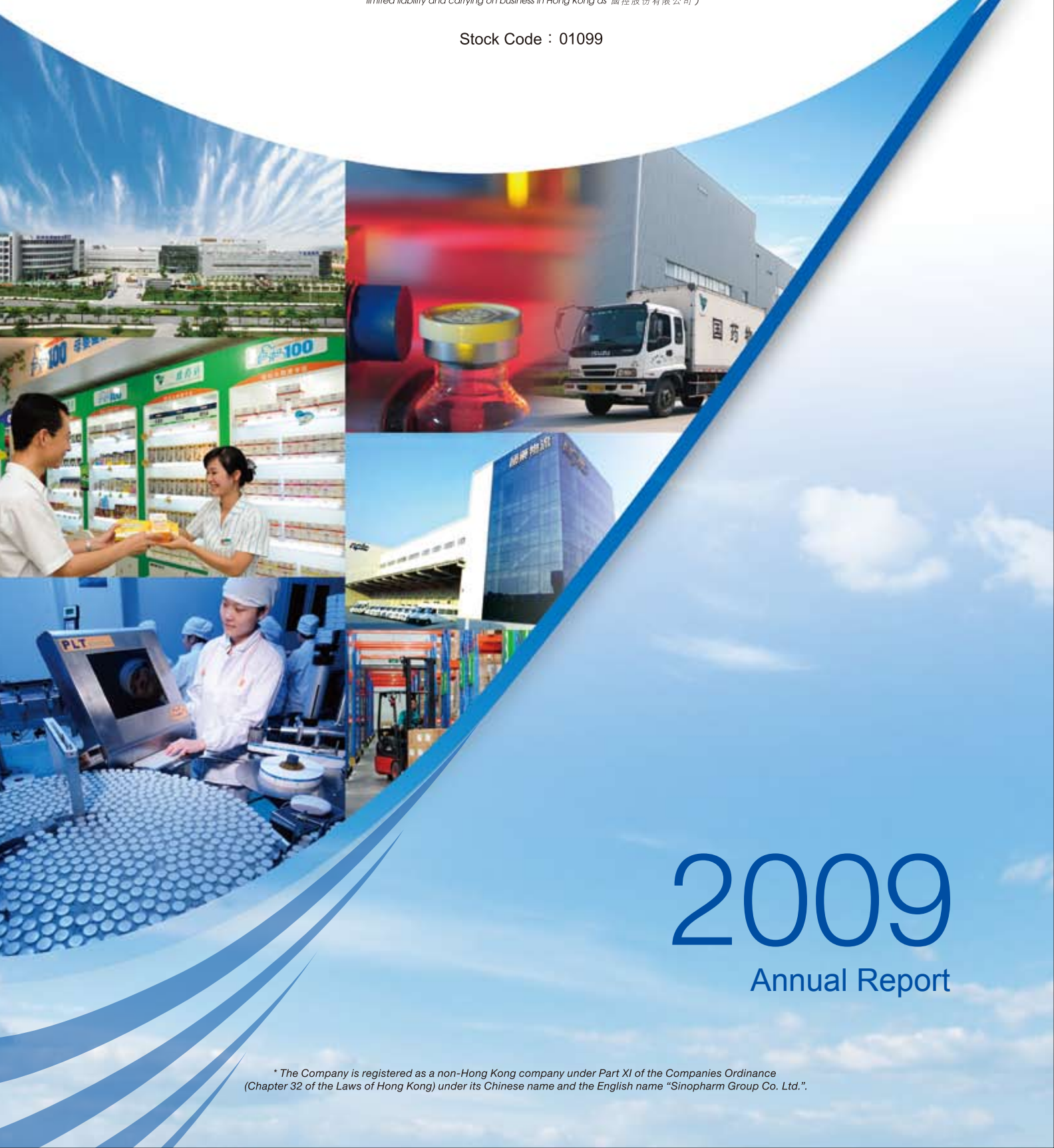




**SINOPHARM GROUP CO. LTD.\***  
**國藥控股股份有限公司**

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

Stock Code : 01099



# 2009

Annual Report

\* The Company is registered as a non-Hong Kong company under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) under its Chinese name and the English name "Sinopharm Group Co. Ltd.".



## Contents

1	Company Profile	63	Corporate Social Responsibility
2	Corporate Information	65	Independent Auditor's Report
4	Financial Highlights	67	Consolidated Balance Sheet
6	Chairman's Statement	69	Company Balance Sheet
11	Shareholding Structure of the Group	71	Consolidated Income Statement
13	Management Discussion and Analysis	72	Consolidated Statement of Comprehensive Income
23	Corporate Governance Report	73	Consolidated Statement of Changes in Equity
32	Biographies of Directors, Supervisors and Senior Management	74	Consolidated Cash Flow Statement
42	Report of the Board of Directors	76	Notes to the Consolidated Financial Statements
61	Report of the Supervisory Committee	201	Definitions



# Care for Life Care for Health

## Company Profile

The Group is the largest distributor of, and a leading provider of supply chain services for, pharmaceutical and healthcare products and operates **the largest national pharmaceutical distribution network in China**, according to the information of China Association of Pharmaceutical Commerce in 2008. The Group has been able to rapidly grow its market share and profits in a highly fragmented industry by taking advantage of its economies of scale and nationwide distribution network, through which the Group offers a wide range of value-added supply chain services for its customers and suppliers.

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

- **Pharmaceutical distribution segment:** Pharmaceutical distribution is the Group's principal business. The Group provides distribution, logistics and other value-added services for pharmaceutical and healthcare products of domestic and international manufacturers and other suppliers. The Group differentiates itself from its competitors in China by its geographical coverage, the breadth of its product portfolio and the strength of the supply chain services it provides to its customers and suppliers.
- **Retail pharmacy segment:** The Group has a network of retail drug stores that it directly operates or franchises in major cities throughout China.
- **Other business operations segment:** The Group is also engaged in the manufacturing or selling of pharmaceutical products, chemical reagents and laboratory supplies.

The Group is the industry leader in the distribution of pharmaceutical and healthcare products in China both in terms of its market share and the geographical coverage of its distribution network. As China's leading pharmaceutical distributor, the Group will benefit from the rapid growth, consolidation, and regulatory reform in the PRC pharmaceutical and healthcare industry.

# Corporate Information

## DIRECTORS

Mr. She Lulin  
*(Non-executive Director and Chairman)*  
Ms. Fu Mingzhong  
*(Executive Director and Vice Chairman)*  
Mr. Guo Guangchang *(Non-executive Director)*  
Mr. Wang Qunbin *(Non-executive Director)*  
Mr. Deng Jindong *(Non-executive Director)*  
Mr. Fan Banghan *(Non-executive Director)*  
Mr. Liu Hailiang *(Non-executive Director)*  
Mr. Lian Wanyong *(Non-executive Director)*  
Mr. Wei Yulin  
*(Executive Director and General Manager)*  
Mr. Wang Fanghua  
*(Independent Non-executive Director)*  
Mr. Tao Wuping  
*(Independent Non-executive Director)*  
Mr. Xie Rong *(Independent Non-executive Director)*  
Mr. Zhou Bajun  
*(Independent Non-executive Director)*

## SUPERVISORS

Mr. Chen Qiyu *(Chief Supervisor)*  
Mr. Xing Yonggang  
Ms. Zhang Jian

## JOINT COMPANY SECRETARIES

Mr. Wu Aimin  
Mr. Ngai Wai Fung

## STRATEGIC AND INVESTMENT COMMITTEE

Mr. She Lulin *(Chairman)*  
Ms. Fu Mingzhong  
Mr. Wang Qunbin  
Mr. Fan Banghan  
Mr. Liu Hailiang  
Mr. Wei Yulin

## AUDIT COMMITTEE

Mr. Xie Rong *(Chairman)*  
Mr. Wang Fanghua  
Mr. Fan Banghan  
Mr. Deng Jindong  
Mr. Zhou Bajun

## REMUNERATION COMMITTEE

Mr. Tao Wuping *(Chairman)*  
Mr. Wang Fanghua  
Mr. Xie Rong  
Mr. Fan Banghan  
Mr. Liu Hailiang

## NOMINATION COMMITTEE

Mr. She Lulin *(Chairman)*  
Mr. Wang Fanghua  
Mr. Tao Wuping  
Mr. Xie Rong  
Mr. Fan Banghan

## AUTHORIZED REPRESENTATIVES

Ms. Fu Mingzhong  
Mr. Wu Aimin

## LEGAL ADVISERS

*As to Hong Kong and United States laws:*  
Baker & McKenzie

*As to PRC law:*  
Jincheng & Tongda Law Firm

## COMPLIANCE ADVISER

China International Capital Corporation  
Hong Kong Securities Limited

## AUDITOR

PricewaterhouseCoopers

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Flat/Room A, 17th Floor  
Victor Court, 18 Wang On Road  
North Point, Hong Kong

## PRINCIPAL PLACE OF BUSINESS IN THE PRC, REGISTERED OFFICE AND HEADQUARTERS

6th Floor, No. 221 Fuzhou Road  
Shanghai 200002, China

## COMPANY'S WEBSITE

[www.sinopharmgroup.com.cn](http://www.sinopharmgroup.com.cn)

## H SHARE REGISTRAR

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

## STOCK CODE

01099

## PRINCIPAL BANKERS

Bank of Communications Co., Ltd.  
Shanghai Branch Hongkou Sub-branch  
Bank of Communications Co., Ltd.  
Beijing Branch Tiantan Sub-branch  
Bank of Communications Co., Ltd.  
Tianjin Branch Binjiang Sub-branch  
Bank of Communications Co., Ltd.  
Guangzhou Branch Operating Department  
China Merchants Bank Co., Ltd.  
Shanghai Branch Nan Xi Sub-branch  
Bank of China Limited  
Shanghai Yangpu Sub-branch

## OFFICE OF BOARD OF DIRECTORS

Tel.: (86 21) 6339 1911  
Email: [ir@sinopharmholding.com](mailto:ir@sinopharmholding.com)

Unless otherwise stated, all information contained in this annual report is as at 31 December 2009.

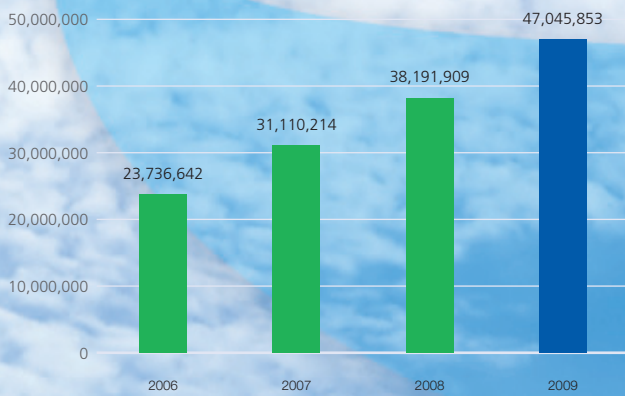
# Financial Highlights

Unit: RMB'000

	2006	2007	2008	2009	CAGR of 2006–2009
<b>Operating results</b>					
Revenue	23,736,642	31,110,214	38,191,909	<b>47,045,853</b>	25.61%
Gross profit	1,989,542	2,550,223	3,039,147	<b>3,784,568</b>	23.90%
Operating profit	480,251	789,346	1,173,510	<b>1,550,279</b>	47.79%
Profit before interest and tax	453,811	953,518	1,321,013	<b>1,788,379</b>	57.95%
Profit attributable to the Shareholders	101,331	380,920	587,613	<b>845,819</b>	102.85%
<b>Profitability</b>					
Gross margin	8.38%	8.20%	7.96%	<b>8.05%</b>	
Operating margin	2.02%	2.54%	3.07%	<b>3.29%</b>	
Net profit margin	0.43%	1.22%	1.54%	<b>1.80%</b>	
<b>Data per share (RMB)</b>					
Earnings per share — Basic	0.06	0.23	0.36	<b>0.47</b>	98.60%
	31 December 2006	31 December 2007	31 December 2008	<b>31 December 2009</b>	CAGR of 2006–2009
<b>Asset status</b>					
Total assets	11,590,265	14,287,261	16,125,335	<b>28,275,250</b>	34.62%
Equity attributable to the shareholders of the Group	1,759,628	1,683,759	2,267,046	<b>10,910,856</b>	83.72%
Total liabilities	9,000,004	11,668,913	12,711,937	<b>15,770,795</b>	20.56%
Cash and cash equivalents	1,838,797	1,955,596	1,712,119	<b>6,616,801</b>	53.24%
Gearing ratio	77.65%	81.67%	78.83%	<b>55.78%</b>	
<b>Liquidity ratio</b>					
Current Ratio (times)	1.14	1.09	1.15	<b>1.71</b>	
Inventory turnover ratio (days)	33.6	29.9	30.1	<b>31.3</b>	
Trade receivables turnover ratio (days)	67.1	64.4	67.0	<b>71.3</b>	
Trade payables turnover ratio (days)	84.7	82	84.4	<b>89.4</b>	

