FOSUNPHARMA
复星医药

上 海 復 星 醫 藥 （ 集 團 ） 股 份 有 限 公 司

Shanghai Fosun Pharmaceutical (Group) Co., Ltd.*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 02196)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

The board (the "**Board**") of directors (the "**Directors**") of Shanghai Fosun Pharmaceutical (Group) Co., Ltd.* (the "**Company**") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2012.

CONSOLIDATED INCOME STATEMENTS

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	3	**7,278,287**	6,432,589
Cost of sales		**(4,126,804)**	(3,991,147)
Gross profit		**3,151,483**	2,441,442
Other income	4	**90,806**	123,318
Selling and distribution expenses		**(1,512,286)**	(1,209,957)
Administrative expenses		**(739,619)**	(696,707)
Research and development costs		**(306,033)**	(189,427)
Other gains	6	**1,064,292**	1,101,638
Other expenses		**(92,838)**	(213,649)
Interest income		**29,696**	51,579
Finance costs	7	**(370,599)**	(313,978)
Share of profits and losses of:			
Jointly-controlled entities		**(1,514)**	(189)
Associates		**809,647**	633,168

	Notes	**2012** *RMB'000*	2011 *RMB'000*
PROFIT BEFORE TAX	*5*	**2,123,035**	1,727,238
Income tax	*8*	**(283,764)**	(341,819)
PROFIT FOR THE YEAR		**1,839,271**	1,385,419
Attributable to:			
Owners of the parent		**1,563,916**	1,166,184
Non-controlling interests		**275,355**	219,235
		1,839,271	1,385,419
Earnings per share attributable to ordinary equity holders of the parent:	*10*		
Basic		**RMB0.80**	RMB0.61
Diluted		**RMB0.80**	RMB0.61

Details of the dividends payable and the proposed for the year are disclosed in note 9.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	2012	2011
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**1,839,271**	1,385,419
OTHER COMPREHENSIVE INCOME		
Available-for-sale investments		
Changes in fair value	**(239,580)**	1,112,382
Reversal of changes in fair value due to an available-for-sale investment becoming an associate	**—**	(58,284)
Reclassification adjustments for gains included in the consolidated income statements		
— Gain on disposal	**(708,533)**	(192,750)
Income tax effect	**246,725**	(280,012)
	(701,388)	581,336
Share of other comprehensive income/(loss) of associates	**21,016**	(182,733)
Exchange differences on translation of foreign operations	**1,421**	(8,410)
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(678,951)**	390,193
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,160,320**	1,775,612
Attributable to:		
Owners of the parent	**900,772**	1,539,051
Non-controlling interests	**259,548**	236,561
	1,160,320	1,775,612

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

31 December 2012

	Notes	31 December 2012 RMB'000	31 December 2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**3,501,614**	2,632,165
Prepaid land lease payments		**543,518**	458,910
Goodwill		**1,661,771**	1,585,136
Other intangible assets		**1,238,758**	1,246,188
Investments in jointly-controlled entities		**17,281**	1,954
Investments in associates		**7,902,902**	7,395,499
Available-for-sale investments		**2,070,223**	2,788,504
Deferred tax assets		**31,483**	16,727
Other non-current assets		**101,185**	59,742
Total non-current assets		**17,068,735**	16,184,825
CURRENT ASSETS			
Inventories		**1,273,439**	1,123,943
Trade and bills receivables	*11*	**1,075,172**	1,147,700
Prepayments, deposits and other receivables		**643,353**	519,448
Due from related companies		**192,195**	132,123
Equity investments at fair value through profit or loss		**224,834**	231,319
Other current asset		**—**	—
Cash and cash equivalents		**4,972,525**	2,894,573
Total current assets		**8,381,518**	6,049,106
CURRENT LIABILITIES			
Trade and bills payables	*12*	**882,037**	919,648
Other payables and accruals		**1,466,170**	1,775,933
Interest-bearing bank and other borrowings		**1,374,706**	2,177,051
Due to related companies		**36,994**	43,588
Tax payable		**133,325**	75,506
Total current liabilities		**3,893,232**	4,991,726
NET CURRENT ASSETS		**4,488,286**	1,057,380
TOTAL ASSETS LESS CURRENT LIABILITIES		**21,557,021**	17,242,205

	Notes	**31 December 2012** *RMB'000*	31 December 2011 *RMB'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**4,280,165**	3,916,817
Deferred tax liabilities		**1,359,938**	1,595,765
Deferred income		**41,535**	40,164
Other long-term liabilities		**627,622**	375,518
Total non-current liabilities		**6,309,260**	5,928,264
Net assets		**15,247,761**	11,313,941
EQUITY			
Equity attributable to owners of the parent			
Issued share capital		**2,240,462**	1,904,392
Reserves		**10,790,946**	7,620,145
Proposed final dividend	*9*	**470,497**	190,439
		13,501,905	9,714,976
Non-controlling interests		**1,745,856**	1,598,965
Total equity		**15,247,761**	11,313,941

1.1 BASIS OF PREPARATION

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

1.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*
HKFRS 12 Amendments	Amendments to HKAS 12 *Income taxes — Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised HKFRSs have had no significant financial effect on these financial statements.

1.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 — *Transition Guildance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 Presentation of Financial Statements — *Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[3]
Annual Improvements 2009–2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has five reportable operating segments as follows:

(a) the pharmaceutical manufacturing and R&D segment mainly engages in the production, sale and research of medicine;

(b) the pharmaceutical distribution and retail segment mainly engages in the retail and wholesale of medicine;

(c) the medical diagnosis and medical devices segment mainly engages in the sale of medical equipment and the provision of medical services;

(d) the healthcare service mainly engages in the provision of healthcare and hospital management; and

(e) the other business operations segment comprises businesses other than those mentioned above.

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

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

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

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

Year ended 31 December 2012

	Pharmaceutical manufacturing and R&D *RMB'000*	Pharmaceutical distribution and retail *RMB'000*	Medical diagnosis products and medical devices *RMB'000*	Healthcare service *RMB'000*	Other business operations *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Segment revenue:							
Sales to external customers	4,633,015	1,423,039	1,048,904	159,110	14,219	—	7,278,287
Intersegment sales	1,873	—	411	—	15,455	(17,739)	—
Total revenue	4,634,888	1,423,039	1,049,315	159,110	29,674	(17,739)	7,278,287
Segment results	693,716	23,867	40,245	23,360	10,327	(6,184)	785,331
Other income	41,860	400	6,194	—	—	—	48,454
Other gains	87,037	1,344	26,282	—	—	—	114,663
Interest income	10,771	4,377	2,874	126	1,928	(4,073)	16,003
Other expenses	(17,739)	(2,501)	(11,452)	(2,026)	(103)	—	(33,821)
Share of profits and losses of:							
Jointly-controlled entities	(1,541)	27	—	—	—	—	(1,514)
Associates	155,360	643,658	5,112	2	5,515	—	809,647
Unallocated other income, interest income and other gains							1,005,676
Finance costs							(370,599)
Unallocated expenses							(250,805)
Profit before tax	969,464	671,172	69,255	21,462	17,667	(10,257)	2,123,035
Tax	(140,158)	(9,455)	(4,110)	(4,500)	(20)	—	(158,243)
Unallocated tax							(125,521)
Profit for the year	829,306	661,717	65,145	16,962	17,647	(10,257)	1,839,271
Segment assets:	10,264,147	7,060,060	1,301,063	676,168	578,492	(199,931)	19,679,999
Including:							
Investments in jointly-controlled entities	16,517	764	—	—	—	—	17,281
Investments in associates	1,606,571	5,891,308	198,699	15,446	190,878	—	7,902,902
Unallocated assets							5,770,254
Total assets							25,450,253
Segment liabilities	2,056,046	1,298,192	470,686	403,122	522,264	(1,330,332)	3,419,978
Unallocated liabilities							6,782,514
Total liabilities							10,202,492
Other segment information:							
Depreciation and amortisation	240,816	8,348	23,661	11,989	10,576	—	295,390
Provision for impairment of inventories	8,128	—	3,819	—	—	—	11,947
Provision for impairment of trade and other receivables	1,640	—	4,221	—	—	—	5,861
Capital expenditure*	908,542	22,538	48,667	26,208	160,428	—	1,166,383

* Capital expenditure consists of additions to property, plant and equipment, other intangible assets and prepaid land lease payments.

