocking period. Therefore, upon consideration and approval by the Board on 23 June 2020, except for Scheme Participants who withdrew from the Scheme due to reasons such as resignation or change of positions, the remaining 1.8972 million restricted H shares (representing approximately 0.06% of the total issued share capital of the Company as at the date of this announcement and 34% of restricted H shares granted to such Scheme Participants) which have been granted to an aggregate of 153 Scheme Participants shall not be unlocked. During the Reporting Period, together with the 1.8972 million shares that will not be unlocked, the Company sold a total of 1.9468 million H Shares of the Company to the secondary market through trustee, including a small number of Shares that were sold due to certain Scheme Participants' withdrawing from the Scheme due to resignation or change of position.

AUDIT COMMITTEE

As at the date of this announcement, the audit committee of the Company currently consists of five directors: including three independent non-executive directors being Mr. Wu Tak Lung, Mr. Zhuo Fumin and Mr. Li Peiyu and two non-executive directors being Mr. Deng Jindong and Ms. Guan Xiaohui. Mr. Wu Tak Lung currently serves as the chairman of the audit committee. The primary responsibilities of the Company's audit committee are to inspect, review and supervise the Company's financial information, reporting process for financial information and risk management and internal control system. The audit committee has reviewed the audited annual results of the Group for the year ended 31 December 2020.

SCOPE OF WORK OF ERNST & YOUNG

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2020 have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2020. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

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

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

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

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

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

SUBSEQUENT EVENTS

On 12 January 2021, Mr. Li Zhiming resigned as the chairman of the fifth session of the Board of the Company, an executive director, the chairman of the nomination committee, the chairman of the strategy and investment committee and a member of the legal and compliance and environmental, social and governance committee. On 14 January 2021, the Board has elected the executive director, Mr. Yu Qingming as the chairman of the Board of the Company, the chairman of the strategy and investment committee of the Board and the chairman of the nomination committee of the Board.

DISCLOSURE OF INFORMATION

The 2020 annual report of the Company will be duly dispatched to the shareholders of the Company, and published on the websites of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://ir.sinopharmgroup.com.cn>).

By order of the Board of
Sinopharm Co. Ltd.
Yu Qingming
Chairman

Shanghai, the PRC
19 March 2021

As at the date of this announcement, the executive directors of the Company are Mr. Yu Qingming and Mr. Liu Yong; the non-executive directors of the Company are Mr. Chen Qiyu, Mr. Ma Ping, Mr. Hu Jianwei, Mr. Deng Jindong, Mr. Wen Deyong, Ms. Guan Xiaohui and Ms. Feng Rongli; and the independent non-executive directors of the Company are Mr. Zhuo Fumin, Mr. Chen Fangruo, Mr. Li Peiyu, Mr. Wu Tak Lung and Mr. Yu Weifeng.

* *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 Co. Ltd.”.*