## Revenue

RMB'000

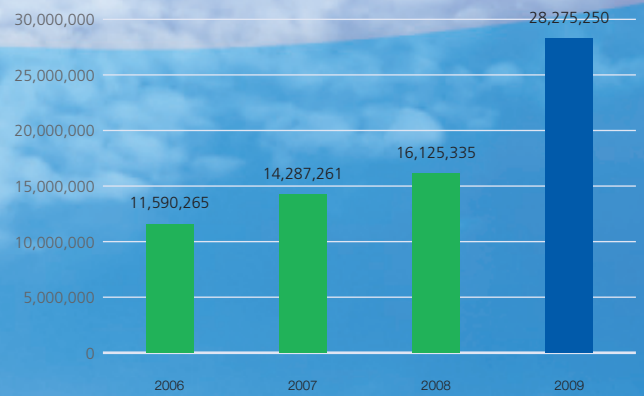


# + 25.61%

CAGR of 2006–2009

## Total assets

RMB'000

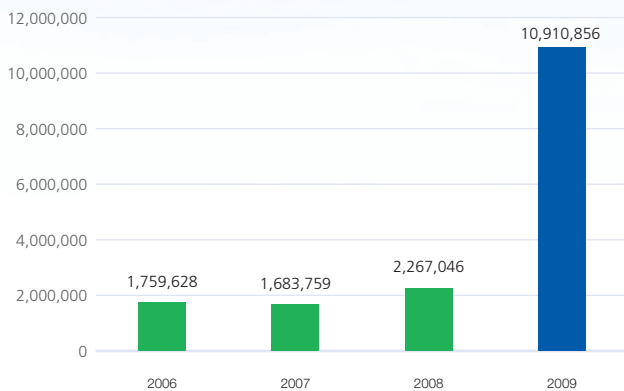


# + 34.62%

CAGR of 2006–2009

## Equity attributable to the shareholders of the Group

RMB'000

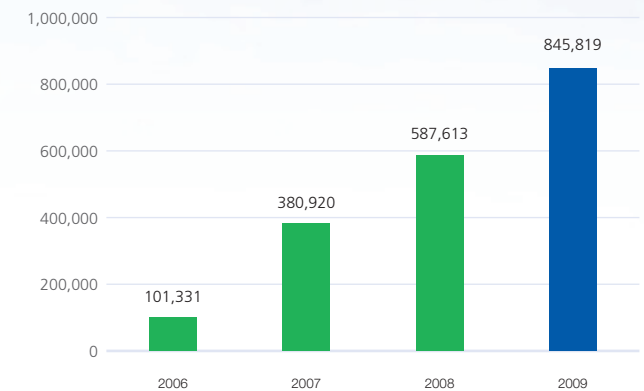


# + 83.72%

CAGR of 2006–2009

## Profits attributable to the shareholders

RMB'000



# + 102.85%

CAGR of 2006–2009



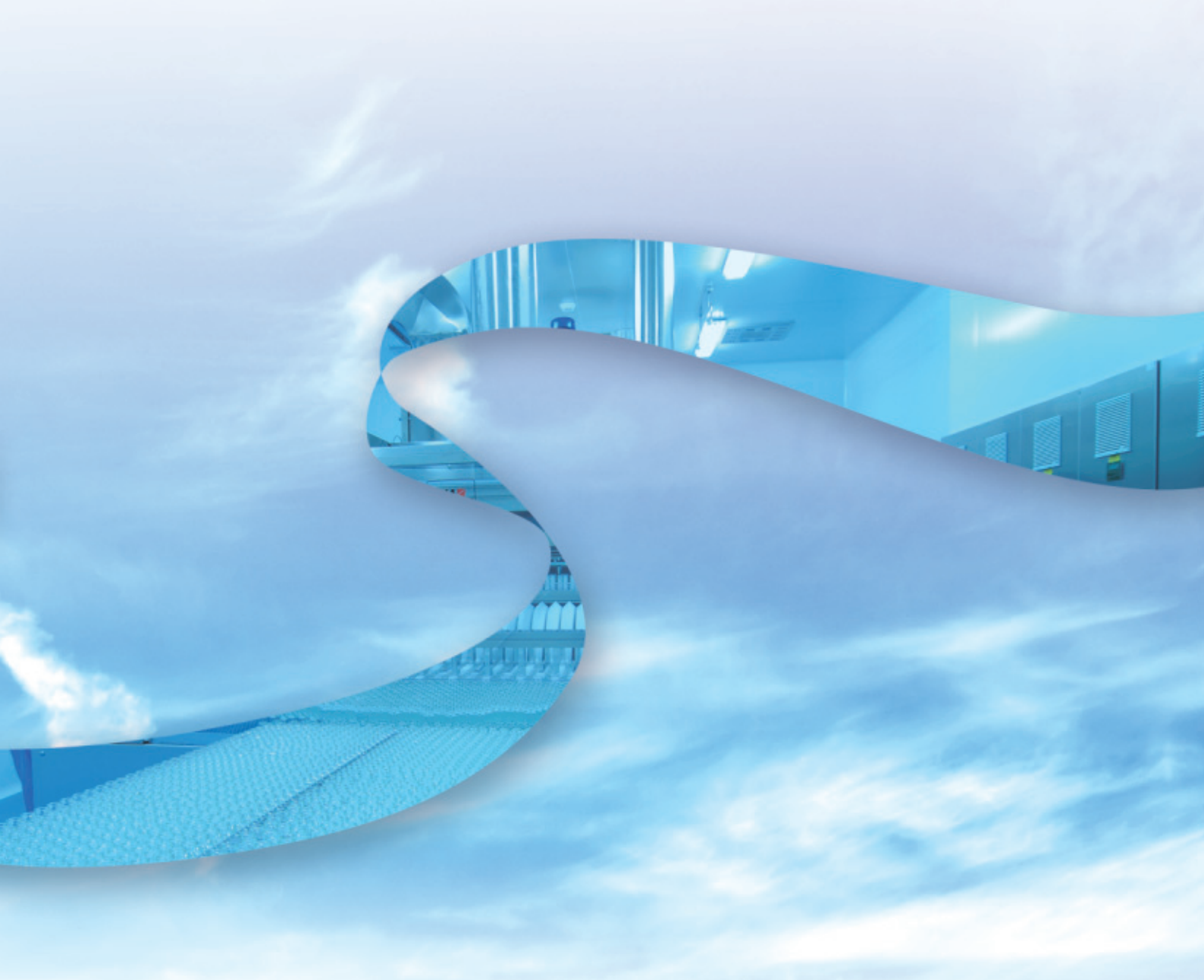
## Chairman's Statement

Dear Shareholders,

I would like to express my heartfelt gratitude to you and the community for their attention and support to the Group. As the chairman of the Group, I would like to present the annual report for the year 2009 of the Company to all shareholders.

Although year 2009 was just a short moment in history, it was undoubtedly the most remarkable year in the history of the development of the Group and was full of challenges and achievements.





The Group was established on 8 January 2003 by CNGPC and Fosun Investment and successfully listed on the Hong Kong Stock Exchange on 23 September 2009 after restructuring and business integration. This realized our dream of being the largest listed pharmaceutical distribution company of China. In this listing, apart from the Company's success in raising proceeds of over HK\$10 billion, the Company has also become a state-owned public company with a diversified base of shareholders, which laid a solid foundation to capture opportunities arising from the national healthcare system reform. The Group was launched onto the world stage and was awarded the "Best IPO Award of the Year (年度最佳IPO獎項)", the "Best Equity Deal (最佳股權交易獎)" and the "Best IPO Award of the Year — China (中國地區年度最佳IPO獎項)" from three most influential financial magazines in Asia, namely FinanceAsia, IFR Asia and Asiamoney, respectively, because of its successful listing.

As the chairman of the Group, I am proud of the remarkable achievements of the Group. At the same time, I am also happy that many domestic and overseas institutional and individual investors have become new shareholders of the Group. Last year was an extraordinary year with the lingering impacts of the financial crisis and the uncertainties of the future global economy. With such a background, you still chose the Group. I admire your courage and professionalism. I would like to extend my heartfelt appreciation to you for your understanding and trust in the Group.

## Chairman's Statement

**The Company has an extensive geographical and market coverage and maintains good relationships with customers and suppliers. Coupled with its comprehensive logistics arrangement, advanced value-added supply chain services and facilities and its renowned “Sinopharm” brand name, the Company has the most competitive pharmaceutical distribution network in China.**

### OPERATING RESULTS CONTINUED TO GROW RAPIDLY AND SCALE OF ECONOMY FURTHER ENHANCED

In 2009, in spite of the difficulties and challenges that arose from the complicated domestic and overseas political and economic environment, the Group achieved results that are satisfactory to all its investors. The production and operations sustained stable and healthy development. Major economic indicators reached a record high. Indicators such as operating revenue maintained steady growth, while various financial indicators, including profit, rose significantly. Based on HKFRS, revenue of the Group in 2009 amounted to RMB47,046 million, representing a growth of 23.18% as compared with the corresponding period in 2008. Profit attributable to the shareholders of the Company was RMB846 million, representing a growth of 43.88% as compared with the corresponding period in 2008. The achievement of the above excellent results provided strong support for the future sustainable growth of the Group.

### DIVIDENDS

Based on the Group's results and financial resources, as well as considering the need for the Group's future development, the Board proposes to distribute a final dividend of RMB1.01 cents per share. The aggregate amount of the proposed dividend is RMB22,879,250, which shall be distributed out of the profit attributable to the shareholders of the Company in 2009. Subject to the approval of the shareholders in the forthcoming annual general meeting, the final dividend is expected to be distributed on 20 July 2010 to shareholders whose names appear on the register of members of the Company on 28 May 2010.

## CORPORATE STRENGTH AND COMPETITIVENESS IMPROVED SIGNIFICANTLY

Leveraging the successful listing, the strength and market competitiveness of the Group improved significantly in 2009. In terms of the market capitalization as of 31 December 2009, the Group continued to rank first in the pharmaceutical distribution industry in China, and ranked third among the largest pharmaceutical distributors in the world.

As compared with 2008, total assets of the Group increased from RMB16,125 million to RMB28,275 million, net assets increased from RMB3,413 million to RMB12,504 million, and gearing ratio decreased from 78.83% to 55.78%. Financial structure of the Group improved significantly.

In 2009, capital expenditure of the Group for the year amounted to RMB349 million and was primarily used in developing and improving distribution channels, which greatly enhanced the market share and brand reputation of the Group.

## CORPORATE GOVERNANCE

In the previous year, the Group was dedicated to optimizing the structure of corporate governance and developing a sound and modern operational system to enhance operational efficiency. At the same time, a series of internal control systems have been formulated and implemented to standardize the Company's operation.

## INVESTOR RELATIONS

The Group values its relationship with investors and endeavours to maximize value of the Company and returns for the shareholders. In order to allow the investors to have a better understanding of the Group, the Group maintains flexible and timely communication between investors and management of the Group through different channels including the media, internet, roadshows, etc. The Group responds to enquires raised by relevant authorities as and when necessary in accordance with the Group's Corporate Governance Practice, and has gradually enhanced the transparency of its operational management.

## FUTURE DEVELOPMENTS AND PROSPECTS

In 2010, the international and domestic economies will remain under severe strain. However, the Group believes that China's economic foundation and the core impetus for China's development will remain unchanged. Prolonged industrialization and urbanization and the huge and gradual demands of consumption and investment in China will facilitate the potent and sustainable development of enterprises. In addition, after thirty years of the reform and opening up policy, the Chinese government has accumulated extensive experience in the operation and management of market economy to effectively overcome any challenges. The Group is confident about the medium-to-long-term development of the domestic economy of China.



## Chairman's Statement

Looking forward to 2010, the Group will adhere to its core corporate values and at the same time respond to market changes. The Group will provide guidance and support to its subsidiaries in strategic decision-making, human resources allocation and regulation of standards. The Group will strive to enhance its competitive edge by strengthening risk control and at the same time grasping new opportunities arising from the market changes. Benefitting from the core impetus for economic development in China and capitalising on the major competitive advantages of the Company and the endeavours of its staff, the Group has confidence in consolidating its leading position in the process of economic recovery and creating greater value for its shareholders.

The pharmaceutical distribution industry in which the Group operates is closely related to China's macro-economy and people's daily lives. The Group has clear understanding of and accurate judgement on the current situation and is well prepared to capture the unprecedented strategic opportunities.

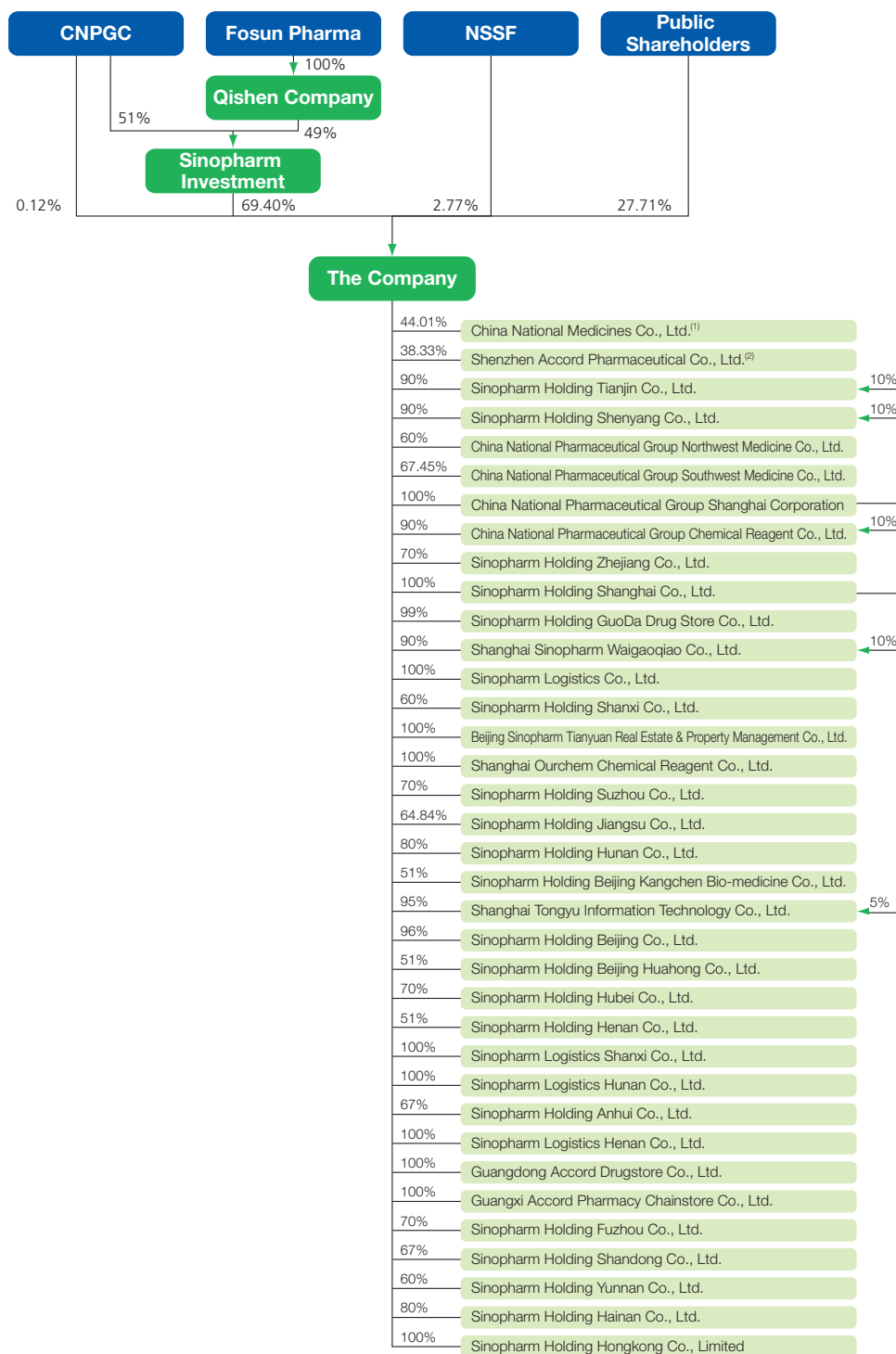
Based on a scientific concept of development, the Group will continue to capitalize on any new opportunities and prepare for upcoming challenges to further enhance its business performance and development, and to reinforce its strength and competitiveness.

**She Lulin**  
*Chairman*  
Shanghai, China

23 March 2010

# Shareholding Structure of the Group

As at the date of this report, the Company and its direct subsidiaries are as follows:



## Shareholding Structure of the Group

- (1) National Medicines is a joint stock company incorporated in Beijing, PRC on 21 December 1999, with its A shares (stock code: 600511) listed on the Shanghai Stock Exchange. As of 31 December 2009, the total issued share capital of National Medicines was 478,800,000 shares, of which 277,643,426 shares, or 57.99%, were tradable shares, and 201,156,574 shares, or 42.01%, were non-tradable shares. As of 31 December 2009, the Company had an effective equity interest of 44.01% in National Medicines. The remaining 55.99% equity interests were held by public investors and other independent third parties. National Medicine's operating and financial results are consolidated with our financial statements in accordance with HKFRS and PRC GAAP. National Medicines is one of our principal operating subsidiaries, primarily engages in the pharmaceutical distribution, logistics services and pharmaceutical manufacturing business. As of 31 December 2009, National Medicines operates directly and through two subsidiaries, China National Pharmaceutical Group Guorui Medicine Co., Ltd. and China National Pharmaceutical Logistics Co., Ltd.
- (2) Accord Pharma, formerly known as Shenzhen Health Mineral Water Co., Ltd., was converted to a joint stock company in 1993, with its A shares (stock code: 000028) and B shares (stock code: 200028) listed on the Shenzhen Stock Exchange. As of 31 December 2009, the total issued share capital of Accord Pharma was 288,149,400 shares, of which 6,286 shares, or 0.002%, were non-tradable shares, and 288,143,114 shares, or 99.998%, were listed shares. As of 31 December 2009, the Company had an effective equity interest of 38.33% in Accord Pharma. The remaining 61.67% equity interests were held by public investors and other independent third parties. Accord Pharma's operating and financial results are consolidated with our financial statements in accordance with HKFRS and PRC GAAP. Accord Pharma is one of our principal operating subsidiaries, primarily engages in the pharmaceutical distribution, pharmaceutical manufacturing and retail pharmacy business. As of 31 December 2009, Accord Pharma operates directly and through 20 subsidiaries, including Shenzhen Zhijun Pharmaceutical Co., Ltd. and Sinopharm Holding Guangzhou Co. Ltd.

# Management Discussion and Analysis

## INDUSTRY REVIEW

During the year under review, coupled with the launch of a series of medical related policies such as the implementation of a new healthcare reform, the introduction of State Basic Medical Catalog and Retail Price Guideline, as well as the State Basic Medical Insurance Catalog, the pharmaceutical industry in China started a new journey. In terms of the development trends of the pharmaceutical industry, under the stimulation of factors such as the investment of RMB850 billion by the PRC government from 2009 to 2011, the greater coverage of medical insurance, the gradual increase in medical expenses per capita as well as the growing demand of medicines from the rural areas and the low-income population, the sale of pharmaceutical products through the Group's distribution network has accelerated. The quarterly increase in revenue and profits of the pharmaceutical industry has fast tracked the development of the pharmaceutical industry in China.

Coupled with the launch of a new healthcare reform, the expressed intention of each level of governmental department is to promote the consolidation of the pharmaceutical industry, the strengthening in the regulation of medicine distribution business, the frequent mergers and acquisitions conducted by major pharmaceutical companies and the exploration of cooperation by small pharmaceutical companies, a new trend for consolidation in the industry has emerged.

In 2010, the further consolidation and growth of the pharmaceutical industry in China will be supported by the introduction of a pilot scheme of public hospitals reform, the expansion of basic medicine catalog, the improvement of the coverage of basic medicines by general medical institutions and the adoption of tender system for medicine procurement in each province and city. From a global pharmaceutical production chain perspective, the pharmaceutical industry is now characterized by the rise of new medical markets and the outsourcing of medical research and production to developing countries. Structural reform of the pharmaceutical industry is inevitable when the pharmaceutical industry further evolves. Major medicine distributors may continue to expand through merger and acquisition.