Year ended 31 December 2011

	Pharmaceutical manufacturing and R&D *RMB'000*	Pharmaceutical distribution and retail *RMB'000*	Medical diagnosis products and medical devices *RMB'000*	Healthcare service *RMB'000*	Other business operations *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Segment revenue:							
Sales to external customers	3,830,824	1,436,049	1,049,304	11,258	105,154	—	6,432,589
Intersegment sales	612	—	—	—	10,244	(10,856)	—
Total revenue	3,831,436	1,436,049	1,049,304	11,258	115,398	(10,856)	6,432,589
Segment results	440,793	22,848	52,352	681	2,663	3,486	522,823
Other income	38,525	—	8,679	—	134	—	47,338
Other gains	158,988	677,916	1,031	632	22,696	—	861,263
Interest income	13,437	7,905	3,029	611	1,606	(3,921)	22,667
Other expenses	(4,805)	(1,960)	(278)	(4)	(159,293)	—	(166,340)
Share of profits and losses of:							
Jointly-controlled entities	(274)	85	—	—	—	—	(189)
Associates	97,934	517,796	5,439	897	11,102	—	633,168
Unallocated other income, interest income and other gains							345,267
Finance costs							(313,978)
Unallocated expenses							(224,781)
Profit before tax	744,598	1,224,590	70,252	2,817	(121,092)	(435)	1,727,238
Tax	(99,172)	(178,428)	(15,593)	(101)	(5,980)	—	(299,274)
Unallocated tax							(42,545)
Profit for the year	645,426	1,046,162	54,659	2,716	(127,072)	(435)	1,385,419
Segment assets:	9,589,327	6,705,071	1,224,029	398,501	494,110	(108,988)	18,302,050
Including:							
Investments in jointly-controlled entities	1,217	737	—	—	—	—	1,954
Investments in associates	1,652,828	5,403,896	104,606	15,444	218,725	—	7,395,499
Unallocated assets							3,931,881
Total assets							22,233,931
Segment liabilities	1,952,877	1,244,447	639,858	164,794	671,388	(80,425)	4,592,939
Unallocated liabilities							6,327,051
Total liabilities							10,919,990
Other segment information:							
Depreciation and amortisation	169,555	7,738	21,354	727	8,254	—	207,628
Provision for impairment of other current asset	—	—	—	—	148,049	—	148,049
Provision for impairment of items of property, plant and equipment	473	—	—	—	—	—	473
Reversal of impairment of inventories	(9,975)	—	(2,221)	—	—	—	(12,196)
(Reversal of)/provision for impairment of trade and other receivables	(415)	(102)	59	—	(86)	—	(544)
Capital expenditure*	773,702	14,685	58,197	2,517	22,333	—	871,434

* Capital expenditure consists of additions to property, plant and equipment, other intangible assets and prepaid land lease payments.

Geographical information

(a) *Revenue from external customers*

	2012	2011
	RMB'000	*RMB'000*
Mainland China	**6,574,229**	5,675,645
Overseas countries and regions	**704,058**	756,944
	7,278,287	6,432,589

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

(b) *Non-current assets*

	2012	2011
	RMB'000	*RMB'000*
Mainland China	**14,840,635**	13,032,573
Overseas countries and regions	**126,394**	347,021
	14,967,029	13,379,594

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

Information about major customers

No revenue amounting to 10% or more of the Group's total revenue was derived from sales to a single customer for the years ended 31 December 2011 and 2012.

3. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered.

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

	2012	2011
	RMB'000	*RMB'000*
Sale of goods	**7,121,138**	6,154,004
Rendering of services	**149,900**	262,345
Sale of materials	**7,249**	16,240
	7,278,287	6,432,589

4. OTHER INCOME

	2012	2011
	RMB'000	*RMB'000*
Dividend income from available-for-sale investments	**33,587**	61,579
Government grants	**57,219**	61,739
	90,806	123,318

5. PROFIT BEFORE TAX

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

	2012	2011
	RMB'000	*RMB'000*
Cost of inventories sold	**4,039,123**	3,761,483
Cost of services provided	**87,681**	229,664
Staff costs (including Directors', Supervisors' and Chief Executive's remuneration)		
Salaries and other staff costs	**694,431**	558,193
Retirement benefits:		
Defined contribution fund	**63,229**	62,528
Accommodation benefits:		
Defined contribution fund	**28,836**	20,389
Share-based payment expense	**6,065**	7,712
	792,561	648,822
Research and development costs:		
Current year expenditure excluding amortisation of other intangible assets	**281,104**	189,427
Less: Government grants for R&D projects*	**(29,364)**	(25,645)
	251,740	163,782
Auditors' remuneration	**7,506**	8,826
Operating lease payments	**54,150**	62,243
Depreciation of items of property, plant and equipment	**234,308**	172,299
Amortisation of prepaid land lease payments	**11,430**	7,313
Amortisation of other intangible assets	**49,652**	28,016
Provision for/(reversal of) impairment of inventories	**11,947**	(12,196)
Provision for impairment of items of property, plant and equipment	**—**	473
Provision for impairment of other current asset	**—**	148,049
Provision for/(reversal of) impairment of trade and other receivables	**5,861**	(544)
Fair value loss on equity investments at fair value through profit or loss	**35,894**	24,941
Foreign exchange loss, net	**5,744**	5,412
Loss on disposal of items of property, plant and equipment and other intangible assets	**564**	16,659
Donations	**3,332**	2,911

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

6. OTHER GAINS

	2012	2011
	RMB'000	*RMB'000*
Gain on disposal of interests in associates and jointly-controlled entities*	**315,605**	36,554
Gain on deemed disposal of associates	**—**	751,007
Gain on bargain purchase of a subsidiary	**491**	—
Gain on bargain purchase of an associate	**—**	90,678
Gain on disposal of subsidiaries	**—**	8,675
Gain on disposal of available-for-sale investments	**708,653**	192,750
Gain on disposal of equity investments at fair value through profit or loss	**—**	2,422
Others	**39,543**	19,552
	1,064,292	1,101,638

* In the year ended 31 December 2012, including in the balance was the gain on disposal of Zhejiang Crystal-Optech Co., Ltd. and Shandong Jincheng Pharmaceutical and Medical Co., Ltd. of RMB232,681,000 and RMB82,651,000, respectively.

7. FINANCE COSTS

	2012	2011
	RMB'000	*RMB'000*
Interest on bank and other borrowings wholly repayable within five years	**379,980**	315,759
Interest on bank and other borrowings not wholly repayable within five years	**840**	2,255
	380,820	318,014
Less: Interest capitalised	**(10,221)**	(4,036)
Interest expenses, net	**370,599**	313,978

8. INCOME TAX

The provision for Mainland China current income tax is based on a statutory rate of 25% of the assessable profits of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in Mainland China, which are taxed at preferential rates of 12.5% to 20%.

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the tax rates prevailing in the jurisdictions in which the Group operates.

Group

	2012	2011
	RMB'000	*RMB'000*
Current		
— Mainland China	**297,371**	142,348
— Hong Kong	**(2,571)**	3,522
Deferred	**(11,036)**	195,949
Total tax charge for the year	**283,764**	341,819

9. DIVIDENDS

Cash dividend

	2012	2011
	RMB'000	*RMB'000*
Proposed final — RMB0.21 (2011: RMB0.1) per ordinary share	**470,497**	190,439

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 1,960,404,031 (2011: 1,904,392,364) in issue during the year, as adjusted to reflect the rights issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2012 and 2011 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years. Chindex Medical Limited's share option plan was not considered as a potential dilutive event as the options granted were in respect of the common shares of Chindex International, Inc. (the "Chindex"), which is not an entity within the Group.

The calculation of basic earnings per share is based on:

	2012	2011
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**1,563,916**	1,166,184

	Number of shares	
	2012	2011
Shares		
Weighted average number of ordinary shares	**1,960,404,031**	1,904,392,364

11. TRADE AND BILLS RECEIVABLES

Group

	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**802,798**	844,952
Bills receivable	**272,374**	302,748
	1,075,172	1,147,700

The credit period for trade receivables is generally three months, which may be extended up to six months for major customers. Trade and bills receivables are non-interest-bearing.