## Management Discussion and Analysis

### BUSINESS REVIEW

During the Reporting Period, the Group was well positioned to take advantage of the healthcare reform and the trend of the pharmaceutical industry in China. The Group maintained and strengthened its leading positions as a medicine and healthcare product distributor and pharmaceutical supply chain service provider. The Group has the largest medicine distribution network in China and has integrated operations in the following business segments:


- **Pharmaceutical distribution:** The Group provides pharmaceutical supply chain management for the distribution of domestic and imported prescription and over-the-counter medicines from manufacturers and suppliers to hospitals, other distributors, retail drug stores and other customers. During the Reporting Period, the Group operated an extensive distribution network covering 23 provinces, municipalities and autonomous regions in China. The network was expanded to Anhui, Shandong, Yunnan, Fujian and Hainan, etc. in 2009 through mergers and acquisitions to provide products and services to customers in a timely and cost-effective manner. The Group's direct customers included approximately 42.23% of all hospitals in China, (encompassing 64.18% of the class-three hospitals which are the largest and most highly-ranked hospitals), and over 31,992 other customers, such as 3,639 pharmaceutical distributors, 16,420 retail pharmacies and 11,933 other healthcare institutions. During the Reporting Period, revenue of the pharmaceutical distribution business accounted for 93.34% of total revenue.
- **Retail pharmacy:** The Group has a network of retail drug stores that it directly operates or franchises in major cities throughout China. Its retail pharmacy operations accounted for 2.58% of its total revenue during the Reporting Period.
- **Other business operations:** The Group's other business operations are the production or sale of pharmaceutical products, chemical reagents and laboratory supplies. Its other business operations accounted for 4.08% of its total revenue during the Reporting Period.

### FINANCIAL REVIEW

#### Financial Summary

The financial summary set out below is extracted from the audited financial statements of the Company and its subsidiaries prepared in accordance with the HKFRS during the Reporting Period:





During the Reporting Period, the Group recorded turnover of RMB47,046 million, representing an increase of RMB8,854 million, or 23.18%, as compared with the corresponding period of last year. Of which, revenue from the distribution business was RMB43,909 million, representing an increase of RMB8,164 million, or 22.84%, as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded net profit of RMB1,186 million, representing an increase of RMB366 million, or 44.63%, as compared with the corresponding period of last year. Profit attributable to the shareholders of the Company was RMB846 million, representing an increase of RMB258 million, or 43.88%, as compared with the corresponding period of last year.

During the Reporting Period, the earnings per share of the Group was RMB0.47, representing an increase of 30.56% as compared with the corresponding period of last year.

## Revenue

The Group recorded revenue of RMB47,046 million during the Reporting Period, representing an increase of 23.18% as compared with RMB38,192 million for the twelve months ended 31 December 2008. There was a general increase in operating income from pharmaceutical distribution business, retail pharmacy business and other business operations of the Group. The increase in revenue of the Group was primarily due to the growth in both the market share of the Company and the development of the pharmaceutical market of China.

- **Pharmaceutical Distribution:** The revenue from pharmaceutical distribution of the Group was RMB43,909 million during the Reporting Period, representing an increase of 22.84% as compared with RMB35,745 million for the twelve months ended 31 December 2008, which accounted for 93.34% of the total revenue of the Group. The increase in revenue was primarily due to the increase in the types and quantities of products sold to existing hospital customers and an increase in the number of new hospital customers. In addition, the penetration of the Group's distribution network into community clinics and other healthcare institutes also contributed to the increase in its revenue.
- **Retail Pharmacy:** The revenue from retail pharmacy of the Group was RMB1,216 million during the Reporting Period, representing an increase of 27.73% as compared with RMB952 million for the twelve months ended 31 December 2008. The increase was primarily due to the acquisition of 93 self-operated drug stores from Ningxia State-owned Assets Supervision and Administration Commission, the increase in the number of self-operated drug stores resulted from the new opening of self-operated drug stores as well as the increase in revenue from the existing self-operated drug stores.

## Management Discussion and Analysis

- **Other Business Operations:** The revenue from other business operations of the Group was RMB1,922 million during the Reporting Period, representing an increase of 28.56% as compared with RMB1,495 million for the twelve months ended 31 December 2008. The increase was primarily due to the acquisition of Suzhou Zhijun Wanqing and the growth of the Group's existing pharmaceutical manufacturing business and chemical reagent business during the Reporting Period.

### Cost of Sales

During the Reporting Period, the cost of sales of the Group was RMB43,261 million, representing an increase of 23.06% as compared with RMB35,153 million for the twelve months ended 31 December 2008. The increase was primarily due to an increase in the costs of purchasing merchandise following the increase in revenue, and the growth of cost of sales was lower than that of revenue for the same period.

### Gross Profit

As a result of the above-mentioned factors, the gross profit of the Group increased by 24.55% from RMB3,039 million for the year ended 31 December 2008 to RMB3,785 million during the Reporting Period. The gross profit margins of the Group for the years ended 31 December 2008 and 2009 were 7.96% and 8.05% respectively.

### Other Income


During the Reporting Period, other income of the Group was RMB53 million, representing a decrease of 24.29% as compared with RMB70 million for the twelve months ended 31 December 2008.

### Distribution and Selling Expenses

During the Reporting Period, the distribution and selling expenses of the Group was RMB1,250 million, representing an increase of 29.40% as compared with RMB966 million for the twelve months ended 31 December 2008. The increase was primarily due to the expansion of the Group's operation and exploration of new business.

### General and Administrative Expenses

During the Reporting Period, the general and administrative expenses of the Group was RMB1,037 million, representing an increase of 6.91% as compared with RMB970 million for the twelve months ended 31 December 2008. The increase was primarily due to the expansion of operation of the Group. The proportion of the Group's general and administrative expenses to the total revenue of the Group decreased from



2.54% for the twelve months ended 31 December 2008 to 2.20% for the same period in 2009. The decrease was primarily due to the improvement in operating efficiency and the expansion of operation as well as the success of the Group's cost control measures, a decrease in post-employment benefit expenses due to actuarial gains resulting from changes in interest rates and recovery of certain other receivables, which had previously made provisions.

### **Operating Profit**

As a result of the above-mentioned factors, the operating profit of the Group during the Reporting Period was RMB1,550 million, representing an increase of 32.03% from RMB1,174 million for the twelve months ended 31 December 2008. The operating profit margin increased from 3.07% for the twelve months ended 31 December 2008 to 3.29% at the end of the Reporting Period.

### **Other Gains – Net**

The other gains of the Group less other losses increased by 83.87% from RMB93 million for the twelve months ended 31 December 2008 to RMB171 million during the Reporting Period. The increase was primarily due to an increase in the Group's gains from the sale of shares in National Medicines and the disposal of tradable shares of Accord Pharma during the Reporting Period as compared with the corresponding period in 2008 and the proceeds from the sale of part of the equity interests in Sinopharm Holding Beijing Huahong Co, Ltd.

### **Finance Costs – Net**

During the Reporting Period, the finance costs of the Group was RMB216 million, representing a decrease of 10.74% as compared with RMB242 million for the twelve months ended 31 December 2008. The decrease was primarily due to lower interest rates as compared with that in 2008.

### **Share of Results from Associates**

During the Reporting Period, the Group's share of results from associates was RMB67 million, representing an increase of 24.07% as compared with RMB54 million for the twelve months ended 31 December 2008.

### **Income Tax Expenses**

The Group's income tax expenses increased by 49.03%, from RMB259 million for the twelve months ended 31 December 2008 to RMB386 million during the Reporting Period. The increase was primarily due to (i) increase in profit; (ii) the gradual increases in applicable income tax rates of certain of the Group's

## Management Discussion and Analysis

subsidiaries whose preferential tax treatments expired after the implementation of the new Enterprise Income Tax Law of the People's Republic of China; (iii) increases in expenses not deductible for tax purposes; and (iv) the income tax payment arising from the internal transfer of equity interest for the business integration of the Group. As a result, the Group's effective income tax rate increased from 24.00% for the twelve months ended 31 December 2008 to 24.55% during the Reporting Period.

### Profits for the Reporting Period

As a result of the above-mentioned factors, the profit of the Group during the Reporting Period was RMB1,186 million, representing an increase of 44.63% from RMB820 million for the twelve months ended 31 December 2008. The annual profit margins of the Group for the twelve months ended 31 December 2008 and 2009 were 2.15% and 2.52% respectively.

### Profit Attributable to the shareholders of the Company

During the Reporting Period, profit or net profit attributable to the shareholders of the Company was RMB846 million, representing an increase of RMB258 million, or 43.88%, from RMB588 million for the twelve months ended 31 December 2008. The annual profit margins of the Group during the Reporting Period and the corresponding period in 2008 were 1.80% and 1.54% respectively.

### Minority Interests

Minority interests during the Reporting Period was RMB340 million, representing an increase of 46.55% from RMB232 million for the twelve months ended 31 December 2008.

### Liquidity and Capital Resources

#### Working capital

Prior to its listing on the Hong Kong Stock Exchange, the Group's principal sources of funds were cash generated from its operations and various short-term and long-term bank borrowings and lines of credit, as well as equity contributions from shareholders.

During the Reporting Period, the Group had commercial bank credit facilities of RMB18,715 million, of which approximately RMB12,545 million were not utilized. Cash and cash equivalents of RMB6,617 million were primarily comprised of income generated from operating and financing activities.

### Cash flow

The cash of the Group is primarily used to meet the demand of financing working capital, repay interest and principal due on its indebtedness, finance acquisitions and provide the fund for capital expenditures and 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 each year ended 31 December 2008 and 2009:

	<b>2009</b>	2008
	<b>RMB million</b>	RMB million
Net cash generated from operating activities	<b>1,012</b>	654
Net cash used in investing activities	<b>(3,116)</b>	(148)
Net cash generated/(used in) from financing activities	<b>7,009</b>	(749)
Net increase/(decrease) in cash and cash equivalents	<b>4,905</b>	(243)
Cash and cash equivalents at the beginning of year	<b>1,712</b>	1,956
Cash and cash equivalents at the end of year	<b>6,617</b>	1,712

### Net cash generated from operating activities

The Group primarily derives its cash inflow from operations from payments for the sale of its products and services in its pharmaceutical distribution, retail pharmacy and other business operations segments. The net cash generated from operating activities of the Group during the Reporting Period was RMB1,012 million, representing an increase of 54.74% as compared with RMB654 million for the twelve months ended 31 December 2008. The increase was primarily due to the continued growth in the Group's profits.

### Net cash used in investing activities

During the Reporting Period, the net cash used in investment activities of the Group was RMB3,116 million, representing an increase of RMB2,968 million as compared with RMB148 million for the twelve months ended 31 December 2008. The significant increase was primarily due to purchase of short-term financial assets to hedge the foreign exchange risk of the net proceeds from the global offering during the Reporting Period.

### Net cash used in/generated from financing activities

During the Reporting Period, the net cash generated from financing activities of the Group was RMB7,009 million, representing an increase of RMB7,758 million as compared with the net cash used in financing activities of RMB749 million for the twelve months ended 31 December 2008. The significant increase was primarily due to the cash raised from the issue of shares during the Reporting Period.



## Management Discussion and Analysis

### Capital Expenditure

The Group's capital expenditures primarily include purchases of property, plant and equipment, the cost of leasing land and obtaining land use rights and purchases of intangible assets primarily through business combinations or acquisition activities. The Group's capital expenditures amounted to RMB281 million and RMB349 million for the year ended 31 December 2008 and during the Reporting Period respectively.

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

### Capital Structure

#### Indebtedness

As of 31 December 2009, the Group had aggregate banking facilities of RMB18,715 million, of which RMB12,545 million were not utilized and are available to be drawn down. These banking facilities primarily comprised short-term working capital loans. Of the Group's total borrowings as of 31 December 2009, RMB1,284 million was due within one year and RMB50 million was 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

The Group's gearing ratio was 55.78% as of 31 December 2009 (31 December 2008: 78.83%), which is calculated based on the net liabilities divided by the aggregate of its total equity and net liabilities as of 31 December 2009.

#### Foreign exchange risks

The uncertainties of foreign currency exchange rate did not result in significant foreign currency exchange risks to the Group.



### **Pledge of assets**

As of 31 December 2009, part of the Group's bank loans was secured by certain plant and machinery with book value of RMB112 million, land use rights with book value of RMB8 million, notes receivable with book value of RMB468 million and accounts receivables with book value of RMB196 million. The bank acceptance bills of the Group were secured by bank deposits with book value of RMB320 million.

### **Contingent Liabilities, Legal and Potential Proceedings**

During the Reporting Period, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

### **Major Acquisitions and Disposals**

During the Reporting Period, the Group used an aggregate of approximately RMB263 million for acquisitions, including the following major acquisitions:

In March 2009, the Group acquired a 75% equity interest in Suzhou Zhijun Wanqing, a pharmaceutical manufacturer with national operations, and the consideration of such acquisition was approximately RMB104 million. Also in April 2009, in order to expand its distribution network to cover all provinces and autonomous regions of China, the Group acquired a 67% equity interest in Sinopharm Anhui, a local pharmaceutical distributor in Anhui, at a consideration of RMB36.6 million. Each of these acquisitions was made by the Group from independent third parties.

The consideration of the above acquisitions were determined after arms-length negotiation and conformed with the fair market value fixed by independent valuer or the audited assets value of the assets acquired.

During the Reporting Period, the Group had no material disposal.

### **Going Concern Basis**

Based on the current financial forecasts and facilities available, the Group has sufficient financial resources for ongoing operation in the foreseeable future. Therefore, the financial report was prepared on a "going concern" basis.



## Management Discussion and Analysis

### Human Resources

During the Reporting Period, the Group had 15,110 (not 12,178 as stated in the Company's annual results announcement dated 23 March 2010) staff. Staff cost (including the remuneration paid to the Directors and Supervisors) of the Group during the Reporting Period was RMB1,146 million. During the year under review, the Group adopted a human-oriented management concept to involve the staff in the management and development of the Group. The Group has implemented a strict selection process for hiring its employees and a number of initiatives to enhance the productivity of its employees. The Group conducts periodic performance reviews for its employees, and adjusts their salaries and bonuses accordingly. In addition, the Group has implemented training programs for employees in various positions.

### Future Plan

The Group's objectives are to consolidate its position as the leading distributor of, and supply chain services provider for, pharmaceutical and healthcare products in China and continue to grow and play a significant role in the development of the pharmaceutical and healthcare industry in China.



# Corporate Governance Report

The Company is committed to upholding high standards of corporate governance which, it believes, is crucial to the development of the Company and safeguarding the interests of the Company's shareholders. The Company has adopted sound governance and disclosure practices, and will continuously improve these practices and create an ethical corporate culture. The Board passed a resolution on 31 August 2009 for the adoption of all the code provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules as the codes of the Company.

The Company has complied with the relevant code provisions set out in the Corporate Governance Code during the period between 23 September 2009, the listing date of the Company on the Main Board of the Hong Kong Stock Exchange, and 31 December 2009.

## SECURITIES TRANSACTIONS OF DIRECTORS AND SUPERVISORS

The Board of the Company passed a resolution on 31 August 2009 for the adoption of the Model Code as the standards for governing the transactions of the Company's listed securities by Directors and Supervisors of the Company. Having made specific enquiries with all Directors and Supervisors, the Company confirms that each director and Supervisor has complied with standards for the securities transactions by Directors and Supervisors under the Model Code during the period between 23 September 2009, the listing date of the Company on the Main Board of the Hong Kong Stock Exchange, and 31 December 2009.

## COMPOSITION OF THE BOARD

The Board consists of 13 Directors, including two executive Directors, namely Ms. Fu Mingzhong and Mr. Wei Yulin; seven non-executive Directors, namely Mr. She Lulin, Mr. Guo Guangchang, Mr. Wang Qunbin, Mr. Deng Jindong, Mr. Fan Banghan, Mr. Liu Hailiang and Mr. Lian Wanyong; and four independent non-executive Directors, namely Mr. Wang Fanghua, Mr. Tao Wuping, Mr. Xie Rong and Mr. Zhou Bajun. Biographical details of the Directors are set out in the section headed "Biographies of Directors, Supervisors and Senior Management" of this annual report.

## MAJOR RESPONSIBILITIES OF THE BOARD

The Board is the core of the Company's corporate governance framework and its role is clearly separated from that of senior management. The Board is responsible for providing guidance for senior management and maintaining effective supervision over senior management whereas senior management is responsible for the implementation of the policies resolved. In general, the responsibilities of the Board include formulating operation plans and investment proposals of the Company, preparing the proposed and final annual budgets of the Company, assessing the performance of the Company and overseeing the work of senior management.

## Corporate Governance Report

The roles of the chairman of the Board and the general manager (i.e. chief executive officer under the relevant Listing Rules) shall be separate under A.2.1 of the Corporate Governance Code. The Company has complied with the requirement of separation of these two roles under the Corporate Governance Code with Mr. She Lulin acting as the chairman of the Company and Mr. Wei Yulin acting as the general manager of the Company. The chairman is responsible for managing the Board, steering the Board to formulate overall strategies and business development plans, ensuring the receipt of sufficient, complete and reliable information by each Director and the receipt of reasonable explanations for the issues raised in the Board meetings. The general manager is responsible for managing the business of the Company and implementing policies, business objectives and plans formulated by the Board, and is accountable to the Board for the Company's overall operation. For the biographies of Mr. She Lulin and Mr. Wei Yulin, please refer to "Biographies of Directors, Supervisors and Senior Management". To the knowledge of the Company, there is no financial, business or family relationships or material/relevant relationships between members and chairman of the Board and the general manager.

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

### CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Board has approved (1) the resignation of Mr. Guo Guangchang from the position of vice chairman, effective from 20 December 2009; (2) the appointment of Ms. Fu Mingzhong as vice chairman, effective from 20 December 2009; and (3) the appointment of Mr. Wei Yulin as the general manager (i.e. the chief executive officer) of the Company, effective from 20 December 2009.

### BOARD MEETINGS

The Board convened one regular meeting and two extraordinary meetings between 23 September 2009, the listing date of the Company on the Main Board of the Hong Kong Stock Exchange, and 31 December 2009. The Board should hold at least four regular meetings a year. Notices for regular board meetings shall be given to each member of the Board at least 14 days prior to the meeting. All relevant information shall be delivered to the Directors at least three days before the board meeting.

The attendance record of the Directors at the meetings was as follows:

<b>Directors</b>	<b>Attendance/No. of meetings held</b>
<b>Executive Directors</b>	
Ms. Fu Mingzhong	3/3
Mr. Wei Yulin	3/3
<b>Non-executive Directors</b>	
Mr. She Lulin	3/3
Mr. Guo Guangchang	3/3
Mr. Wang Qunbin	3/3
Mr. Deng Jindong	3/3
Mr. Fan Banghan	3/3
Mr. Liu Hailiang	3/3
Mr. Lian Wanyong	3/3
<b>Independent Non-executive Directors</b>	
Mr. Wang Fanghua	3/3
Mr. Tao Wuping	3/3
Mr. Xie Rong	3/3
Mr. Zhou Bajun	3/3

Note: Mr. Guo Guangchang attended one meeting not in person but by his representative; Mr. Deng Jindong attended one meeting not in person but by his representative; Mr. Lian Wanyong attended three meetings not in person but by his representative; and Mr. Wang Fanghua attended one meeting not in person but by his representative.

At board meetings, the Company's senior management reported the information of business activities and development of the Company to all Directors on a timely basis. The senior management also met with and consulted the independent non-executive Directors for their opinions on the Company's business development and operations. Any Director shall abstain from voting in respect of the proposed resolution(s) in which he/she has conflict of interest.

## Corporate Governance Report

### AUDIT COMMITTEE

The audit committee of the Company consists of five Directors: Mr. Xie Rong, Mr. Wang Fanghua, Mr. Fan Banghan, Mr. Deng Jindong and Mr. Zhou Bajun. Mr. Xie Rong 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 and reporting process for financial information, and includes, among others:


- making recommendations to the Board on the appointment, re-appointment and removal of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and
- developing and implementing policies on the engagement of an external auditor to supply non-audit services.

During the period between 23 September 2009, the listing date of the Company on the Main Board of the Hong Kong Stock Exchange, and 31 December 2009, one meeting was held by the Audit Committee. At the meeting, the interim report for the six months ended 30 June 2009 and the draft interim results announcement were reviewed.

The attendance record of the committee members at the meeting was as follows:

<b>Directors</b>	<b>Attendance/No. of meetings held</b>
Mr. Xie Rong	1/1
Mr. Wang Fanghua	1/1
Mr. Fan Banghan	1/1
Mr. Deng Jindong	1/1
Mr. Zhou Bajun	1/1

The audit committee has reviewed the audited annual results for the year ended 31 December 2009 and the audited annual consolidated financial statements for the year ended 31 December 2009. The audit committee believes that the Company has complied with all applicable accounting standards and regulations and made sufficient disclosures. The audit committee has reviewed all material control measures, including the supervision of the financial and operational and compliance affairs, as well as risk management in year 2009. The audit committee was satisfied with the effectiveness and sufficiency of the internal control mechanism in its operations. In addition, the audit committee has also reviewed the resources of accounting and financial reporting, qualification and experiences of employees, and training courses taken by the employees and the adequacy of the relevant budgets.



The audit committee has reviewed the remuneration of the auditor for 2009 and recommended the Board to re-appoint PricewaterhouseCoopers as the auditor of the Company for 2010, subject to the approval of shareholders at the forthcoming annual general meeting.

## NOMINATION COMMITTEE

The nomination committee of the Company consists of five Directors: Mr. She Lulin, Mr. Wang Fanghua, Mr. Tao Wuping, Mr. Xie Rong and Mr. Fan Banghan. Mr. She Lulin currently serves as the chairman of the nomination committee. The primary responsibilities of the Company's nomination committee are to formulate the nomination procedures and standards for candidates for Directors, and includes, among others:

- reviewing the structure, size and composition, of the Board on a regular basis and making recommendations to the Board regarding any proposed changes;
- assessing the independence of independent non-executive Directors; and
- making recommendations to the Board on relevant matters relating to the appointment of re-appointment of Directors and succession planning for Directors, in particular the chairman and the general manager.

The nomination procedures of the Directors are that members of the nomination committee to propose a list of candidates for Directors, which shall then be submitted by the committee to the Board for review, and then submitted by the Board to the general meeting for shareholders' approval.

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

## Corporate Governance Report

During the period between 23 September 2009, the listing date of the Company on the Main Board of the Hong Kong Stock Exchange, and 31 December 2009, one meeting was held by the nomination committee to consider the qualification of a candidate for Director.

The attendance record of the committee members at the meeting was as follows:

<b>Directors</b>	<b>Attendance/No. of meetings held</b>
Mr. She Lulin	1/1
Mr. Wang Fanghua	1/1
Mr. Tao Wuping	1/1
Mr. Xie Rong	1/1
Mr. Fan Banghan	1/1

Note: Mr. Xie Rong, an independent non-executive Director, was appointed by Mr. Wang Fanghua, an independent non-executive Director, to attend such meeting on his behalf.

## REMUNERATION COMMITTEE

The remuneration committee of the Company consists of five Directors: Mr. Tao Wuping, Mr. Wang Fanghua, Mr. Xie Rong, Mr. Fan Banghan and Mr. Liu Hailiang. Mr. Tao Wuping currently serves as the chairman of the remuneration committee. The primary responsibilities of the Company's remuneration committee are to formulate and review the compensation policies and schemes for the Company's Directors and senior management, and includes, among others:

- making recommendations to the Board on the Company's policies and structure for all remuneration of Directors and senior management;
- having the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, and making recommendations to the Board of the remuneration of non-executive Directors; and
- reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

During the period between 23 September 2009, the listing date of the Company on the Main Board of the Hong Kong Stock Exchange, and 31 December 2009, no meeting was held by the remuneration committee.

## STRATEGIC AND INVESTMENT COMMITTEE

The strategic and investment committee of the Company consists of six Directors: Mr. She Lulin, Ms. Fu Mingzhong, Mr. Wang Qunbin, Mr. Fan Banghan, Mr. Liu Hailiang and Mr. Wei Yulin. Mr. She Lulin currently serves as the chairman of the strategic and investment committee.

During the period between 20 December 2009, the date on which the strategic and investment committee was set up, and 31 December 2009, no meeting was held by the committee.

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

## TERM OF OFFICE OF THE NON-EXECUTIVE DIRECTORS

<b>Name</b>	<b>Position</b>	<b>Commencement date</b>	<b>Expiry date</b>
Mr. She Lulin	Non-executive Director	22 September 2008	21 September 2011
Mr. Guo Guangchang	Non-executive Director	22 September 2008	21 September 2011
Mr. Wang Qunbin	Non-executive Director	22 September 2008	21 September 2011
Mr. Fan Banghan	Non-executive Director	22 September 2008	21 September 2011
Mr. Liu Hailiang	Non-executive Director	22 September 2008	21 September 2011
Mr. Deng Jindong	Non-executive Director	22 September 2008	21 September 2011
Mr. Lian Wanyong	Non-executive Director	22 December 2008	21 December 2011
Mr. Tao Wuping	Independent non-executive Director	22 September 2008	21 September 2011
Mr. Wang Fanghua	Independent non-executive Director	22 September 2008	21 September 2011
Mr. Xie Rong	Independent non-executive Director	22 September 2008	21 September 2011
Mr. Zhou Bajun	Independent non-executive Director	19 August 2009	18 August 2012

## Corporate Governance Report

### REMUNERATION OF AUDITORS

PricewaterhouseCoopers is the independent external auditor of the Company. The Company has paid PricewaterhouseCoopers RMB6,310,000 as remuneration for its auditing service provided for 2009. During the same year, PricewaterhouseCoopers has not provided any significant non-auditing service to the Group.

### CONFIRMATION OF THE DIRECTORS AND AUDITORS

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

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


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

### EFFECTIVE COMMUNICATIONS WITH INVESTORS

Since the successful listing of the Company in Hong Kong on 23 September 2009, the function of investor relations has been added to the office of the Board for the provision of quality and effective information to investors. In order to improve investors' understanding of the strategies and operation of the Company, the Company has provided several communication channels, including direct interviews with investors or communication through email and telephone.

The Company has participated in the investment forums of top investment banks and successfully communicated with many fund managers through various methods. It organized on-site visits to its





logistics centers, distribution centers and retail drug stores for fund houses to facilitate investors' direct understanding of and contact with the Company. It also gave reception for fund house investors at the Company. In the future, the Company will maintain effective communications with investors through interim reports, annual reports, road shows and general meetings.

## EXCLUDED COMPANIES

The independent non-executive Directors have reviewed the compliance by CNPGC of the Non-Competition Agreement and confirmed that CNPGC has complied with the terms of such agreement from the date of signing of such agreement to 31 December 2009. At the same time, CNPGC confirms that it has complied with the terms of the Non-Competition Agreement.

The independent non-executive Directors are not aware of any breach of the terms of the Non-Competition Agreement by CNPGC and therefore, no enforcement action was taken against CNPGC by the Company from the date of signing of such agreement to 31 December 2009.

In 2009, the independent non-executive Directors have not made any decisions in relation to whether to exercise any option or right of first refusal under the Non-Competition Agreement and whether to accept any business opportunities referred to the Company by CNPGC and its subsidiaries (other than the Group) to own, invest in, participate in, develop, operate or engage in any business or company which directly or indirectly competes with the Core Business of the Company.

# Biographies of Directors, Supervisors and Senior Management

## DIRECTORS

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**Ms. Fu Mingzhong**, aged 59, executive Director, joined the Group on 8 January 2003. Ms. Fu was a non-executive Director from 8 January 2003 to 12 January 2006, and has been an executive Director since 12 January 2006. She had been the general manager from 12 January 2006 to 20 December 2009, and has been the vice chairman of the Board since 20 December 2009. She has around 39 years of working experience, over 36 years of which is management experience in the pharmaceutical and healthcare products industry. Ms. Fu obtained a master's degree in engineering from the Harbin Institute of Technology in March 1995. Ms. Fu was previously a workshop director, the head of the quality control office, the office head and the vice factory manager of The Third Harbin Pharmaceutical Factory from June 1972 to March 1992. Ms. Fu was a director of Harbin Pharmaceutical Group Holding Co., Ltd. (an A-share listed company) and the general manager of Harbin Pharmaceutical Co., Ltd. from March 1992 to December 1997. She was also a deputy general manager and a director of CNPGC from December 1997 to January 1999 and from January 1999 to July 2009, respectively. She has been a director of National Medicines (a company listed on the Shanghai Stock Exchange) since February 2001 and was their chairman from February 2001 to April 2008. Ms. Fu has also been a director of Accord Pharma (a company listed on the Shenzhen Stock Exchange) since April 2008 and was their chairman from April 2008 to December 2008. Ms. Fu has also been a director of Sinopharm Investment since July 2008. Ms. Fu is also currently the chairman of China Association of Pharmaceutical Commerce and a member of the Thirteenth Shanghai Municipal People's Congress.

**Mr. Wei Yulin**, aged 52, executive Director, joined the Group on 16 January 2003, and has been an executive Director since 22 December 2008. Mr. Wei was the deputy general manager of the Company from January 2003 to December 2009 and has been the general manager since 20 December 2009. He was the general manager of the department of pharmaceutical distribution business from September 2008 to October 2009. He has around 33 years of working experience, over 16 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Wei obtained an executive master of business administration degree from the Cheung Kong Graduate School of Business in September 2007. Mr. Wei is a practicing pharmacist, and was qualified as a senior economist in December 2009. Mr. Wei was previously the general manager of Sinopharm Tianjin from January 2003 to December 2003 and from October 2004 to April 2006, and their chairman from January 2004 to October 2004, and the chairman of each of Sinopharm Shanxi, Sinopharm Shenyang, Southwest Pharmaceutical, Sinopharm Hunan, Sinopharm Holding Zhejiang Co., Ltd. and Sinopharm Henan from January 2007 to January 2009, from May 2006 to January 2009, from March 2007 to January 2009, from September 2007 to January 2009, from October 2007 to January 2009, and from April 2008 to January 2009, respectively. Mr. Wei was also a director of Xinjiang Company from March 2009 to August 2009. Mr. Wei has been the chairman of each of Sinopharm Waigaoqiao and Sinopharm Logistics Co., Ltd. since July 2006 and April 2008, respectively, and has also been a director of National Medicines (a company listed on the Shanghai Stock Exchange) since December 2005 and Accord Pharma (a company listed on the Shenzhen Stock Exchange) since September 2007, respectively.



**Mr. She Lulin**, aged 53, non-executive Director, joined the Group as a non-executive Director on 8 January 2003, initially as the vice chairman of the Board and since 30 August 2007 as the Chairman of the Board. He has around 27 years of working experience, over 24 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. She obtained a bachelor's degree in science, majoring in Pharmacy, from Nanjing Pharmaceutical Institution (currently known as China Pharmaceutical University) in July 1982 and an executive master of business administration degree from Tsinghua University in July 2005. Mr. She was previously the deputy head of the general manager's office, assistant to general manager, deputy general manager and general manager of China National Pharmaceutical Group Guangzhou Corporation from January 1985 to August 1996. Mr. She was also the general manager of China Medicines Corporation and the vice chairman of CNPGC from August 1996 to December 1998 and from December 1998 to October 2004, respectively. Mr. She has been a director, general manager and the legal representative of CNPGC since December 1998, December 1998 and September 2007, respectively. He has been the chairman and legal representative of Sinopharm Investment since July 2008, and the vice chairman of CNPGC since November 2009. Mr. She was the chairman of National Medicines (a company listed on the Shanghai Stock Exchange) from December 1999 to January 2001.

**Mr. Guo Guangchang**, aged 42, non-executive Director, joined the Group as a non-executive Director on 8 January 2003, and was the vice chairman of the Board from 8 January 2003 to 20 December 2009. He has around 20 years of working experience, over 16 years of which is management experience. Mr. Guo obtained a bachelor's degree in philosophy and a master's degree in business administration from Fudan University in July 1989 and July 1999 respectively. Mr. Guo was a director of Shanghai Yuyuan Tourist Mart Co., Ltd. (a company listed on the Shanghai Stock Exchange) from December 2001 to December 2007, a non-executive director of Zhaojin Mining Industry Company Limited (a company listed on the Hong Kong Stock Exchange) from April 2004 to April 2007 and the chief executive officer of Fosun Company (a company listed on the Hong Kong Stock Exchange) from December 2004 to January 2009. Mr. Guo has been a director of Fosun Pharma (a company listed on the Shanghai Stock Exchange) since July 1995 and was their chairman from July 1995 to October 2007. Mr. Guo was also the chairman of Shanghai Forte Land Co., Ltd. (a company listed on the Hong Kong Stock Exchange) from September 2001 to May 2009, and has been their non-executive director since May 2009. Mr. Guo has also been the chairman and executive director of Fosun Company (a company listed on the Hong Kong Stock Exchange) since December 2004. Mr. Guo has also been the chairman of Fosun High Technology and Fosun Investment since November 1994 and November 2001, respectively, the vice chairman of Shanghai Friendship-Fortune and Nanjing Iron & Steel United Co., Ltd. since September 2000 and March 2003, respectively, and a director of Sinopharm Investment since July 2008. Mr. Guo was a member of the Tenth National People's Congress of the People's Republic of China from February 2003 to February 2008 and is currently a member of the Eleventh National People's Congress of the People's Republic of China. He was also a member of the Ninth National Committee of Chinese People's Political Consultative from January 1998 to January 2003. Mr. Guo is the chairman of the Zhejiang Chamber of Commerce in Shanghai and the vice chairman of the Shanghai Federation of Industry and Commerce.