An aged analysis of trade receivables, based on the invoice date and net of provisions, as at the respective reporting dates is as follows:

Group

	2012	2011
	RMB'000	*RMB'000*
Within 1 year	**789,278**	837,666
1 to 2 years	**20,988**	16,252
2 to 3 years	**9,192**	4,401
Over 3 years	**22,475**	22,139
	841,933	880,458
Less: Provision for impairment	**(39,135)**	(35,506)
	802,798	844,952

12. TRADE AND BILLS PAYABLES

Group

	2012	2011
	RMB'000	RMB'000
Trade payables	**754,721**	735,707
Bills payable	**127,316**	183,941
	882,037	919,648

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

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

Group

	2012	2011
	RMB'000	*RMB'000*
Within 1 year	**737,559**	717,565
1 to 2 years	**11,800**	4,352
2 to 3 years	**1,162**	6,620
Over 3 years	**4,200**	7,170
	754,721	735,707

13. EVENTS AFTER THE REPORTING PERIOD

(a) In December 2012, the Company entered into an agreement with the shareholders of Hunan Dongting Pharmaceutical Co., Ltd. ("Dongting Pharma"), which are independent third parties, to acquire 77.78% equity interest in Dongting Pharma at a consideration of RMB586,120,000. Dongting Pharma is engaged in the manufacture and sale of hemostatic and psychotropic medicines. The acquisition was undertaken under the Group's strategy to penetrate the market of hemostatic and psychotropic medicines. The acquisition was completed in early January 2013 when the Group obtained control of the operating and financial policies of Dongting Pharma.

(b) In January 2013, one of the Group's subsidiaries, Jiangsu Wanbang Biopharmaceutical Co., Ltd. ("Wanbang Pharma"), entered into an agreement with the shareholders of Zaozhuang Sainuokang Biochemical Co., Ltd. ("Sainuokang Biochemical"), which are independent third parties, to acquire 51% equity interest in Sainuokang Biochemical at a consideration of RMB32,262,000. Sainuokang Biochemical is engaged in the manufacture and sale of heparin sodium API, which is the main raw material of heparin sodium, one of the major products of Wanbang Pharma. The acquisition was undertaken under the Group's strategy to integrate the supply chain and reduce the cost of raw material.

(c) In February 2013, the Company entered into an agreement with the shareholders of Saladax Biomedical, Inc. ("Saladax"), which are independent third parties, to purchase 4,299,425 series D preferred shares of Saladax at USD5.21 per share. The total consideration is USD22,400,000. Saladax is a United States private company engaging in individual dose detection industry. The total number of shares of Saladax (including both ordinary shares and preferred shares) before the issuance of new preferred shares are 12,961,904.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Although the growth of the global economy has slowed down and the overall macro environment was unfavorable in 2012, the healthcare industry of the PRC continued to witness rapid development as the domestic per capita disposable income has been rising continuously and the PRC government has continued to increase its spending on healthcare programs. China's Twelfth Five-year Plan in relation to the healthcare industry encourages enterprises to upscale their operations by means of sustaining innovation and international expansion. The overall market environment of the PRC pharmaceutical industry has been improving driven by the government's efforts to further standardize the quality of pharmaceutical products and healthcare services, control prices of pharmaceutical products and overhaul the pharmaceutical distribution channels.

In October 2012, notwithstanding the unfavorable international financial environment, the Company has successfully completed the offering and listing of its overseas listed foreign shares (H shares), raising approximately HK$3,965 million. As a result, the Company is listed both in the A share market and the H share market, which further extends its funding sources and has created favorable conditions for the Company to expand its mergers and acquisitions of domestic and overseas pharmaceutical companies, strengthen the development of its international research and development (R&D) platform and further the growth of its principal businesses.

In 2012, the principal businesses of the Group grew rapidly as it adhered to its business philosophy of "Innovation for Good Health", focused on its core pharmaceutical business, continued to develop the product innovation and management improvement, and promoted the strategies of organic growth, external expansion and integrated development.

During the reporting period, the revenue of the Group amounted to RMB7,278 million, representing an increase of 13.14% over 2011, with some changes in the scope of the consolidated statements in 2011 as a result of the disposal of Zhejiang Fosun Pharmaceutical Co., Ltd. and Shanghai Science and Technology Imp & Exp Co., Ltd. The increase in revenue was mainly due to the contribution from the growth of major products, such as products in therapeutic areas of cardiovascular system, central nervous system, blood system, metabolism and alimentary tract, and anti-infection. The increase in revenue is lower than expected mainly due to factors such as the adjustment of distribution rights for Siemens' products and the relocation of production lines of amino acid products and other products.

During the reporting period, the revenue from each segment of the Group was as follows:

Unit: RMB million

Business Segment	**Revenue 2012**	Revenue 2011	Year-on-year increase or decrease(%)
Pharmaceutical manufacturing and R&D	**4,633**	3,831	20.93
Pharmaceutical distribution and retail	**1,423**	1,436	–0.91
Healthcare services	**159**	11	1,345.45
Manufacturing of medical diagnosis and medical devices	**580**	477	21.59
Distribution of medical diagnosis and medical devices	**469**	572	–18.01

In 2012, the Group recorded profit before tax of RMB2,123 million and net profit attributable to shareholders of the Company of RMB1,564 million, representing an increase of 22.93% and 34.13% over 2011 respectively. Increase in operating profit, profit before tax and net profit attributable to shareholders of the Company was mainly due to the further optimization of the product structure of the Group, the increasing competitiveness of the major products, and the continuing rapid growth of Sinopharm Group Co., Ltd. ("Sinopharm"), an associate company of the Group.

During the reporting period, the Group continued to increase its investments, focusing on the R&D of generic biopharmaceutical drugs and innovative drugs. At the end of the reporting period, there were approximately 110 pipeline drugs and vaccines, and five products, including pemetrexed discodium, have been granted with production approvals. During the reporting period, the Group has applied for 70 patents in the pharmaceutical manufacturing segment.

Pharmaceutical Manufacturing and R&D:

In 2012, the Group has overcome a series of challenges in the pharmaceutical manufacturing and R&D segment, and maintained a rapid growth. The adverse factors the Group faced during the reporting period included the "toxic capsule event" which resulted in a decrease in sales of capsule products in the whole market and also affected some products of the Group, the relocation of production lines of amino acid products which resulted in a year-on-year decrease in revenue of such products, and the relocation of production lines of anti-malaria products which resulted in the lower-than-expected growth in revenue of such products. In 2012, pharmaceutical manufacturing and R&D segment of the Group recorded a revenue of RMB4,633 million, representing an increase of 20.93% from 2011; and segment results of RMB694 million, representing an increase of 57.37% from 2011, which was mainly due to the changes in the scope the consolidated statements as well as an increase in operating profit of the core pharmaceutical subsidiaries.

During the reporting period, the pharmaceutical manufacturing business of the Group grew rapidly and the development of its professional operational team was further strengthened. In 2012, the Group's major products in therapeutic areas such as cardiovascular system, central nervous system, blood system, metabolism and alimentary tract, and anti-infection recorded a year-on-year growth of 29.13%, 101.37%, 43.26%, 4.59% and 16.67%, respectively. Sales of products including Atomolan, Artesunate series, Ao De Jin, Bang Ting, Shaduolika, EPO experienced rapid growth and sales volume of new products such as You Di Er grew significantly.

In 2012, the Group has 11 formulation items and series with sales revenue over RMB100 million, among which sales of Xin Xian An and Shaduolika exceeded RMB100 million for the first time and the sales of Atomolan exceeded RMB500 million.