## Biographies of Directors, Supervisors and Senior Management

**Mr. Wang Qunbin**, aged 40, non-executive Director, joined the Group on 8 January 2003, and has been a non-executive Director since then. He has around 18 years of working experience, over 15 years of which is management experience in biological medicine. Mr. Wang obtained a bachelor's degree in genetic engineering from Fudan University in July 1991. Mr. Wang was previously a lecturer at the Genetic Research Institute of Fudan University from September 1991 to September 1993, and then the general manager of Fosun Pharma (a company listed on the Shanghai Stock Exchange) from October 1993 to October 2007 and a director of Tianjin Pharmaceutical Group Co., Ltd. from March 2001 to February 2009. Mr. Wang has been the chairman of Fosun Pharma (a company listed on the Shanghai Stock Exchange) since October 2007, a director and the president of Fosun High Technology since November 1994 and January 2009, respectively, as well as a director of Shanghai Friendship-Fortune and Sinopharm Investment since September 2000 and July 2008, respectively. Mr. Wang has been a director of Shanghai Friendship Group Incorporated Co., Ltd. (a company listed on the Shanghai Stock Exchange) since September 2000 and Henan Lingrui Pharmaceutical Co., Ltd. (a company listed on the Shanghai Stock Exchange) since May 2003, and has also been an executive director and the president of Fosun Company (a company listed on the Hong Kong Stock Exchange) since August 2005 and January 2009, respectively. Mr. Wang is currently the vice chairman of China Pharmaceutical Industry Association, the chairman of the Shanghai Biopharmaceuticals Industry Association, and the chairman of the Huzhou Chamber of Commerce in Shanghai.

**Mr. Deng Jindong**, aged 45, non-executive Director, joined the Group on 30 August 2007, and has been a non-executive Director since then. He has over 23 years of working experience, over 18 years of which is financial management experience. Mr. Deng obtained a bachelor's degree in economics, majoring in industrial accounting, from Hangzhou Electronics Industry Institution (currently known as Hangzhou Dianzi University) in July 1986 and a master's degree in economics from Central Institute of Finance and Economics (currently known as Central University of Finance & Economics) in January 1991. He is a non-practicing PRC certified public accountant. Mr. Deng was previously the chief financial officer of Economic Information Network Data Co., Ltd., a senior audit manager of Taikang Life Insurance Co., Ltd. and the head of the accounting department of CNPGC from April 2000 to October 2001, from October 2001 to October 2002 and from October 2002 to October 2004, respectively. Mr. Deng has been the chief accountant of CNPGC since October 2004 and a director and the chief financial officer of Sinopharm Investment since July 2008. Mr. Deng has also been a director of Xinjiang Company since March 2009.



**Mr. Fan Banghan**, aged 56, non-executive Director, joined the Group on 8 January 2003, and has been a non-executive Director since then. He has around 30 years of working experience, over 24 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Fan obtained an associate education from Branch Institute of the Shanghai Education Institute, majoring in politics and education in July 1984. Mr. Fan was a deputy general manager of Shanghai Pharmaceutical Co., Ltd. (a company listed on the Shanghai Stock Exchange) from January 1998 to March 2000 and a supervisor of National Medicines (a company listed on the Shanghai Stock Exchange) from December 2005 to May 2009. Mr. Fan has been a deputy general manager of Fosun Pharma (a company listed on the Shanghai Stock Exchange) since 2000, and a director of National Medicines (a company listed on the Shanghai Stock Exchange) since May 2009. Mr. Fan has been a director and the general manager of Sinopharm Investment since July 2008. Mr. Fan is currently the vice chairman of the Shanghai Pharmaceutical Trade Association.

**Mr. Liu Hailiang**, aged 60, non-executive Director, joined the Group on 8 January 2003, and has been a non-executive Director since then. He has around 41 years of working experience, over 14 years of which is management experience. Mr. Liu obtained an associate education in business administration from Shanghai Construction Institute in September 1986. Mr. Liu was previously the human resources manager of Johnson & Johnson China Ltd. from March 1995 to March 2000. Mr. Liu was an assistant to the general manager and the chief human resources supervisor of Fosun Pharma (a company listed on the Shanghai Stock Exchange) from March 2000 to May 2004, and has been their supervisor since May 2004, and as their chief supervisor since May 2008.

**Mr. Lian Wanyong**, aged 39, non-executive Director, joined the Group on 22 December 2008, and has been a non-executive Director since then. He has over 13 years of working experience, all of which is management experience. Mr. Lian obtained a bachelor's degree in medicine, majoring in clinical medicine, from Hunan University of Medicine (currently known as Central South University Xiangya School of Medicine) in July 1993, a master's degree in medicine, majoring in pharmacology, from Zhongshan Medicine University (currently known as Zhongshan School of Medicine, Sun Yat-sen University) in July 1996 and a master's degree in business administration from the University of Miami in May 2002. Mr. Lian was previously the manager of the operation and audit department of Traditional & Herbal Medicine Company and a deputy head of the financial assets management department of CNPGC from January 2004 to June 2005 and from June 2005 to February 2008, respectively. Mr. Lian has been the head of the investment management department of CNPGC since February 2008. Mr. Lian has been a director of Xinjiang Company since March 2009.

## Biographies of Directors, Supervisors and Senior Management

**Mr. Wang Fanghua**, aged 62, independent non-executive Director, joined the Group on 16 January 2003, and has been a non-executive Director since then. He has 41 years of working experience. He obtained a master's degree in economics from Fudan University in January 1989 and then worked at Fudan University as the head of the Department of Business Administration of the School of Management from July 1994 to July 1998. He has been the dean of Antai College of Economics & Management of Shanghai Jiao Tong University since January 2003. Mr. Wang was an independent director of Shanghai Jinjiang International Hotels Development Co., Ltd. (a company listed on the Shanghai Stock Exchange) from August 2003 to May 2009. Mr. Wang has been an independent director of each of Shanghai Oriental Pearl Co., Ltd. (a company listed on the Shanghai Stock Exchange) since June 2005, Shenzhen Auto Electric Power Plant Co., Ltd. (a company listed on the Shenzhen Stock Exchange) since March 2007 and Shanghai New World Co., Ltd. (a company listed on the Shanghai Stock Exchange) since June 2008, respectively. He has also been an independent non-executive director of Lonking Holdings Limited (a company listed on the Hong Kong Stock Exchange) since May 2008.

**Mr. Tao Wuping**, aged 54, independent non-executive Director, joined the Group on 16 January 2003, and has been an independent non-executive Director since then. He is a lawyer. He has around 38 years of working experience, over 24 years of which is for practising law. Mr. Tao obtained a master's degree in law, majoring in international economic law, from Fudan University in June 1997. He has been the head of Shen Da Law Firm, a visiting law professor of Shanghai Institute of Foreign Trade, a part-time professor of Law and Politics College of East China Normal University, and the honorary dean and a part-time professor of Law and Politics College of Shanghai Normal University since August 1994, March 2002, June 2003, and September 2003, respectively. Mr. Tao was named the "National Outstanding Attorney at Law" by All China Lawyers Association and the first session of "Eastern Attorney at Law" by Shanghai Bar Association.



**Mr. Xie Rong**, aged 57, independent non-executive Director, joined the Group on 25 April 2005, and has been an independent non-executive Director since 30 August 2007. Before his appointment as an independent non-executive Director was formally approved by the relevant shareholders' resolution in August 2007, he had already acted in such capacity since 25 April 2005. He has around 41 years of working experience. He obtained a doctorate degree in economics, majoring in accounting from Shanghai University of Finance & Economics in January 1993. He was previously the deputy head of the Accounting Department of Shanghai University of Finance & Economics and a partner of KPMG China from September 1994 to November 1997 and from December 1997 to October 2002, respectively. Mr. Xie has been a director of SAIC Motor Co., Ltd. (a company listed on the Shanghai Stock Exchange) since April 2003 and was their independent director from April 2003 to June 2008. Mr. Xie was an independent non-executive director of China Shipping Development Company Limited (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange) from May 2003 to May 2009. He has been an independent non-executive director of each of China Eastern Airlines Corporation Limited (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange) since June 2003, China CITIC Bank Corporation Limited (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange) since February 2007 and Tianjin Capital Environmental Protection Group Company Limited (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange) since April 2008, respectively. Mr. Xie is currently the vice president of the Shanghai National Accounting Institute, a member of the Master of Accounting Professional Education Guidance Committee of the State Department Degree Committee, a standing commissioner of the China Auditing Institute and a standing commissioner of the China Accounting Institute.

**Mr. Zhou Bajun**, aged 60, independent non-executive Director, joined the Group on 19 August 2009, and has been an independent non-executive Director since then. He has over 26 years of working experience, over 10 years of which is in the PRC securities market. Mr. Zhou obtained a doctoral degree in Economics from East China Normal University in October 1988. Mr. Zhou worked as a deputy general manager of the China Business Department of Hong Kong Construction (Holdings) Limited (currently known as "Hong Kong Construction (Hong Kong) Limited") from March 1999 to February 2000. Mr. Zhou has been a senior research fellow of China Everbright Holdings Company Limited since February 2002, and has also been a director and later a responsible officer of China Everbright Research Limited since March 2000 and August 2004, respectively. Mr. Zhou is a member of the Commission on Strategic Development of Hong Kong and a standing commissioner of the Hong Kong and Macau Research Center of Shanghai Academy of Social Science.

## Biographies of Directors, Supervisors and Senior Management

### SUPERVISORS

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**Mr. Chen Qiyu**, aged 37, joined the Group on 8 January 2003, and has been the chief Supervisor since then. He has around 16 years of working experience. He obtained a bachelor's degree in genetic engineering from Fudan University in July 1993 and a master of business administration degree, majoring in executive business administration, from China Europe International Business School in September 2005. Mr. Chen was previously a deputy general manager, the chief financial officer, the board secretary and the standing deputy general manager of Fosun Pharma (a company listed on the Shanghai Stock Exchange) from July 1998 to October 2007, and has been their director, general manager and vice chairman since May 2005, October 2007 and May 2008, respectively. Mr. Chen has been a non-executive director of Shanghai Forte Land Co. Ltd. (a company listed on the Hong Kong Stock Exchange) since October 2008. Mr. Chen has been the vice chairman of Tianjin Pharmaceutical Group Co., Ltd. and a supervisor of Shanghai Friendship-Fortune since February 2009 and October 2003, respectively. Mr. Chen Qiyu has been the vice chairman of HangZhou D.A. Medical Treatment Holding LTD since August 2009. Mr. Chen is also currently the vice chairman of Shanghai Practicing Pharmacist Association, a commissioner of Shanghai Society of Genetics, the vice chairman of Shanghai Pharmaceutical Association, and the vice-chief-commissioner of the fourth commission of China Medicinal Biotech Association.

**Mr. Xing Yonggang**, aged 33, joined the Group on 1 February 2008, and has been a Supervisor since 17 July 2008. He has around 9 years of working experience. He obtained a master's degree in laws from Renmin University of China Law School in July 2000. He was previously an in-house legal counsel of National Medicines (a company listed on the Shanghai Stock Exchange) from August 2000 to February 2001. Mr. Xing was previously the business head, the senior business head and an associate head of the legal affairs department of CNPGC from March 2001 to February 2008. He was the head of the department of legal affairs of the Company from February 2008 to September 2009. He has been the deputy head of the legal affairs department of CNPGC since February 2008.

**Ms. Zhang Jian**, aged 36, joined the Group on 16 June 2005, and has been a Supervisor since 12 September 2008 and the head of the auditing department of the Company since February 2008. She has around 12 years of working experience. She obtained a bachelor's degree in economics, majoring in accounting, from Shanghai University of Finance & Economics in July 1997. She is a non-practicing PRC certified public accountant. Ms. Zhang has been a supervisor of each of Sinopharm Beijing, Sinopharm Waigaoqiao and Sinopharm Shanxi since September 2007, October 2007 and November 2007, respectively. Ms. Zhang has also been a supervisor of National Medicines (a company listed on the Shanghai Stock Exchange) since May 2008 and their chief supervisor since August 2008. She has also been a supervisor of Xinjiang Company since March 2009.





## COMPANY SECRETARIES

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**Mr. Wu Aimin**, one of the joint company secretaries, is also a deputy general manager of the Company and secretary to the Board. Please refer to this section headed “Senior Management” for his biography.

**Mr. Ngai Wai Fung**, aged 47, joined the Group on 31 August 2009, and has been one of the joint company secretaries of the Company since then. He holds a bachelor’s degree in laws (honor) from University of Wolverhampton, a master’s degree in business administration from Andrews University and a master’s degree in corporate finance from the Hong Kong Polytechnic University. Mr. Ngai is a fellow member of The Institute of Chartered Secretaries and Administrators in the United Kingdom, a fellow member of The Hong Kong Institute of Chartered Secretaries, a member of The Association of Chartered Certified Accountants in the United Kingdom, and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Ngai is currently a director and head of listing services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong, and the vice president of the Hong Kong Institute of Chartered Secretaries and the chairman of its Membership Committee. He is studying for a doctor’s degree in Finance (dissertation stage) of Shanghai University of Finance and Economics.

## SENIOR MANAGEMENT

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**Mr. Wei Yulin**, Mr. Wei Yulin is the general manager of the Company. Please refer to the section headed “Directors” above for his biography.

**Mr. Gong Jiashen**, aged 55, joined the Group on 22 July 2006, and has been a deputy general manager of the Company since 20 March 2008. He has over 39 years of working experience, over 15 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Gong obtained a bachelor’s degree in economics, majoring in commercial economics, from Beijing Finance & Trade Institute (currently known as Capital University of Economics and Business) in July 1983. He was previously a deputy general manager of CNPGC from December 1995 to January 2000. He was a deputy general manager and the general manager of National Medicines (a company listed on the Shanghai Stock Exchange) successively from January 2000 to April 2008, and has been their director and the chairman since January 2000 and April 2008, respectively. Mr. Gong has been the chairman of Sinopharm Tianjin and Sinopharm Beijing since May 2008.

## Biographies of Directors, Supervisors and Senior Management

**Ms. Shen Linian**, aged 52, joined the Group on 16 January 2003, and has been a deputy general manager of the Company since then. She has over 33 years of working experience, over 11 years of which is management experience in the pharmaceutical and healthcare products industry. Ms. Shen obtained a master's degree in business administration (specializing in International Business) from the Maastricht School of Management in August 2001 and obtained a graduate education in political economics from Jiangsu Province Administration Institute in July 2006. She was previously an assistant to the general manager and the head of the general manager's office of China National Pharmaceutical Group Shanghai Corporation from November 1998 to November 1999, and then was their deputy general manager from November 1999 to January 2003.

**Mr. Lu Jun**, aged 51, joined the Group on 8 January 2003, and has been a deputy general manager of the Company since 29 June 2004, and served as the assistant to the general manager of the Company, the general manager of medicine retail business department and the head of the investment department of the Company at the same time from April 2003 to June 2004. He has over 33 years of working experience, over 10 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Lu obtained a master's degree in business administration (specializing in International Business) from the Maastricht School of Management in August 2001. Mr. Lu was previously the general manager of each of China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd., Shanghai GuoDa Chain Store and Sinopharm GuoDa from August 1998 to January 2001, from January 2001 to December 2004 and from June 2004 to June 2008, respectively. Mr. Lu was also a director of Accord Pharma (a company listed on the Shenzhen Stock Exchange) from September 2007 to December 2008 and of Xinjiang Company from March 2009 to August 2009, respectively. Mr. Lu has been the chairman of Sinopharm GuoDa since July 2008.

**Mr. Wu Aimin**, aged 39, joined the Group on 3 July 2003, and has been a deputy general manager of the Company since 13 December 2006, the secretary to the Board since 20 March 2008 and one of the joint company secretaries since 31 August 2009. He was the chief financial officer of the Company from July 2003 to December 2006. Mr. Wu has around 17 years of working experience, all of which is financial management experience. He obtained a bachelor's degree in engineering, majoring in technical economy, from Hunan University in July 1992 and an executive master of business administration degree from Shanghai Jiao Tong University in December 2006. He is a qualified accountant in the PRC. He previously worked successively as a manager of Suzhou Asset Appraisal Firm and as a partner of Jiangsu Renhe Assets Appraisal Co., Ltd. from August 1992 to June 1998 and from June 1998 to October 1999, respectively. Mr. Wu was also the chief financial officer of V V Food & Beverage Co., Ltd. (a company listed on the Shanghai Stock Exchange) from November 1999 to April 2003 and a director of National Medicines (a company listed on the Shanghai Stock Exchange) from December 2005 to May 2009. Mr. Wu has been a director of Accord Pharma (a company listed on the Shenzhen Stock Exchange) since January 2005 and a supervisor of National Medicines (a company listed on the Shanghai Stock Exchange) since May 2009.



**Mr. Shi Jinming**, aged 42, joined the Group on 8 January 2003, and has been a deputy general manager of the Company since 9 January 2009. He has over 20 years of working experience, over 14 years of which is management experience. Mr. Shi obtained a bachelor's degree in Economics, majoring in trade and economy, from Shanghai University of Finance and Economics in July 1989 and an executive master of business administration degree from Sun Yat-sen University in June 2005. Mr. Shi was previously the general manager of Accord Pharma (a company listed on the Shenzhen Stock Exchange) from February 2004 to December 2008, and has been their chairman since December 2008. Mr. Shi has also been the chairman of each of Southwest Pharmaceutical, Sinopharm Holding Hubei Co., Ltd. and Sinopharm Hunan since February 2009, and has been the chairman of each of Sinopharm Holding Yunnan Co., Ltd., Sinopharm Holding Fuzhou Co., Ltd. and Sinopharm Holding Hainan Co., Ltd. since November 2009, December 2009 and December 2009, respectively.

**Mr. Liu Yong**, aged 40, joined the Group on 8 January 2003, and has been a deputy general manager of the Company since 9 January 2009. He has over 17 years of working experience, over 13 years of which is management experience. Mr. Liu obtained a bachelor's degree in science, majoring in business administration of pharmaceutical enterprises, from China Pharmaceutical University in July 1992 and a master's degree in business administration from Fudan University in January 2000. He was previously a deputy general manager of Shanghai GuoDa Chain Store from April 2000 to April 2003. Mr. Liu was the general manager of Sinopharm Shenyang from April 2003 to November 2009, and he has been the chairman of Sinopharm Shenyang since January 2009. He has also been the chairman of China National Pharmaceutical Group Chemical Reagent Co., Ltd. and Sinopharm Henan since February 2009, and has been the chairman of each of Sinopharm Anhui and Sinopharm Shandong since May 2009 and October 2009, respectively.

**Mr. Song Tingfeng**, aged 41, joined the Group on 13 December 2006, and has been the chief financial officer of the Company since then. He has around 19 years of working experience, over 9 years of which is financial management experience. Mr. Song obtained a doctorate education in accounting from Renmin University of China in July 2002 and obtained an executive master of business administration degree from Cheung Kong Graduate School of Business in September 2008. He was previously the head of the financial management committee and a deputy head of the asset supervising center of Beijing Double-Crane Pharmaceutical Co., Ltd. (a company listed on the Shanghai Stock Exchange) from November 1999 to June 2003, and the chief financial officer of National Medicines (a company listed on the Shanghai Stock Exchange) from July 2003 to December 2006. Mr. Song was also an independent director of Jilin Huarun Bio-chemistry Co., Ltd. (currently known as Xi'an Aero-Engine PLC, a company listed on the Shanghai Stock Exchange) from April 2003 to August 2008. Mr. Song has also been the convener of the supervisory committee of Accord Pharma (a company listed on the Shenzhen Stock Exchange) since September 2007.



# Report of the Board of Directors

The Board is pleased to present its report together with the audited consolidated financial statements for the year ended 31 December 2009.

## PRINCIPAL BUSINESS

The Group is the largest distributor of, and a leading provider of supply chain services for, pharmaceutical and healthcare products and operate the largest national pharmaceutical distribution network in China according to the information of China Association of Pharmaceutical Commerce, or CAPC, in 2008. The Group has been able to rapidly grow its market share and profits in a highly fragmented industry by taking advantage of its economies of scale and nationwide distribution network, through which the Group offers a wide range of value-added supply chain services for its customers and suppliers.

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

- **Pharmaceutical distribution segment:** Pharmaceutical distribution is the Group's principal business. The Group provides distribution, logistics and other value-added services for pharmaceutical and healthcare products of domestic and international manufacturers and other suppliers. The Group differentiates itself from its competitors in China by its geographic coverage, the breadth of its product portfolio and the strength of the supply chain services it provides to its customers and suppliers.
- **Retail pharmacy segment:** The Group has a network of retail drug stores that it directly operates or franchises in major cities throughout China.
- **Other business operations segment:** The Group is also engaged in the manufacturing or selling of pharmaceutical products, chemical reagents and laboratory supplies.

## RESULTS

The operating results of the Group is set out in the consolidated income statement on page 71 of this annual report.



## DIVIDENDS

According to an ordinary resolution passed on 19 August 2009 by the then shareholders of the Company and a resolution passed on 29 December 2009 by the Board of Directors, an aggregate amount of approximately RMB604.5 million was distributed to CNPGC and Sinopharm Investment as the special dividend referred to on page 11 and page 212 of the Prospectus. The special dividend has been fully paid and was financed by the Company's internal resources, available cash and cash equivalents (as the case may be).

The Board of Directors proposed to distribute a final dividend of RMB1.01 cents per share in the total amount of RMB22,879,250 to all shareholders whose names appear on the register of members of the Company on 28 May 2010, being the record date. Such proposal is subject to the consideration and approval of shareholders at the forthcoming annual general meeting to be held on 31 May 2010.

## PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the period from 23 September 2009, the listing date of the Company on the Main Board of the Hong Kong Stock Exchange, to 31 December 2009, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of its listed securities.

## PRINCIPAL SUBSIDIARIES

The names, principal places of business, places of incorporation and details of share capital in issue of the Group's principal subsidiaries are set out in note 41 to the financial statements.

## RESERVES

Movements in reserves during the Reporting Period are set out in the Consolidated Statement of Changes in Equity page 73 of this annual report, while the details of which during the Reporting Period are set out in note 20 to the financial statements.

## Report of the Board of Directors

### DISTRIBUTABLE RESERVES

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

According to the Articles of Association, for the purpose of determining profit distribution, the profit distribution of the Company is the lesser of its profit after tax determined in accordance with: (i) the PRC accounting standard and regulations; and (ii) Hong Kong Financial Reporting Standards.

According to an ordinary resolution passed on 19 August 2009 by the then shareholders of the Company an aggregate amount of approximately RMB279.5 million was distributed to CNPGC and Sinopharm Investment as the first special dividend referred to on page 11 and page 212 of the Prospectus.

According to an ordinary resolution passed on 19 August 2009 by the then shareholders of the Company and a resolution passed on 29 December 2009 by the Board, an aggregate amount of approximately RMB325.0 million was distributed to CNPGC and Sinopharm Investment as the final special dividend referred to on page 11 and page 212 of the Prospectus.

As at 31 December 2009, distributable reserves of the Group, calculated based on the above principles and after deducting the above two special dividends, amounted to approximately RMB91,517,000, which is prepared in accordance with the Hong Kong Financial Reporting Standards.

### PROPERTY, PLANT AND EQUIPMENT AND INVESTMENTS

Details of changes in property, plant and equipment and investment properties of the Group during the Reporting Period are set out in note 8 to the financial statements.

### PROPERTY INTERESTS

The Group's property interests as at 30 June 2009 were revalued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix V to the Prospectus. The total capital value of the Group's property interests in existing state as at 30 June 2009 set out in the aforesaid property valuation report was RMB1,240,184,000. The net valuation surplus, representing the excess of market value of the properties over their book value, as at 31 December 2009 was approximately RMB834,480,000. Such revaluation surplus is not included in the Group's financial statements for the year ended 31 December 2009. Had the properties been stated at such valuation, an additional depreciation and amortization expense of approximately RMB25,444,000 would have been charged against the consolidated income statement of the Group for the year ended 31 December 2009.

## CHARITABLE DONATIONS

During the Reporting Period, charitable donations made by the Group amounted to approximately RMB7.1 million.

## BORROWINGS

The details of borrowings of the Group are set out in note 21 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the Group purchased less than 30% of its goods and services from its 5 largest suppliers and sold less than 30% of its goods and services to its 5 largest customers.

For the year ended 31 December 2009, none of the Directors, Supervisors, their respective Associates and any shareholder of the Company (who to the knowledge of the Board owns more than 5% of the share capital of the Company) had any interest in the 5 largest customers or the 5 largest suppliers of the Group.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

### **Continuing Connected Transactions**

The Company was granted a waiver in relation to certain continuing connected transactions for a period of three years, which will expire on 31 December 2011. The date of transactions, parties involved, nature of transactions, price, annual caps approved by the Hong Kong Stock Exchange and actual annual amount as at 31 December 2009 in relation to these continuing connected transactions are set out below. Unless otherwise defined herein, terms used below shall have the same meanings as defined in the Prospectus.

### **Master Agreements**

Date: 31 August 2009 or 4 September 2009 (as the case may be)

Parties: The Company as supplier and/or purchaser on the one hand; and (i) CNPGC and its Associates; (ii) Fosun Pharma and its Associates; (iii) Zhejiang Intmedic; or (iv) Qianxitang Pharmaceutical as purchaser and/or supplier (as the case may be) on the other hand

## Report of the Board of Directors

Terms: The initial term of each of the (i) the Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with the Controlling Shareholder; (ii) the Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with Zhejiang Intmedic; (iii) the Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with Qianxitang Pharmaceutical; and (iv) the Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with the Controlling Shareholder shall commence from the date of the relevant Master Agreement and shall expire on 31 December 2011, unless at any time either party gives at least three months' prior written notice of termination to the other party.

The initial term of each of (i) the Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with Fosun Pharma and (ii) the Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with Fosun Pharma shall commence from the date of their approval by the shareholders of Fosun Pharma and shall expire on 31 December 2011, unless at any time either party gives at least three months' prior written notice of termination to the other party.

- Nature of Transactions:
- (a) Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with the Controlling Shareholder
    - (i) sale of pharmaceutical products, healthcare products and medical supplies; and
    - (ii) other related or ancillary goods and services by the Group to CNPGC and its Associates
  - (b) Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with Fosun Pharma
    - (i) sale of pharmaceutical products, healthcare products and medical supplies; and
    - (ii) other related or ancillary goods and services by the Group to Fosun Pharma and its Associates
  - (c) Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with Zhejiang Intmedic
    - (i) sale of pharmaceutical products, healthcare products and medical supplies; and
    - (ii) other related or ancillary goods and services by the Group to Zhejiang Intmedic



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- (d) Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with Fosun Pharma
- (i) purchase of pharmaceutical products, healthcare products and medical supplies; and (ii) other related or ancillary goods and services by Fosun Pharma and its Associates to the Group
- (e) Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with Qianxitang Pharmaceutical
- (i) purchase of pharmaceutical products, healthcare products and medical supplies; and (ii) other related or ancillary goods and services by Qianxitang Pharmaceutical to the Group
- (f) Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with the Controlling Shareholder
- (i) purchase of pharmaceutical products, healthcare products and medical supplies; and (ii) other related or ancillary goods and services by CNPGC and its Associates to the Group

It is envisaged that from time to time and as required, individual written implementation agreements may be entered into between the Group and: (i) CNPGC and/or its Associates; (ii) Fosun Pharma and/or its Associates; (iii) Zhejiang Intmedic; or (iv) Qianxitang Pharmaceutical, under the above Master Agreements.

Price: Each relevant product or service must be provided in accordance with the following general pricing principles:

- state-prescribed price;
- where there is no state-prescribed price, then according to state guidance price;
- where there is neither state-prescribed price nor state guidance price, then according to relevant market price; or
- where none of the above prices exists, then according to the price to be agreed between the parties. The agreed price will be calculated based on the actual cost or reasonable cost (whichever is lower) incurred in providing such product or service plus a reasonable profit.


## Report of the Board of Directors

The table below sets out the relevant annual caps approved by the Hong Kong Stock Exchange and the actual annual figures for the year ended 31 December 2009 in relation to the above continuing connected transactions.

<b>Transaction</b>	<b>Annual cap for 2009 (RMB million)</b>	<b>Actual figure for the year ended 31 December 2009 (RMB million)</b>
1. Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with the Controlling Shareholder	361	358.4
2. Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with Fosun Pharma	52	51.6
3. Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with Zhejiang Intmedic	457	415.4
4. Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with Fosun Pharma (Note 1)	70	132.2
5. Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with Qianxitang Pharmaceutical	30	21.3
6. Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with the Controlling Shareholder (Note 2)	916	961.2

Notes:

- (1) The acquisitions conducted by Fosun Pharma and its subsidiaries and Associates in 2009 resulted in an increase in the number and value of the transactions entered into between the Group and those newly acquired companies of the Fosun Pharma and its subsidiaries and Associates.
- (2) The acquisitions conducted by CNPGC and its subsidiaries and Associates in 2009 resulted in an increase in the number and value of the transactions entered into between the Group and those newly acquired companies of CNPGC and its subsidiaries and Associates.



Independent non-executive Directors have reviewed the above continuing connected transactions and confirm that these transactions have been entered into:

- (i) in the ordinary and usual course of business of the Company;
- (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Company than terms available to or from (as appropriate) independent third parties; and
- (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company has issued a letter to the Board of Directors stating that the above continuing connected transactions:

- 1. have received the approval of the Board;
- 2. were in accordance with the pricing policies of the Company;
- 3. have been entered into in accordance with the relevant agreements governing the transactions; and
- 4. did not exceed the respective annual caps as disclosed in the Prospectus, except for the transactions set out in items 4 and 6 above.



## Report of the Board of Directors

### DIRECTORS AND SUPERVISORS

During the year and as of the date of this annual report, the Directors and Supervisors are as follows:

#### **Executive Directors**

Ms. Fu Mingzhong  
Mr. Wei Yulin

#### **Non-Executive Directors**

Mr. She Lulin  
Mr. Guo Guangchang  
Mr. Wang Qunbin  
Mr. Deng Jindong  
Mr. Fan Banghan  
Mr. Liu Hailiang  
Mr. Lian Wanyong

#### **Independent Non-Executive Directors**

Mr. Wang Fanghua  
Mr. Tao Wuping  
Mr. Xie Rong  
Mr. Zhou Bajun

#### **Supervisors**

Mr. Chen Qiyu  
Mr. Xing Yonggang  
Ms. Zhang Jian

### DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors has entered into a service contract with the Company for a term of three years commencing on 22 September 2008, 22 December 2008 or 19 August 2009 (as the case may be), which is subject to termination in certain circumstances as stipulated in the relevant contract.

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



## TERMS OF OFFICE OF DIRECTORS AND SUPERVISORS

According to the Articles of Association, the term of office of each Director and Supervisor shall be three years commencing from the date when they are appointed or re-elected. All Directors and Supervisors may be re-appointed or re-elected upon the expiration of their terms of office.

## BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographies of the Directors, Supervisors and senior management are set out from page 32 to 41 of this annual report.

## REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The Remuneration Committee considers and makes recommendation to the Board of Directors on the remuneration and other benefits payable to the Directors. The committee regularly oversees the remuneration of all Directors to ensure that their remuneration and compensation are at appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group to attract and retain its Directors as well as to control costs.

The Company determines the remuneration of the Directors on the basis of their qualifications, experience and contributions. Details of the remuneration of Directors are set out in note 31 to the financial statements.

The five highest paid individuals of the Group in the year include 2 Directors. Details of the five highest paid individuals are set out in note 31 to the consolidated financial statements from page 154 to 156 of this annual report.

## INTERESTS OF DIRECTORS AND SUPERVISORS IN MATERIAL CONTRACTS

As at 31 December 2009 and during any time from 23 September 2009, being the listing date of the Company on the Main Board of the Hong Kong Stock Exchange, to 31 December 2009, there was no contract of significance (as defined in Appendix 16 to the Listing Rules) subsisting in which a Director or Supervisor is or was materially interested, whether directly or indirectly.

As at 31 December 2009 and during any time from 23 September 2009, being the listing date of the Company on the Main Board of the Hong Kong Stock Exchange, to 31 December 2009, there was no contract of significance in relation to the Company's business subsisting to which the Company, its subsidiary, its holding company or a subsidiary of its holding company was a party and in which a Director or Supervisor has or had, or at any time during that period, in any way, whether directly or indirectly, a material interest.

## Report of the Board of Directors

As at 31 December 2009 and during any time from 23 September 2009, being the listing date of the Company on the Main Board of the Hong Kong Stock Exchange, to 31 December 2009, none of the Directors or Supervisors was in any way, directly or indirectly, materially interested in any contract of significance in relation to the Company's business entered into or proposed to be entered into with the Company.