Revenue of major products in the major therapeutic areas were set out in the following table:

Unit: RMB million

	2012	2011 *(note 7)*	Year-on-year increase (%)
Major products of cardiovascular system therapeutic area *(note 1)*	**399**	309	29.13
Major products of central nervous system therapeutic area *(note 2)*	**441**	219	101.37
Major products of blood system therapeutic area *(note 3)*	**202**	141	43.26
Major products of metabolism and alimentary tract therapeutic area *(note 4)*	**1,117**	1,068	4.59
Major products of anti-infection therapeutic area *(note 5)*	**574**	492	16.67
Major products of APIs and intermediate products *(note 6)*	**677**	725	–6.62

Note 1: Major products in therapeutic area of cardiovascular system include heparin series preparations, Xin Xian An (meglumine adenosine cyclophosphate for injection), Ke Yuan (calcium dobesilate), Bang Tan (Telmisartan), Bang Zhi (pitavastatin) and You Di Er (alprostadil dried emulsion);

Note 2: Major products in therapeutic area of central nervous system include Ao De Jin (deproteinised calf blood injection);

Note 3: Major products in therapeutic area of blood system include Bang Ting (hemocoagulase for injection);

Note 4: Major products in therapeutic area of metabolism and alimentary tract include Atomolan series, Wan Su Ping (glimepiride), animal insulin and its preparations, Yi Bao (recombinant human erythropoietin), compound aloe capsules and Mo Luo Dan;

Note 5: Major products in therapeutic area of anti-infection include anti-tuberculosis series, artesunate series, Xi Chang (cefmetazole sodium) and Shaduolika (potassium sodium dehydroandrographolide succinate);

Note 6: APIs and intermediate products include amino acid and clindamycin hydrochloride;

Note 7: The data of the major products in therapeutic area of central nervous system and major products of blood system therapeutic area in 2011 is the annual data.

During the reporting period, the Group's revenue generated from APIs and intermediate of major products decreased year on year by 6.62% to RMB677 million. The year-on-year decrease in the sales revenue of APIs and intermediate products was mainly due to the factors such as the relocation of the production lines of amino acid products and other products. The construction of the amino acid production lines of Shine Star (Hubei) Biological Engineering Company Limited was completed and the production lines were put into production in the second half of 2012.

While enhancing product sales, the Group also continued its efforts in improving product quality based on international quality standards. During the reporting period, it obtained another PreQualificaiton ("PQ") from the World Health Organisation for the combined medication of its Artesunate series, which is the fifth PQ for its anti-malaria medicines received by the Company from the World Health Organisation.

During the reporting period, on the basis of the existing R&D system that integrates imitation and innovation, the Group continued to increase its R&D expenditure, improve the development of innovation system, enhance its R&D capabilities, launch new products and strengthen the core competitiveness of the Group. As of the end of the reporting period, the Group had approximately 110 pipeline drugs and vaccines. The Group has completed the construction and selection of high-expressing production cell lines for 3 monoclonal antibody products, and has applied to the State Food and Drug Administration of the PRC for the clinical trial of the first monoclonal antibody product, while the application for the clinical trial of for the second monoclonal antibody product was submitted before the end of 2012. The Group has also applied for the clinical trial approval for an innovative small molecule chemical drug before the end of 2012. Five products, including pemetrexed disodium, have been granted with production approvals. In addition, the Group continued to implement its patent strategy and has applied for a total of 70 patents in the pharmaceutical manufacturing segment in 2012.

Meanwhile, as an "Innovative Pilot Enterprise" recognised by the Ministry of Science and Technology, the Group has continued to enhance and improve its development during the reporting period. In July 2012, the Company was named one of the "Top 10 Most Innovative Companies in China" in a survey on the "Top 100 Enterprises in Pharmaceutical Manufacturing Industry in China", which was sponsored by the Southern Medicine Economic Institute under the State Food and Drug Administration.

Pharmaceutical Distribution and Retail:

The pharmaceutical distribution and retail business of the Group recorded revenue of RMB1,423 million in 2012, representing a decrease of 0.91% compared with the corresponding period of 2011. The decrease is mainly due to changes in the scope of the consolidated statements as a result of the disposal of Zhejiang Fosun Pharmaceutical Co., Ltd., an entity engaging in distribution of pharmaceutical products, by the Group in the middle of 2011; and excluding that factor, the pharmaceutical distribution and retail business of the Group would have recorded a growth in revenue of 8.00% over 2011. As of the end of 2012, our pharmaceutical retail brands, For Me Pharmacy and Golden Elephant Pharmacy, had a total of over 660 retail pharmacies, maintaining a leading position in their respective regional markets. Sales of For Me Pharmacy and Golden Elephant Pharmacy in 2012 amounted to RMB780 million, with a leading market share in the pharmaceutical retail markets in Shanghai and Beijing. Meanwhile, the Group actively explored the transformation of the pharmaceutical retail business model and tried new business models.

During the reporting period, Sinopharm, in which the Group has 32.05% equity interest, continued to accelerate its efforts on industry consolidation and maintained rapid growth in business. Sinopharm recorded revenue of RMB135,787 million, net profit of RMB3,080 million, net profit attributable to its shareholders of RMB1,974 million, representing a year-on-year growth of 32.83%, 28.20% and 26.48% respectively, which further consolidated its leading position as the largest distributor and supply chain services provider of pharmaceutical and healthcare products in the PRC. In 2012, the distribution network of Sinopharm further expanded to 51 distribution centers, covering 180 cities in 30 provinces, municipalities and autonomous regions. Its direct customers included 10,351 hospitals, accounting for approximately 76.66% of the total number of hospitals in the PRC, of which 1,321 were the largest and most highly ranked class-three hospitals, representing approximately 94.42% of the total number of class-three hospitals in China. During the reporting period, the Sinopharm's revenue from pharmaceutical distribution business increased by 33.16% year on year to RMB128,320 million. Meanwhile, the pharmaceutical retail business of Sinopharm also maintained growth in 2012 with revenue of RMB3,982 million, representing a year-on-year increase of 30.80%; while its pharmaceutical retail network has further expanded to over 1,795 retail pharmacies as of 31 December 2012.

Healthcare Services:

During the year 2012, the Group continued to increase its investment in the healthcare services segment and substantially completed the deployment of our healthcare services business to combine high-end healthcare institutions in the more developed coastal cities and specialty and general hospitals in second-tier and third-tier cities in the PRC.

During the reporting period, the Group actively endeavoured to strengthen the operating capabilities of the healthcare institutions controlled by the Group, increased efforts in cultivating and recruiting medical staff, and facilitate the regional development of our healthcare services business. In 2012, the healthcare services entities controlled by the Group recorded a total revenue of RMB159 million; and as of the end of the reporting period, the total number of beds available for the public in these entities was over 600.

During the reporting period, the Group continued to support and facilitate the development and deployment of the hospital and clinic network under "United Family Hospitals", a leading premium healthcare services brand of Chindex. In 2012, there were significant increase and positive growth momentum in the United Family Hospital's businesses in Beijing, Shanghai and Tianjin. Revenue of the United Family Hospital in 2012 increased by 33.33% over 2011 to US$152 million, reflecting the growing market demand for premium healthcare services and the strong brand recognition of "United Family Hospital".

Medical Diagnosis and Medical Devices:

In 2012, the Group has furthered its development in the medical diagnosis and medical devices segment by increasing investments and enhancing business cooperation. During the reporting period, the revenue of manufacturing operations of the segment amounted to RMB580 million, representing a growth of 21.59% as compared with 2011; and the revenue of distribution operations amounted to RMB469 million, representing a decrease of 18.01% as compared with 2011. The decrease was mainly due to the significant decrease in revenue as a result of the adjustment of distribution rights for Siemens' products and the reduction in the distribution operation of medical devices with low gross margins.

In 2012, with the completion of the Project of Production Base for In-vitro Diagnostic Products and the commencement of its operation, the Group has substantially established diagnostic products production lines for biochemical diagnostic products, immunologic diagnostic products, molecular diagnostic products and microbial diagnostic products, and the production capacity of the diagnostic products was further enhanced. During the reporting period, business operations of the Group grew rapidly by enhancing brand promotion and marketing management, and the sales revenue of gene chip products and biochemical diagnostic products increased by 64.16% and 45.67%, respectively as compared with 2011. In 2012, the Group has also acquired 17.65% equity interests in SD Biosensor Inc., which is a Korean company that engages in the research and development and manufacturing of rapid diagnostic products. The acquisition enables the Group to enter the area of rapid test on blood glucose and lipid with global competitive advantage.

During the reporting period, the Group's medical devices manufacturing segment continued to grow steadily. The Group has obtained 2 product patents in its blood treatment operation and the market share of the blood virus inactivation products has reached over 50%, ranking first in the PRC. A digital processing center for dentistry jointly developed by the Group and Bego, a German company, has been successfully launched for operation, the new products from that center have been adopted by major domestic dental hospitals, and the sales volume has increased steadily on a monthly basis. In addition, Huaiyin Medical Instruments Co., Ltd., a subsidiary of the Group, was recognised as a national high-tech enterprise. As for the distribution of medical devices, the Group's operational cash flow for such business has increased significantly through the proactive adjustment of the focuses in the product offerings.