### INTERESTS OF DIRECTORS IN COMPETING BUSINESS

As at 31 December 2009, four non-executive Directors, namely Mr. Guo Guangchang, Mr. Wang Qunbin, Mr. Fan Banghan and Mr. Liu Hailiang had interest in businesses which compete or likely to compete, either directly or indirectly with the business of the Group. Mr. Guo Guangchang, is a substantial shareholder of each of the Fosun Distribution Companies, certain of the Fosun Retail Companies and certain of the Fosun Production Companies. Mr. Guo Guangchang is also a non-executive director of one of the Fosun Retail Companies. Mr. Wang Qunbin, is a non-executive director of one of the Fosun Distribution Companies and two of the Fosun Production Companies. Mr. Fan Banghan, is a non-executive director of each of the Fosun Distribution Companies and certain of the Fosun Retail Companies. Mr. Liu Hailiang, is the chief supervisor of Fosun Pharma.

Certain of the Fosun Distribution Companies, the Fosun Production Companies and the Fosun Retail Companies are wholly-owned or controlled by Fosun Pharma.

Set out below is a summary of the facts and circumstances regarding the Fosun Distribution Companies, the Fosun Production Companies and the Fosun Retail Companies:

#### (i) Fosun Distribution Companies

##### Description of business

The Fosun Distribution Companies principally engage in the distribution of medicines in the PRC.

For the year ended 31 December 2009, the aggregate revenue of the Fosun Distribution Companies attributable to their medicines distribution business was approximately RMB1,625 million, representing only approximately 3.45% of the Company's total audited revenue for the same period. Given the insignificant size of the Fosun Distribution Companies' total revenue generated from the distribution of medicines and the fact that such total revenue covered not only Western medicines but also Chinese medicines, the Directors believe that there is no material competition between the Fosun Distribution Companies and the Group.



### **Independence**

The Company is financially independent from the Fosun Distribution Companies. It is also operationally independent from the Fosun Distribution Companies, even though the sale/purchase of pharmaceutical products, healthcare products and medical supplies to/from all of the Fosun Distribution Companies represent only approximately 0.09% of the Company's total audited revenue for the year ended 31 December 2009.

As mentioned above, Mr. Wang Qunbin, who is a non-executive Director, is a director of one of the Fosun Distribution Companies. Mr. Fan Banghan, who is a non-executive Director, is a director of each of the Fosun Distribution Companies. Other than these two non-executive Directors, who are not involved in the day-to-day operations and management of the Company, all the other Directors and members of senior management of the Company do not concurrently hold any director and/or senior management positions in any of the Fosun Distribution Companies. In light of the above, the Directors are of the view that the Directors and senior management of the Company are independent from those of the Fosun Distribution Companies.

## **(ii) Fosun Production Companies**

### **Description of business**

The Fosun Production Companies principally engage in the production of medicines in the PRC. The medicines produced by the Fosun Production Companies are mainly for the treatment of malaria, hepatic diseases, diabetes and gynaecological diseases, which are different and easily distinguishable from those produced by the Company, i.e. therapeutic products such as anti-infectious, respiratory, cardiovascular and gastrointestinal medicines. There is no overlap between the Company's products and those of the Fosun Production Companies.

The Core Business of the Company is the distribution of Western medicines in the PRC, not production of medicines. In addition, the Company only produces Western medicines and the production of Western medicines by the Company accounted for only approximately 2.9% of the Company's total audited revenue for the year ended 31 December 2009. Furthermore, because, as discussed above, there is a clear delineation between the medicines produced by the Company and those produced by the Fosun Production Companies, the Directors believe that there is no competition between the Fosun Production Companies and the Company.

## Report of the Board of Directors

### Independence

The Company is financially independent from the Fosun Production Companies. It is also operationally independent from the Fosun Production Companies, even though the sale/purchase of pharmaceutical products, healthcare products and medical supplies to/from and the sale of chemical reagent and laboratory supplies to, certain of the Fosun Production Companies represent only approximately 0.12% of the Company's total audited revenue for the year ended 31 December 2009.

As mentioned above, Mr. Wang Qunbin, who is a non-executive Director, is a director of two of the Fosun Production Companies. Other than this non-executive Director, who is not involved in the day-to-day operations and management of the Company, all the other Directors and members of senior management of the Company do not concurrently hold any director and/or senior management positions in any of the Fosun Production Companies. In light of the above, the Directors are of the view that the Directors and senior management of the Company are independent from those of the Fosun Production Companies.

### (iii) Fosun Retail Companies

#### Description of business

The Fosun Retail Companies only engage in the operation of retail drug stores in the PRC.

The Core Business of the Company is the distribution of Western medicines in the PRC, not operation of retail drug stores. In addition, the operation of retail drug stores by the Fosun Retail Companies accounted for only approximately 1.94% of the Company's total audited revenue for the year ended 31 December 2009. Since operation of retail drug stores is not the Core Business of the Company, the Directors believe that there is no material competition between the Fosun Retail Companies and the Company.

#### Independence

The Company is financially independent from the Fosun Retail Companies. It is also operationally independent from the Fosun Retail Companies, even though the sale/purchase of pharmaceutical products, healthcare products and medical supplies to/from two of the Fosun Retail Companies represent only approximately 0.08% of the Company's total audited revenue for the year ended 31 December 2009.



As mentioned above, Mr. Guo Guangchang, who is a non-executive Director, is a director of one of the Fosun Retail Companies. Mr. Fan Banghan, who is a non-executive Director, is a director of certain of the Fosun Retail Companies. Other than these two non-executive Directors, who are not involved in the day-to-day operations and management of the Company, all the other Directors and members of senior management of the Company do not concurrently hold any director and/or senior management positions in any of the Fosun Retail Companies. In light of the above, the Directors are of the view that the Directors and senior management of the Company are independent from those of the Fosun Retail Companies.

## DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES IN THE GROUP AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2009, the interests and short positions of the Directors, Supervisors and the chief executive of the Company and their respective Associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) required to be notified to the Company and the Hong Kong Stock Exchange in accordance with Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions they have or deemed to have pursuant to the relevant provisions of the SFO), or required to be kept in the register under Section 352 of the SFO or otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the requirements of the Model Code, were as follows:

### (I) Interests in the shares in the Company

Name	Class of shares	Nature of interest	Number of shares held	Approximate percentage to the total number of shares in the Company	Approximate percentage to the number of domestic shares in issue of the Company	Long position/ short position/ shares available for lending
Mr. Guo Guangchang	Domestic shares	Interest of controlled corporation	1,571,555,953	69.40%	99.83%	Long position

## Report of the Board of Directors

### (II) Interests in the shares of the associated corporations of the Company

<u>Name</u>	<u>Name of associated corporation</u>	<u>Nature of interest</u>	<u>Registered capital contributed</u>	<u>Percentage in total registered capital</u>
Mr. Guo Guangchang	Sinopharm Investment	Interest of controlled corporation	RMB343,000,000	49%

Save as disclosed above, to the best knowledge of the Directors of the Company, as at 31 December 2009, none of the Directors, Supervisors and the chief executive of the Company and their respective Associates have interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) required to be notified to the Company and the Hong Kong Stock Exchange in accordance with Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions they have or deemed to have pursuant to the relevant provisions of the SFO), or required to be kept in the register under Section 352 of the SFO or otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the requirements of the Model Code.

### RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

No arrangements to which the Company, its subsidiary, its holding company or a subsidiary of its holding company is or was a party to enable the Directors, Supervisors and the chief executive of the Company to acquire benefits by means of acquisitions of shares in or debentures of the Company or any other body corporate subsisted at the end of the year or at any time during the year.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2009, so far as was known to the Directors, the interests or short positions of the following persons (other than the Directors or Supervisors) in the shares of the Company which were

required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or the interests or short positions recorded in the register kept by the Company under section 336 of the SFO were as follows:

<b>Name</b>	<b>Class of shares</b>	<b>Nature of interest</b>	<b>Number of shares held</b>	<b>Approximate percentage to the total number of shares in the Company (%)</b>	<b>Approximate percentage to the relevant class of shares (%)</b>	<b>Long position/ short position/ shares available for lending</b>
CNPGC	Domestic shares	Beneficial owner	2,728,396 (Note 2)	0.12	0.17	Long position
	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 2)	69.40	99.83	Long position
Sinopharm Investment	Domestic shares	Beneficial owner	1,571,555,953 (Notes 1 and 2)	69.40	99.83	Long position
Qishen Company	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 3)	69.40	99.83	Long position
Fosun Pharma	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 4)	69.40	99.83	Long position
Fosun High Technology	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 5)	69.40	99.83	Long position
Fosun Company	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 6)	69.40	99.83	Long position
Fosun Holdings	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 7)	69.40	99.83	Long position
Fosun International Holdings	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 8)	69.40	99.83	Long position
Mr. Guo Guangchang	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 9)	69.40	99.83	Long position
NSSF	H shares	Beneficial owner	62,753,102	2.77	9.09	Long position
Mirae Asset Global Investments (Hong Kong) Limited	H shares	Investment manager	34,999,200	1.55	5.07	Long position

## Report of the Board of Directors

Note:

- (1) Such 1,571,555,953 domestic shares belong to the same batch of shares.
- (2) CNPGC is interested in 2,728,396 domestic shares directly and 1,571,555,953 domestic shares indirectly through Sinopharm Investment. As CNPGC owns a 51% of the equity interest in Sinopharm Investment, it is deemed to be interested in the shares held by Sinopharm Investment for the purposes of the SFO.
- (3) Qishen Company is the beneficial owner of a 49% equity interest in Sinopharm Investment and, therefore, Qishen Company is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.
- (4) Fosun Pharma is the beneficial owner of a 100% equity interest in Qishen Company and, therefore, Fosun Pharma is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.
- (5) Fosun High Technology is the beneficial owner of a 49.03% equity interest in Fosun Pharma and, therefore, Fosun High Technology is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.
- (6) Fosun Company is the beneficial owner of 100% shareholding in Fosun High Technology and, therefore, Fosun Company is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.
- (7) Fosun Holdings is the beneficial owner of 78.24% shareholding in Fosun Company and, therefore, Fosun Holdings is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.
- (8) Fosun International Holdings is the beneficial owner of 100% shareholding in Fosun Holdings and, therefore, Fosun International Holdings is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.
- (9) Mr. Guo Guangchang is the beneficial owner of 58% shareholding in Fosun International Holdings and 0.006% equity interest in Fosun Pharma and, therefore, Guo Guangchang is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

Save as the disclosed above, to the best knowledge of the Directors of the Company, as at 31 December 2009, no person (other than the Directors or the Supervisors) had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company under section 336 of the SFO.

## PRE-EMPTIVE RIGHTS

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



## INITIAL PUBLIC OFFERING

The Company completed its initial public offering on 23 September 2009. The over-allotment option was also fully exercised on 25 September 2009. As at 5 October 2009, the Company issued a total of 627,531,023 H shares at HK\$16.00 per share and raised HK\$10.04 billion from the initial public offering. Net proceeds of HK\$9.769 billion was received after deduction of relevant expenses. During the period from 23 September 2009 to 31 December 2009, the proceeds were used strictly in accordance with the Prospectus and the approval of the State Administration of Foreign Exchange and were under the custody of banks.

## SUFFICIENCY OF PUBLIC FLOAT

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

## MANAGEMENT CONTRACT

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

## PENSION SCHEME

During the Reporting Period, details of the pension scheme of the Group is set out in note 30 to the financial statements.

## ENTRUSTED DEPOSIT AND MATURED TIME DEPOSIT

As at 31 December 2009, the Company had not held any deposits under trust or any time deposit in any financial institution in the PRC which could not be withdrawn upon maturity.

## TAX RELIEF AND EXEMPTION

The Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.



## Report of the Board of Directors

### COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the period from 23 September 2009 to 31 December 2009, the Group has complied with the relevant code provisions set out in the Corporate Governance Code. For details, please see page 23 of this annual report.

### COMPLIANCE WITH THE MODEL CODE

The Group has adopted the Model Code and after making specific enquiries with the Directors and Supervisors, all of them confirmed that they had complied with the requirements set out in the Model Code during the period from 23 September 2009 to 31 December 2009.

### AUDIT COMMITTEE

Details of the audit committee of the Company are set out in the Corporate Governance Report from page 26 and page 27 of this annual report.

### CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received confirmation of independence from each independent non-executive Director. Based on the confirmation, the Company considers that all independent non-executive Directors are independent.

### AUDITOR

The financial statements set out in this annual report have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

By Order of the Board  
**Sinopharm Group Co. Ltd.**  
**She Lulin**  
*Chairman*

Shanghai, China  
23 March 2010

# Report of the Supervisory Committee

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

## I. WORKS OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

For the year 2009, the Supervisory Committee held 2 meetings and the details are as follows:

On 28 April 2009, the second meeting of the first session of the Supervisory Committee was convened and the resolution related to the Supervisory Committee of the Company in 2008 was passed.

On 20 December 2009, the first extraordinary meeting in 2009 of the first session of the Supervisory Committee was convened. In the meeting, the following resolutions were considered and approved: (1) the resolution related to the change of the Company's supervisors and (2) the resolution related to the election of the Chief Supervisor of the Company's first session of the Supervisory Committee. The two resolutions will be submitted for consideration in the annual general meeting and will become effective upon approval.

## II. COMMENTS OF THE SUPERVISORY COMMITTEE ON CERTAIN MATTERS OF THE COMPANY IN 2009

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

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

## Report of the Supervisory Committee

2. Evaluation of financial condition of the Company. During the Reporting Period, the Supervisory Committee has supervised and reviewed the financial structure and position of the Company. The Supervisory Committee is of the opinion that the financial structure of the Company was healthy and standardized and the Company is in a good financial position. The 2009 Audit Report of the Company has truly, accurately and completely reflected the financial condition, results of operation and cash flows of the Company.
3. The use of funds raised by the Company. The Supervisory Committee is of the opinion that the use of proceeds complied with the provisions of relevant laws and regulations and the Articles of Association without violating the interests of the Company and its shareholders. The Supervisory Committee will continue to supervise and monitor the use of proceeds.
4. Acquisition and disposal of assets of the Company. The acquisitions and disposals of the assets of the Company during the Reporting Period were based on fair and reasonable prices. No insider dealing or any action that may injure shareholders' interests or cause any loss of assets of the Company has been found.
5. Connected transactions of the Company. During the Reporting Period, the connected transactions between the Company and all connected persons conformed to applicable regulations of the Hong Kong Stock Exchange. The connected transactions were based on fair and reasonable prices and were carried out in accordance with the principles of reasonableness, fairness and justice. No harm to the interests of the Company and other unrelated shareholders has been found.
6. Preparation and review of annual report of the Company. The preparation and review of the 2009 annual report of the Company have conformed to all provisions as stipulated in the applicable laws, regulations, Articles of Association and internal control system. The content and format of the annual report are in compliance with all the relevant regulations of the China Securities Regulatory Commission and the Hong Kong Stock Exchange. No breach of confidentiality provisions by any person involved in the preparation or review of annual report is found.

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

*Chief Supervisor*  
**Chen Qiyu**

22 March 2010



# Corporate Social Responsibility

While expanding its business, the Group, as a leading enterprise in the pharmaceutical distribution industry in China, actively undertakes its corporate social responsibilities and pays close attention to the social problems. The Group demonstrates strong commitment to its corporate citizenship by actively participating in various community welfare causes including energy saving and emission reduction, community activities and social charities, the establishment of SA8000 social accountability system, as well as the promotion of safe production and occupational health and safety.

## 1. THE COMPANY ATTACHES HIGH IMPORTANCE TO ENVIRONMENTAL PROTECTION, ENERGY SAVING AND EMISSION REDUCTION

The Company has formulated policies and regulations for energy and resource saving. The Company has engaged employee representatives as voluntary monitors for energy saving and emission reduction. The Company also cooperated with environmental protection groups and implemented environmental protection measures, including using both sides of paper, and recycling of newspaper, old office supplies and electronic devices. The Company has also formulated measures for separation of inevitable wastes generated during the course of operations, including placing recycle facilities on all floors for waste separation and recycling.

## 2. THE COMPANY ACTIVELY PARTICIPATES IN COMMUNITY ACTIVITIES AND SOCIAL CHARITIES

The Company has actively organized or participated in large scale community and social activities, including Community Health Program (社區健康計劃), Be a Healthy and Considerate Neighbour (健康好鄰居). As an operator of the central medical reserve in China, the Company has formulated and implemented prompt measures of medicine procurement, supply and transportation for the prevention and treatment of influenza A virus in 2009.