Establishment and Assessment of Internal Control:

Based on the internal control systems established in 2011, the Company and each of its subsidiaries have streamlined business processes for their principal operating activities in relation to, amongst others, financial reporting, financing activities (including guarantee), asset management, procurement business, sales and inventory management in 2012 according to the Internal Control Guidelines (first draft) issued at the beginning of 2012, and rectified the identified defects in the internal control system. In the meantime, the Group has established a special working group of internal control, which has streamlined the business processes for the principal operating activities of the four newly acquired subsidiaries based on the preliminary evaluation, enhance their operation and management systems, and procure these subsidiaries to rapidly improve their internal control commensurate with the level that a listed company should meet.

In 2012, the Group has completed the Internal Control Assessment Guidelines on the basis of the Overall Improvement of Internal Control Project carried out by the Group in 2011, pursuant to the guidelines, the Group has orderly carried out internal control assessments for a total of 53 business processes of 16 subsidiaries in relation to cash capital, purchase and payment, sales and collection, construction projects, asset management, and financial reporting. In addition, the special working group has carried out internal control audit for the four subsidiaries which have not been included in the scope of internal control assessment, achieving the objective of carrying out internal control assessment and internal control audit simultaneously.

With the further development of internal control in 2012, the Group has set up a closed management cycle from the development of internal control to the self-assessment and then to the improvement of internal control, and established a relatively enhanced internal control system to better manage business risks.

Environmental Protection, Quality and Safety:

The Group highly recognises the importance of environmental protection, proactively implements environmental protection policies, and strictly manages treatment of wastes and pollutants. Each of the pharmaceutical manufacturing subsidiaries of the Group has the ability to ensure the waste treatment meets the relevant regulatory requirements. Also, the Group has effectively saved energy and reduced waste emission by means of technological advancement, process improvement and productivity control.

The Group proactively carries out daily management of EHS system, and controls and monitors the environment, occupational health and safety of the pharmaceutical manufacturing subsidiaries of the Group through a number of measures, including unannounced inspections and special examinations.

Each manufacturing subsidiary of the Group recognises the importance of managing manufacturing safety. During the reporting period, no significant safety incidents or personal injury has occurred and each of these subsidiaries has maintained sound manufacturing safety.

Each of the pharmaceutical manufacturing subsidiaries of the Company organises production and operation by strictly complying with the Good Manufacturing Practice (《藥品生產質量管理規範》) (“GMP”), so as to ensure that the quality of pharmaceutical products meets the requirements of the PRC Pharmacopoeia and the National Drug Code, and provide safe and effective pharmaceutical products for patients. The Company has been proactively procuring its subsidiaries to obtain the New GMP certification and international certifications. Oral solid dosage formulation and APIs of Guilin South Pharma Co., Ltd. have passed the inspection of the World Health Organisation, and cilostazol APIs of Chongqing Kangel Pharmaceutical Co., Ltd. have passed the inspection of the FDA of the United States.

Financing:

In 2012, the Company has further improved its financing structure and optimized its debt structure. During the reporting period, the Company has completed the first tranche of issuance of corporate bonds with an aggregate amount of RMB1,500 million and the first tranche of issuance of short-term commercial papers with an amount of RMB500 million, and obtained credit facilities from International Finance Corporation (IFC) in an amount of RMB300 million. In October 2012, the Company has completed the offering and listing of overseas listed foreign shares (H shares), which raised approximately HK$3,965 million. The offering and listing of H shares has further broadened the financing channels for the Company and enabled the Company to continually to increase mergers and acquisitions of domestic and overseas pharmaceutical companies, enhance the construction of international R&D platform, and strengthen the development of its principal businesses.

Social Responsibility:

Whilst the Group has been rapidly growing, the Group remains committed to undertake social responsibilities as a corporate citizen. During the reporting period, the Group continually increases investment in environment protection, optimizes the production process and improves the utilization rate of the production facilities for the purposes of energy saving, emission reduction and environment protection. To care for patients and life, the Group has set up and continually improved a long-term mechanism and contingency plan for monitoring adverse drug reaction. During the reporting period, the Group continued to undertake to organize the anti-malaria training courses and seminars on medicine quality for developing countries sponsored by the Ministry of Commerce of the PRC, with an aim to help the developing countries, particularly African countries prone to outbursts of malaria, to fight and prevent malaria. The Group has launched several public welfare programs, such as the "Future Star (未來星)", the "Fosun Foundation (復星公益基金)" and the "Fosun Care For Children Rehabilitation Program (復星愛童康復計劃)". Through these programs, the Group undertakes its social responsibilities and benefits the society by investing in education, supporting scientific researches, engaging in the community healthcare, alleviating poverty by donations, and providing disaster assistances. Furthermore, the Group has published its corporate social responsibility report for the fifth consecutive year, which fully demonstrated its commitment, practice and performance in respect of economy, environment, employees and the society to its stakeholders.

Employee and Corporate Culture:

The Group takes the concept of "self cultivation, family harmony, careers building and helping the world" as its own enterprise spirit, values its employees as the most important core assets of the Group, focuses on staff development, corporate social responsibilities and Community welfare, makes significant efforts in building a positive, creative, active, grateful and sustainable corporate culture, and achieves a comprehensive coordination among our enterprise, the society and environment.

A Principal Operations

(1) *Table of Analysis of Changes in Relevant Items of Income Statements and Cash Flow Statements*

Unit: million
Currency: RMB

Items	2012	2011	Ratio of change *(%)*
Revenue	**7,278**	6,433	13.14
Cost of sales	**4,127**	3,991	3.41
Selling and distribution expenses	**1,512**	1,210	24.96
Administrative expenses	**740**	697	6.17
Research and development costs	**306**	189	61.90
Finance costs	**371**	314	18.15
Net cash flows generated from operating activities	**666**	317	110.09
Net cash flows generated from investment activities	**(975)**	(1,706)	–42.85
Net cash flows generated from financing activities	**2,065**	853	142.09
R&D expenditures	**370**	313	18.21

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

(2) *Revenue*

During the reporting period, the revenue of the Group amounted to RMB7,278 million, representing an increase of 13.14% over 2011, with some changes in the scope of the consolidated statements in 2011 as a result of the disposal of Zhejiang Fosun Pharmaceutical Co., Ltd. and Shanghai Science and Technology Imp. & Exp. Co., Ltd. The increase in revenue was mainly due to the contribution from the growth of major products, such as products in therapeutic areas of cardiovascular system, central nervous system, blood system, metabolism and alimentary tract and anti-infection. The increase in revenue is lower than expected, mainly due to factors such as the adjustment of distribution of Siemens' products and the relocation of production lines of amino acid products and other products.

The aggregate turnover from the top five customers of the Group amounted to RMB820 million, accounting for 11.27% of the total revenue of the Group for 2012.

(3) *Cost of sales*

a. *Table of Analysis of Costs*

Unit: million
Currency: RMB

Situation by Segments

Segments	**Costs**	**2012**	**Percentage on the total cost** *(%)*	**2011**	**Percentage of amount of the previous period on the total cost** *(%)*	**Ratio of change as compared with the previous period** *(%)*	**Explanations**
Pharmaceutical manufacturing and R&D	Product costs	2,196	53.21	2,015	50.49	8.98	changes in the scope of the consolidation and growth in operation of core pharmaceutical companies
Pharmaceutical distribution and retail	Cost of goods	1,206	29.22	1,239	31.04	–2.66	mainly due to changes in the scope of the consolidation as a result of disposal of Zhejiang Fosun Pharmaceutical Co., Ltd., an entity engaging in distribution of pharmaceutical products, by the Group in the middle of 2011
Medical diagnosis and medical devices	Cost of products and goods	606	14.68	630	15.79	–3.81	the adjustment of distribution for Siemens' products and reduction of the distribution of medical devices with low gross margins
Healthcare services	Cost of services	108	2.62	8	0.20	1,250.00	acquired as new business at the end of 2011
Others	Other costs	11	0.27	99	2.48	–88.89	
Total		4,127	100.00	3,991	100.00		

b. *Major Suppliers*

Purchases from the top five suppliers amounted to RMB684 million, accounting for 14% of the total purchases of the Group for 2012.

(4) *R&D expenditures*

a. *Table of R&D expenditures*

Unit: million
Currency: RMB

R&D expenditures expensed for the current period	306
R&D expenditures capitalised for the current period	64
Total R&D expenditures	370
Percentage of total R&D expenditures on net assets (%)	2.43
Percentage of total R&D expenditures on revenue (%)	5.08

b. *Description*

During the reporting period, R&D expenses have increased by over 60% as compared with last year, mainly because the Group has increased its investments to focus on R&D of generic biopharmaceutical drugs and innovative drugs.

(5) *Cash flows*

Unit: million
Currency: RMB

Items	**2012**	2011	Ratio of change (%)	Reasons
Net cash flows generated from operating activities	**666**	317	110.09	optimized operating cash flows of existing enterprises
Net cash flows generated from investment activities	**(975)**	(1,706)	–42.85	yoy growth of recovery of investing cash flows
Net cash flows generated from financing activities	**2,065**	853	142.09	issuance of H shares during the reporting period

B Industry, Products and Regional Operation

(1) *Business by segments*

Unit: million
Currency: RMB

Principal business by segments

Segments	Revenue	Costs of sales	Gross margin (%)	Increase/decrease in revenue as compared with last year (%)	Increase/decrease in cost as compared with last year (%)	Increase/decrease in gross margin as compared with last year (%)
Pharmaceutical manufacturing R&D	4,633	2,196	52.60	20.93	8.98	5.20
Pharmaceutical distribution and retail	1,423	1,206	15.25	–0.91	–2.66	1.53
Medical diagnosis and medical devices	1,049	606	42.23	0	–3.81	2.29
Healthcare services	159	108	32.08	1,345.45	1,250	4.81

Note 1: The significant increase in revenue of the pharmaceutical manufacturing and R&D segment was mainly due to the growth in operation of core pharmaceutical companies and the inclusion of pharmaceutical companies in the scope of the consolidated statements.

Note 2: The year-on-year decrease in revenue of pharmaceutical distribution and retail segment was mainly due to changes in the scope of the consolidation as a result of the disposal of Zhejiang Fosun Pharmaceutical Co., Ltd., an entity engaging in distribution of pharmaceutical products, by the Group in the middle of 2011; and excluding that factor, the pharmaceutical distribution and retail business of the Group would have recorded a growth in turnover of 8.00% over 2011.

Note 3: The year-on-year increase in revenue of the healthcare services segment was mainly because the healthcare services segment was a new business acquired at the end of 2011.

(2) *Revenue by geographical segments*

Unit: million
Currency: RMB

Region	Revenue	Increase/ decrease in revenue as compared with last year (%)
Mainland China	6,574	15.82
Overseas countries or regions	704	–7.00

Note: The year-on-year decrease in overseas operation was mainly due to the relocation of production facilities of Shine Star (Hubei) Biological Engineering Company Limited and the suspension of production of amino acid products. The construction of the amino acid production lines was completed and the production lines were put into production in the second half of 2012.

C Assets and Liabilities

Table of assets and liabilities

Unit: million
Currency: RMB

Items	As at 31 December 2012	Percentage of amounts as at the end of the current period on total assets (%)	As at 31 December 2011	Percentage of amounts as at the end of the previous period on total assets (%)	Percentage change as compared with amounts as at the end of the previous period (%)	Explanations
Cash and cash equivalents	4,973	19.54	2,895	13.02	71.78	increase in cash and cash equivalents from H-shares fund raising activities
Available-for-sale investments	2,070	8.13	2,789	12.54	–25.78	disposal of available-for-sale financial assets
Property, plant and equipment	3,502	13.76	2,632	11.84	33.05	investment to upgrade the Good Manufacturing Practice and plant expansions
Short-term interest-bearing liabilities	1,375	5.40	2,177	9.79	–36.84	repayment of borrowing

D Core Competence

The Company has formed a relatively complete product portfolio in the five major therapeutic areas (being areas of cardiovascular system, metabolism and alimentary tract, central nervous system, blood system and anti-infection) which are areas with greatest potential to grow in China's pharmaceutical market. Each of the major pharmaceutical products of the Group has its own competitive advantages in their respective segments. According to the data from IMS Health Incorporated ("IMS") for 2012, the Group was one of the leading enterprises in the pharmaceutical industry in the PRC, and five products of the Group were ranked as one of the Top 200 of the IMS list in terms of their sales volume. In 2012, 11 products of the Group recorded revenue of over RMB100 million. The Company was one of the first enterprises in the pharmaceutical industry in the PRC to develop internationally, and its production capacity has met the international standards. In addition, several of the Group's production lines had been recognised by the FDA, the European Directorate for Quality Medicines (EDQM), and the PQ Certification of World Health Organisation, and some of the formulations and APIs had entered into the international markets in a considerable scale.

The Company has developed strong R&D capabiilties and established an efficient R&D platform in areas of small molecular innovative drugs, monoclonal antibodies and generic drugs with high barriers-to-entry. Currently, there are over 100 pipeline projects, 13 projects under clinical trial application, 5 projects under clinical trial, and 16 projects awaiting official approval. It is expected that these projects under development will provide a solid foundation for the Group to maintain a sustainable growth in the future.

Whilst the Group keeps enhancing the competiveness of its products, the Group also focuses on developing its marketing capabilities. As the Group's marketing team consists of over 2,000 employees and the sales network has covered most of the major domestic markets, the Group has been improving its capabilities in sales and marketing. The Group has strategically invested in Sinopharm, the largest nation-wide enterprise in the pharmaceutical distribution and retail segment in the PRC. It would be easier for the Company's products to enter into local markets with the synergies with Sinopharm.

The Company's capabilities in investment, merger and acquisition activities and consolidation had been widely recognised in the pharmaceutical industry, providing a solid foundation for the Group to make a leapfrog development in the future. The shares of the Group were successfully listed on the Stock Exchange in 2012. As a result, the Group is listed both in the A share market and the H share market. The proceeds raised through the capital market had created favorable condition for the Group to rapidly expand its operation scale and enhance its competitive strengths by merger and acquisition activities. In order to maintain its rapid growth, the Group will follow the direction of China's Twelfth Five-year Plan in relation to the pharmaceutical industry, take advantage of its competitive strengths and insist on the strategies of organic growth, external expansion and integrated development.

E Use of Proceeds

(1) In 2010, upon approval by China Securities Regulatory Commission through the approval regarding Non-Public Offer of Shares of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (Zheng Jian Xu Ke [2010] No.334), the Company made a non-public offer of shares in the PRC (the "Non-public Offer"). As of 4 May 2010, the Company had completed the Non-public Offer of 31,820,000 RMB-denominated ordinary shares (A shares) at the issue price of RMB20.60 per share. The net proceeds raised, after deducting the underwriting commission attributable to the brokers and other expenses, were RMB635,392,000. During the reporting period, the relevant proceeds were used in the following manner:

Unit: RMB million

Projects undertaken	Change or not	Total committed investment	Total investment after adjustment	Investment for the year	Accumulated investment as at the end of period
Recombinant Human Insulin (API + formulation) Industrialized Project	YES *(note 1)*	371	371	79	229
Artesunate High-tech Industrialized Model Project	NO	190	N/A	8	155
In Vitro Diagnostic Products Production Facilities Project	NO	74	N/A	—	74 *(note 2)*
Total		635	—	87	458

Note 1: In January 2012, the Group changed the "Recombinant Human Insulin (API + formulation) Industrialized Project" to the "Recombinant Human Insulin and Analogues (API + formulation) Industrialized Project"

Note 2: Accumulated investment included the interest income from a dedicated account for proceeds of RMB41,700.

(2) In October 2012, upon approval by China Securities Regulatory Commission through the Approval Document (Zheng Jian Xu Ke [2012] No.444), the Company made a global offering of 336,070,000 overseas listed foreign shares (the "H Shares"), the total proceeds was HK$3,965,626,000.00. The net proceeds, together with relevant interest income, and after deducting the listing expenses paid overseas of HK$83,714,611.85, was HK$3,881,921,953.91. During the reporting period, the use of proceeds was as follows:

Unit: HK$ million

Name of projects undertaken	Change or not	Amount of proceeds proposed to be applied	Amount of proceeds actually applied
Mergers and acquisitions in pharmaceutical, pharmaceutical distribution and retail, healthcare, medical diagnosis and medical devices segments	No	1,863	—
Funding for existing R&D projects, expanding R&D teams and acquiring new R&D projects	No	738	—
Repayment of part of principal and interest of interest-bearing debts	No	893	73
Replenishment of working capital	No	388	10
Total		3,882	83

F Major Subsidiaries and Investee Companies

(1) *Operation and results of the major subsidiaries of the Company*

Unit: million
Currency: RMB

Company Name	Nature of business	Main products or services	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Chongqing Yao Pharmaceutical Company Limited (重慶藥友製藥有限責任公司)	Pharmaceutical manufacturing	Atomolan, You Di Er, Potassium Sodium Dehydroandrographolide Succinate, V Jialin etc.	196.54	1,146	600	1,312	152	133
Jiangsu Wanbang Biopharmaceutical Co., Ltd. (江蘇萬邦生化醫藥股份有限公司)	Pharmaceutical manufacturing	Wan Su Lin, Wan Su Ping etc.	119.04	1,482	751	1,000	73	65
Shine Star (Hubei) Biological Engineering Company Limited (湖北新生源生物製藥工程股份有限公司)	Manufacturing of amino acid	amino acid series products	51.12	985	379	856	68	62
Guilin South Pharma Co., Ltd (桂林南藥股份有限公司)	Pharmaceutical manufacturing	artesunate series products	285.03	917	481	368	23	25
Jinzhou Ahon Pharmaceutical Co. Ltd (錦州奧鴻藥業有限公司)	Pharmaceutical manufacturing	Deproteinised Calf Blood Serum Injection, Homocoagulase For Injection	107.88	606	507	638	428	363

(2) ***Operation and results of investee companies whose net profit and investment income contributing more than 10% of the Group's net profit***

Unit: million
Currency: RMB

Company name	Nature of business	Main products or services	Registered capital	Total assets	Net assets	Revenue	Operating profits	Net profit
Sinopharm Industrial Investment Company Limited (國藥產業投資有限公司)	Pharmaceutical Investment	Chemical raw medicine, chemical agent, antibiotic, Chinese patent drug, biochemicals, wholesales of diagnostic drugs, industrial investment, trustee management and capital reorganization for pharmaceutical companies, domestic trading, retail chain, logistics and relevant advisory service	100	80,986	23,135	136,262	3,558	3,090

(3) ***Acquisition and disposal of subsidiaries for the year (including methods of the acquisitions and disposals and the effects on the overall operation and results of the Company)***

Unit: million
Currency: RMB

Company name	Method of acquisition	Net assets (at the end of 2012)	Net profit (2012)	Acquisition date
Suqian Zhongwu Hospital Co., Ltd. (宿遷市鐘吾醫院有限責任公司)	Equity transfer	75	0	24 December 2012
Chongqing Kemei Yaoyou Nano Biotechnology Development Co., Ltd. (重慶科美藥友納米生物技術開發公司)	Equity transfer	1	(0.03)	29 November 2012
Suzhou Qitian Blood Transfusion Technology Co., Ltd. (蘇州奇天輸血技術有限公司)	Equity transfer	6	0.02	5 November 2012

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

A. Competition and Development Trends of the Industry

In 2013, the pharmaceutical industry in China will be presented with numerous opportunities. In terms of market demand, the increase in the proportion of the aging population in the PRC, the increased spending on healthcare programs by the PRC government and the increase in the domestic per capita disposable income have been the three major driving factors for the rapid development of the pharmaceutical industry, and these factors will continue to exist and drive the industry to rapidly grow in the foreseeable future. In terms of industry structure, the domestic economy has maintained stable growth and the PRC government has encouraged and guided the strategic emerging industries to upgrade the industry and optimize the industry structure and supports the development of the innovation-oriented pharmaceutical industry. The implementation of the National List of Essential Drugs has established a relatively solid foundation for the domestic pharmaceutical enterprises. The implementation of China's Twelfth Five Year Plan for the pharmaceutical industry has driven greater competition in the industry as a whole. As a result, pharmaceutical enterprises with advantages in scale, technology, brand and marketing will have valuable opportunities for development. The PRC government has continually focused on the quality of medicines and the operation of pharmaceutical enterprises, overhauled the sales channel of pharmaceutical products, accelerated implementation of regulation and control over prices and classification of pharmaceutical products, and further improved the centralized tender system for procurement of pharmaceutical products. Such measures have driven and accelerated consolidation in the domestic pharmaceutical industry and the level of industrial concentration will rapidly increase by way of acquisitions and reorganisations. The expiration of patents of pharmauceutical products in major markets such as Europe and the United States has presented opportunities for the rapid development of Chinese companies with capabilities to innovate and manage international expansion. While faced with favorable capital market conditions and product market opportunities, the international expansion by the PRC pharmaceutical enterprises is also consistent with the policy directions of the PRC government's industry plans.

Being a pharmaceutical enterprise with a considerable size and the first pharmaceutical group to develop internationally, the Board believed that the Group will benefit from the current government policies for the pharmaceutical market and industry. The Group will continue to strengthen its business segments and invest more resources to support product innovation and market expansion, and will also continue to proactively carry out mergers and acquisitions in therapeutic areas and rapidly extend the scale of its business to continuously enhance its overall competitiveness.

B. Development Strategy of the Group

In 2013, the Group will continue to be committed to improve public health as its mission, adhere its company philosophy ''Innovation for Good Health'', and endeavor to capture the opportunities presented by the rapid development of the pharmaceutical market in China as well as rapid growth of the generic drugs in mainstream markets such as Europe and the United States. It will adhere to the development strategy of organic growth, external expansion and integrated development, and further its efforts in acquiring quality companies in the pharmaceutical industry. By continuing to optimize and integrate various resources in the pharmaceutical industry, strengthening development of product innovation and product marketing system, and enhancing the core competence of the Group, the Group strives to further enhance its operating results. Meanwhile, the Group will continue to actively explore the financing channels domestically and internationally and creates favorable conditions for the continuous development of the Group.

C. Operation Plan

There may be significant changes in the external environment in 2013. The development of pharmaceutical companies will be presented with both opportunities and challenges. In 2013, the Group will endeavor to develop its product-oriented strategy and further strengthen its marketing efforts for major products, and enhance its investments in R&D activities. In addition, the Group will continue to increase investment in the healthcare services segment to expand the operating scale in the segment and improve its ability of operation management. Meanwhile, the Group will accelerate its mergers and acquisitions as well as integration of quality domestic and overseas pharmaceutical companies, and promote the consolidation of Sinopharm in the pharmaceutical distribution segment.

The Group plans to achieve a rapid growth in revenue in 2013. Meanwhile, the Group will strive to control cost and various expenses to enhance profit margin and profitability of its core products. The Group will continue to optimize its operation and control as well as enhance the efficiency of the utilisation of its assets. Detailed operational goals and proposed methods are as follows:

Pharmaceutical Manufacturing and R&D:

In 2013, the Group will continue to focus on innovation and international development, and strive to develop strategic products. Whilst actively seeking opportunities for mergers and acquisitions as well as consolidation in the industry, the Group seeks to achieve continuous and rapid growth of its revenue and profit.

The Group will actively push forward the development of professional marketing teams and follow-on products in areas such as cardiovascular system, central nervous system, blood system, metabolism and alimentary tract, and anti-infection. In addition to solidifying the market position and product growth in the existing key segments and products, the Group will further its efforts in promoting products such as You Di Er, Bang Ting, Ao De Jin, Atomolan, EPO and anti-tuberculosis series so as to maintain a leading position in their respective market segments.

The Group will continue to adopt the strategy to combine imitation with innovation and to combine international technology licenses with domestic industry-university-research cooperation. The Group adopts "project plus technology platform" as the model for its cooperation on research and development and will continue to increase its investments in research and development. Project approval process for new products will be strictly implemented in order to enhance the efficiency of research and development. The Group will strengthen the development of the team for the registration of pharmaceuticals in order to accelerate the approval process of existing products as well as to support innovation. The Group will actively facilitate the R&D and registration processes for Feibusita, insulin products and monoclonal antibody products and ensure that the development and registration processes will be completed on schedule. The Group will also accelerate our efforts to link its R&D and the market so that demand and supply are better matched. We will fully take advantage of the benefits of various R&D platforms, and strive to develop strategic product lines as well as R&D systems that are in line with international standards for new pharmaceutical products, and accelerate the development and reserve for follow-on strategic products, in order to solidify the core competence of our pharmaceutical manufacturing business.

Pharmaceutical Distribution and Retail:

In 2013, the Group will continue to facilitate consolidation and rapid development of Sinopharm in its pharmaceutical distribution business, and the continued expansion of the competitive advantages of Sinopharm in the pharmaceutical distribution and retail segment. Meanwhile, the Group will further improve and enhance retail brands such as For Me Pharmacy and Golden Elephant Pharmacy, strengthen the consolidation within the industry, consolidate and increase market share in the regional markets, and achieve coverage and expansion in various regions. In addition, the Group will actively develop e-commerce and facilitate rapid development of the pharmaceutical retail business.

Healthcare Services:

In 2013, the Group will continue to capture the high growth and investment opportunities in the healthcare services industry in China. We will continuously increase our investments in the healthcare services segment, and strengthen the current healthcare services business which integrates high-end healthcare services in coastal developed cities and specialty hospitals and general hospitals in second-tier and third-tier cities, in an effort to expand the scale of our healthcare services business. The healthcare institutions controlled by the Group will further strengthen their operation capacity, cultivate and recruit medical staff, and accelerate the development of their healthcare services businesses. Meanwhile, the Group will continue to support and promote the business expansion of United Family Hospital, which is a high-end brand for healthcare services under Chindex International, Inc. In addition to clinical applications in obstetrics and gynaecology hospitals, the Group will also enhance the development of its high-end healthcare services with such characteristics as multiple levels, diversification and extensibility.

Medical diagnosis and Medical Devices:

In 2013, with the completion of the Production Base for In-vitro Diagnostic Products and the commencement of its operation, the Group will continue to develop and introduce products in the diagnostic business, and continuously launch new products and new product lines. We will continue to enhance the development of domestic and overseas sales network and our professional sales team, strive to increase the market share of our diagnostic products, and actively seek opportunities to invest in quality diagnostic companies both domestically and intemationally.

In 2013, the Group will increase its investments in R&D and manufacturing of medical devices. Meanwhile, the Group will continue to leverage its strengths in expanding international operation, and actively explore the opportunities to cooperate with overseas companies, so as to achieve the growth in the scale of its medical devices business.

Financing:

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

D. Financial Support Required for Maintaining the Current Operation and Completing Investment Projects under Construction:

With the organic growth of the Group and the steady growth in the industry consolidation, the Group expects to invest approximately RMB1,000 million for production capacity expansion, plant relocation and the development of cGMP in 2013. Primary sources of funding include, among others, (i) own capital; (ii) cash flow from operating activities; (iii) surplus capital raised from completed private placements of A shares and capital raised from H shares; and (iv) bank loans, corporate bonds and short-term commercial papers.

E. Potential Risks:

With increased competition among domestic pharmaceutical companies and the issue of several notices by the National Development and Reform Commission of the PRC to lower prices of pharmaceutical products, the risks of further lowering product prices in the domestic pharmaceutical market will remain in the future. As such, the Group will continue to place a great emphasis on the research and development of new products, maintain the competitive edge in the costs of its main products, actively strengthen the marketing efforts for its products and the sales in the international market, and optimize its product structure. Going forward, the Group will actively develop, cultivate and introduce new patented products, and maintain the healthy and sustainable development of its R&D of pharmaceutical products and its pharmaceutical manufacturing business.

With the official launch of the healthcare system reform, the industry consolidation and the transformation of business models for pharmaceutical companies are inevitable. As such, the Group will closely monitor the latest reform developments and integrate internal and external resources in an optimal manner. Meanwhile, the Group will also continue to strengthen its investment in quality companies in the industry, continuously improve its operational and management capabilities, its product innovation abilities and its presence in the international market to develop itself into a leading company in the pharmaceutical and healthcare industry in China.

OTHER MAJOR EVENTS

Shanghai Fosun High Technology (Group) Co., Ltd. (the "Fosun Group"), the Company's controlling shareholder, had planned to increase its holding of the Company's shares through purchases in the secondary market for the twelve-month period from 22 February 2012, and the total number of shares so increased should not exceed 2% of the total number of shares of Company. As of the close of the Shanghai Stock Exchange (the "SSE") on 21 February 2013, the plan of Fosun Group to increase the holding of the Company's shares had been completed. From 22 February 2012 to 21 February 2013, Fosun Group had accumulatively increased its holding of 5,518,785 A shares of the Company through the trading system of the SSE, accounting for 0.29% of the total number of the Company's A shares (being 1,904,392,364 shares) and 0.25% of the total number of issued shares of the Company (being 2,240,462,364 shares after the offering of the H Shares). Following such purchase plan, Fosun Group directly holds 920,641,314 A shares of the Company, accounting for 48.34% of the total number of the Company's A shares in issue and 41.09% of the total number of issued shares of the Company.

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

The H shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 30 October 2012 (the "**Listing Date**").

Since the Listing Date and up to 31 December 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

A high standard of corporate governance is essential to safeguarding the interests of shareholders and enhancing corporate value. The Company is committed to continually improve its corporate governance structure, and to optimize its internal management and control and its business operation in order to improve the corporate governance of the Company.

The corporate governance practices adopted by the Company are based on the principles and the code provisions of the Code on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange. The Company has complied with all the applicable code provisions contained in the CG Code throughout the period from the Listing Date to 31 December 2012. Particulars of the implementation of the CG Code are to be set out in the Corporate Governance Report contained in the annual report for the year ended 31 December 2012 (the "**2012 Annual Report**").

MODEL CODE FOR SECURITIES TRANSACTIONS

The Group has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the period from the Listing Date to 31 December 2012.

The Group has also established written guidelines no less exacting than the Model Code (the "**Employees Written Guidelines**") for securities transactions by employees of the Company who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company after making reasonable enquiry.

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

The Group's annual results for the year ended 31 December 2012 have been reviewed by the audit committee of the Company.

FINAL DIVIDEND

The final dividend for the year ended 31 December 2012 as proposed by the Board, inclusive of tax, amounted to RMB0.21 per share, and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting (the "**AGM**").

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

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

The Company will arrange the time of convening the forthcoming AGM as soon as practicable, and the notice of the AGM will be published and dispatched to shareholders of the Company in a timely manner in accordance with the requirements of the Listing Rules and the articles of association of the Company. Once the date of the AGM is finalized, the Company will issue a separate announcement and publish in the notice of AGM the period of closure of register of members of H shares.

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

According to the the PRC Corporate Income Tax Law and its implementing rules which became effective on 1 January 2008 and relevant regulations, the Company is required to withhold and pay enterprise income tax at the rate of 10% for the 2012 annual dividends when paid to a non-resident enterprise shareholder whose name appears on the register of members of H shares of the Company. Any shares registered in the name of non-individual shareholders, including HKSCC Nominees limited, other nominees, trustees or other organizations and groups will be treated as being held by non-resident enterprise shareholders and therefore, the dividends attributing to such shares should be paid after deducting the enterprise income tax. The Company will withhold and pay personal income tax at the unified rate of 10% for the non-resident individual shareholders. Therefore, dividends attributable to the non-resident individual shareholders will be paid to such shareholders after netting of 10% personal income tax.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the websites of the Company (*http://www.fosunpharma.com*) and the Stock Exchange (*http://www.hkexnews.hk*). The 2012 Annual Report will be dispatched to shareholders of the Company and available on the websites of the Company and the Stock Exchange as and when appropriate.

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

Shanghai, the PRC

26 March 2013

As at the date of this announcement, the executive directors of the Company are Mr. Chen Qiyu and Mr. Yao Fang; the non-executive directors of the Company are Mr. Guo Guangchang, Mr. Wang Qunbin and Mr. Zhang Guozheng; and the independent non-executive directors are Mr. Guan Yimin, Mr. Han Jiong, Dr. Zhang Weijiong and Mr. Li Man-kiu Adrian David.

* *for identification purposes only*