The Company made donations to the Shanghai Charity Foundation to provide financial assistance to the poor. The Company also took part in the Education Relief Project (陽光育苗工程) of Dujiangyan to provide education subsidy and financial assistance for primary and secondary students in post-disaster areas to low income families. The Company also contributed books to the Employee Library (職工書屋) at Dujiangyan.

The Company entered into a three-year Poverty Alleviation Program (幫扶行動計劃) with Fujun Village in Chongming County, which is an undeveloped rural village. Under this program, the Company launched a series of poverty-relieving activities and sponsored the set up of community centers and clinics and the installation of cable TV for all villagers in the village.



## Corporate Social Responsibility

### 3. ESTABLISHMENT OF SA8000 SOCIAL ACCOUNTABILITY SYSTEM

The Company has formulated and implemented the “Manual of SA8000 Social Accountability Procedures” (SA8000社會責任程序手冊) after being endorsed by our General Manager, which sets out the key principles of the Company for the performance of its social responsibilities and continuous improvement of its social accountability system.

The Company respects and cares about its employees and is determined to protect their legal interests. The Company has formulated a human resources management system in compliance with the laws and the system is updated and refined from time to time. The Company has established a comprehensive remuneration and welfare policy comprising bonus and incentives, social insurance and medical insurance which will be determined with reference to positions and duties of the employees and equal payments will be offered for equal work. In addition, the Company has established a system for employee representative meetings.

### 4. PROTECTION FOR SAFE PRODUCTION AND OCCUPATIONAL HEALTH AND SAFETY

Through the establishment of a comprehensive system for governing labor health and safety, the Company organizes regular body checks for employees and maintain a comprehensive health record of employees. The Company educates its employees about labor safety and sanitation so as to raise their safety consciousness and strives to maintain a safe, hygienic and comfortable working environment. Through these measures, the Company endeavors to eliminate any hidden safety hazards to the largest extent and minimize any potential safety risks. During the year, the Company has not experienced any industrial accidents.

# Independent Auditor's Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22/F, Prince's Building  
Central, Hong Kong

## Independent Auditor's Report

### To the shareholders of Sinopharm Group Co. Ltd.

*(Incorporated in the People's Republic of China with limited liability)*

We have audited the consolidated financial statements of Sinopharm Group Co. Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 67 to 200, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Independent Auditor's Report

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 23 March 2010

# Consolidated Balance Sheet

As at 31 December 2009

	Note	As at 31 December	
		2009 RMB'000	2008 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use rights	6	504,196	416,068
Investment properties	7	95,322	70,763
Property, plant and equipment	8	1,447,946	1,263,014
Intangible assets	9	391,255	204,020
Investments in associates	11	330,845	306,528
Available-for-sale financial assets	13	55,936	52,911
Deferred income tax assets	14	143,128	143,035
Other non-current assets		19,387	5,184
		<b>2,988,015</b>	2,461,523
<b>Current assets</b>			
Inventories	15	4,272,807	3,154,820
Trade receivables	16	10,463,660	7,913,583
Prepayments and other receivables	17	707,926	597,440
Available-for-sale financial assets	13	15	15
Short-term loan receivable	18	2,905,584	—
Pledged bank deposits	18	320,442	285,835
Cash and cash equivalents	18	6,616,801	1,712,119
		<b>25,287,235</b>	13,663,812
<b>Total assets</b>		<b>28,275,250</b>	16,125,335
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's shareholders</b>			
Share capital	19	2,264,568	1,637,037
Reserves	20	8,646,288	630,009
		<b>10,910,856</b>	2,267,046
<b>Minority interest</b>		<b>1,593,599</b>	1,146,352
<b>Total equity</b>		<b>12,504,455</b>	3,413,398

## Consolidated Balance Sheet

As at 31 December 2009

	Note	As at 31 December	
		2009 RMB'000	2008 RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Bank borrowings	21	50,000	130,000
Deferred income tax liabilities	14	97,261	68,041
Post-employment benefit obligations	22	276,286	302,697
Other non-current liabilities	23	592,393	329,865
		<b>1,015,940</b>	830,603
<b>Current liabilities</b>			
Trade payables	24	12,135,002	9,053,074
Accruals and other payables	25	1,251,843	864,087
Dividends payable		—	363,959
Current income tax liabilities		83,697	96,044
Bank borrowings	21	1,284,313	1,504,170
		<b>14,754,855</b>	11,881,334
<b>Total liabilities</b>		<b>15,770,795</b>	12,711,937
<b>Total equity and liabilities</b>		<b>28,275,250</b>	16,125,335
<b>Net current assets</b>		<b>10,532,380</b>	1,782,478
<b>Total assets less current liabilities</b>		<b>13,520,395</b>	4,244,001

**She Lulin**  
Director

**Wei Yulin**  
Director

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

# Company Balance Sheet

As at 31 December 2009

	Note	As at 31 December	
		2009 RMB'000	2008 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment properties		5,836	6,083
Property, plant and equipment	8	10,918	13,960
Investments in subsidiaries	10	5,633,656	2,091,663
Investments in associates	11	14,690	14,690
Available-for-sale financial assets	13	6,760	20,394
Deferred income tax assets	14	29,677	27,999
Other non-current assets		902	1,421
		<b>5,702,439</b>	2,176,210
<b>Current assets</b>			
Inventories	15	809,344	581,264
Trade receivables	16	2,036,465	1,295,948
Prepayments and other receivables	17	2,118,771	1,078,924
Short-term loan receivable	18	2,905,584	—
Cash and cash equivalents	18	1,272,398	301,008
		<b>9,142,562</b>	3,257,144
<b>Total assets</b>		<b>14,845,001</b>	5,433,354
<b>EQUITY</b>			
Share capital	19	2,264,568	1,637,037
Reserves	20	8,248,980	332,246
<b>Total equity</b>		<b>10,513,548</b>	1,969,283

## Company Balance Sheet

As at 31 December 2009

	Note	As at 31 December	
		2009 RMB'000	2008 RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Other non-current liabilities	23	175,441	222,422
Post-employment benefit obligations		44,383	40,150
		<b>219,824</b>	262,572
<b>Current liabilities</b>			
Trade payables	24	2,261,561	1,707,023
Accruals and other payables	25	1,796,032	493,630
Dividends payable		—	363,959
Current income tax liabilities		10,505	31,887
Bank borrowings	21	43,531	605,000
		<b>4,111,629</b>	3,201,499
<b>Total liabilities</b>		<b>4,331,453</b>	3,464,071
<b>Total equity and liabilities</b>		<b>14,845,001</b>	5,433,354
<b>Net current assets</b>		<b>5,030,933</b>	55,645
<b>Total assets less current liabilities</b>		<b>10,733,372</b>	2,231,855

**She Lulin**  
Director

**Wei Yulin**  
Director

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



# Consolidated Income Statement

For the year ended 31 December 2009

	Note	Year ended 31 December	
		2009 RMB'000	2008 RMB'000
Revenue	5, 26	47,045,853	38,191,909
Cost of sales		(43,261,285)	(35,152,762)
<b>Gross profit</b>		<b>3,784,568</b>	3,039,147
Other income	27	52,864	69,923
Distribution and selling expenses		(1,250,304)	(966,020)
General and administrative expenses		(1,036,849)	(969,540)
<b>Operating profit</b>		<b>1,550,279</b>	1,173,510
Other gains — net	28	171,195	93,317
Finance income		23,758	24,312
Finance costs		(239,765)	(265,996)
Finance costs — net	32	(216,007)	(241,684)
Share of results of associates	11	66,905	54,186
<b>Profit before income tax</b>		<b>1,572,372</b>	1,079,329
Income tax expense	33	(386,234)	(259,286)
<b>Profit for the year</b>		<b>1,186,138</b>	820,043
<b>Attributable to:</b>			
— Shareholders of the Company		845,819	587,613
— Minority interest		340,319	232,430
		<b>1,186,138</b>	820,043
<b>Earnings per share for profit attributable to the shareholders of the Company during the year</b> (expressed in RMB per share)			
— <b>Basic and fully diluted</b>	35	<b>0.47</b>	0.36
<b>Dividends</b>	36	<b>627,296</b>	105,699

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

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Note	Attributable to shareholders of the Company RMB'000	Attributable to minority interest RMB'000	Total equity RMB'000
<b>Year ended 31 December 2009</b>				
<b>Profit for the year</b>		<b>845,819</b>	<b>340,319</b>	<b>1,186,138</b>
<b>Other comprehensive income:</b>				
Revaluation of available-for-sale financial assets				
— gross	13	11,883	15,421	27,304
— tax	14	(3,004)	(3,822)	(6,826)
<b>Other comprehensive income, net of tax</b>		<b>8,879</b>	<b>11,599</b>	<b>20,478</b>
<b>Total comprehensive income for the year</b>		<b>854,698</b>	<b>351,918</b>	<b>1,206,616</b>
<b>Year ended 31 December 2008</b>				
<b>Profit for the year</b>		587,613	232,430	820,043
<b>Other comprehensive income:</b>				
Revaluation of available-for-sale financial assets				
— gross		(6,857)	(7,837)	(14,694)
— tax		1,655	2,018	3,673
<b>Other comprehensive income, net of tax</b>		<b>(5,202)</b>	<b>(5,819)</b>	<b>(11,021)</b>
<b>Total comprehensive income for the year</b>		<b>582,411</b>	<b>226,611</b>	<b>809,022</b>

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

# Consolidated Statement of Changes in Equity

As at 31 December 2009

	Note	Paid-in capital RMB'000	Reserves RMB'000	Total RMB'000	Minority interest RMB'000	Total equity RMB'000
As at 1 January 2008		1,637,037	47,598	1,684,635	934,589	2,619,224
Total comprehensive income		—	582,411	582,411	226,611	809,022
Changes in shareholding of subsidiaries		—	—	—	14,903	14,903
Dividends		—	—	—	(29,751)	(29,751)
As at 31 December 2008		1,637,037	630,009	2,267,046	1,146,352	3,413,398
Total comprehensive income		—	854,698	854,698	351,918	1,206,616
Issue of shares, net of expenses	19	627,531	7,875,013	8,502,544	—	8,502,544
Changes in shareholding of subsidiaries		—	—	—	229,428	229,428
Effect of business combination of Guangxi Guoda Pharmacy Chainstore Co., Ltd. and Guangxi Huiqing Investment Co., Ltd. under common control	39	—	(3,316)	(3,316)	—	(3,316)
Dividends	36	—	(710,116)	(710,116)	(134,099)	(844,215)
<b>As at 31 December 2009</b>		<b>2,264,568</b>	<b>8,646,288</b>	<b>10,910,856</b>	<b>1,593,599</b>	<b>12,504,455</b>

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

# Consolidated Cash Flow Statement

For the year ended 31 December 2009

	Note	Year ended 31 December	
		2009 RMB'000	2008 RMB'000
<b>Cash flows from operating activities:</b>			
Cash generated from operations	37	1,365,831	955,240
Income tax paid		(354,326)	(301,391)
<b>Net cash generated from operating activities</b>		<b>1,011,505</b>	653,849
<b>Cash flows from investing activities:</b>			
Proceeds from disposal of land use rights		—	6,823
Proceeds from disposal of property, plant and equipment		46,910	36,378
Proceeds from disposal of available-for-sale financial assets		6,612	470
Proceeds from disposal of associates		35,000	—
Proceeds from disposal of partial interests in associates		—	26,207
Proceeds from disposal of partial interests in subsidiaries		156,173	83,172
Disposal of subsidiaries, net of cash disposed		—	6,168
Dividends received from associates		43,478	25,289
Dividends received from available-for-sale financial assets	27	377	4
Interest received		23,758	23,828
Acquisition of land use rights		(53,982)	(29,258)
Acquisition of property, plant and equipment		(333,819)	(269,345)
Acquisition of intangible assets		(10,496)	(7,331)
Acquisition of associates		(45,502)	(14,690)
Acquisition of short-term loan receivable	18	(2,905,584)	—
Acquisition of subsidiaries, net of cash acquired	39	(79,030)	(24,923)
Acquisition of additional interests in subsidiaries		—	(10,745)
<b>Net cash used in investing activities</b>		<b>(3,116,105)</b>	(147,953)

## Consolidated Cash Flow Statement

For the year ended 31 December 2009

	Note	Year ended 31 December	
		2009 RMB'000	2008 RMB'000
<b>Cash flows from financing activities:</b>			
(Increase)/decrease in pledged bank deposits	18	(34,607)	363,488
Proceeds from bank borrowings		5,301,345	1,416,467
Proceeds from loans from parent company		1,850,000	1,680,000
Repayment of bank borrowings		(5,672,002)	(1,496,596)
Repayment of loans from parent company		(1,850,000)	(2,320,000)
Issue of shares	19	8,844,935	—
Payment of share issuance and listing expenses		(316,730)	—
Capital injections from minority shareholders of subsidiaries		20,157	9,705
Dividends paid to shareholders		(1,074,075)	(127,745)
Dividends paid to minority shareholders of subsidiaries		(133,344)	(30,521)
Interest paid		(212,833)	(244,171)
Proceeds of H1N1 medical reserve from government	23	286,436	—
<b>Net cash generated from/(used in) financing activities</b>		<b>7,009,282</b>	<b>(749,373)</b>
<b>Increase/(decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of year	18	1,712,119	1,955,596
<b>Cash and cash equivalents at end of year</b>	18	<b>6,616,801</b>	1,712,119

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

# Notes to the Consolidated Financial Statements

## 1 ORGANISATION AND PRINCIPAL ACTIVITIES

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

On 6 October 2008, the Company was converted into a joint stock limited liability company under the PRC Company Law by converting its registered share capital and reserves as at 30 September 2007 with the proportion of 1: 0.8699 into 1,637,037,451 shares of RMB1 each. In September 2009, the Company issued overseas-listed foreign invested shares (“H Shares”), which were listed on the Main Board of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) on 23 September 2009.

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

The Company and its subsidiaries (together, the “Group”) is mainly engaged in: (1) distribution of medicines and pharmaceutical products to customers including hospitals, other distributors, retail drug stores and clinics, (2) operation of pharmaceutical chain stores, and (3) distribution of laboratory supplies, manufacture and distribution of chemical reagents, and production and sale of pharmaceutical products.

The ultimate holding company of the Company is China National Pharmaceutical Group Corporation (“CNPGC”), which was incorporated in the PRC.

These financial statements are presented in Renminbi (“RMB”), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 23 March 2010.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (a) Basis of preparation (continued)

In May and December 2009, the Group acquired 100% equity interests in Guangxi Guoda Pharmacy Chainstore Co., Ltd. and Guangxi Huiqing Investment Co., Ltd. from CNPGC. These transactions have been accounted for using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5, “Merger Accounting for Common Control Combinations” issued by the HKICPA. The consolidated financial statements include the financial position, results and cash flows of Guangxi Guoda Pharmacy Chainstore Co., Ltd. and Guangxi Huiqing Investment Co., Ltd. as if the acquisitions had been completed prior to the beginning of the year. For the other companies acquired from (or disposed to) a third party during the year, they are included in (excluded from) the consolidated financial statements of the Group from the date of the relevant acquisition (disposal).

#### (i) New and amended standards adopted by the Group

- HKAS 24 (Revised), ‘Related party disclosures’ (effective for annual year starting from 1 January 2011). The amendment introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government-related entities and the government. Those disclosures are replaced with a requirement to disclose: the name of the government and nature of their relationship; and the nature and amount of any individually-significant transactions; and the extent of any collectively-significant transactions qualitatively or quantitatively. It also clarifies and simplifies the definition of a related party. The Group has early adopted the government-related entity exemption from 1 January 2009.

#### (ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group’s accounting years beginning on or after 1 July 2009 or later years, but the Group has not early adopted them:

- HKAS 27 (Revised), ‘Consolidated and separate financial statements’ (effective for annual year starting from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from the financial year beginning on 1 January 2010.

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (a) Basis of preparation (continued)

##### (ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- HKFRS 3 (Revised), 'Business combinations' (effective for annual year starting from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from the financial year beginning on 1 January 2010.
- HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption') (effective for annual year starting from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to HKFRS 1 states that these amendments are applied prospectively from the date of transition to HKFRSs. The Group will apply HKFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.
- There are a number of minor amendments to HKFRS 7, 'Financial instruments: Disclosures', HKAS 1, 'Presentation of financial statements', HKAS 7, 'Statement of cash flows', HKAS 8, 'Accounting policies, changes in accounting estimates and errors', HKAS 10, 'Events after the balance sheet date', HKAS 17, 'Leases', HKAS 18, 'Revenue', HKAS 34, 'Interim financial reporting', HKAS 36, 'Impairment of assets', HKAS 38, 'Intangible assets', HKAS 39, 'Financial instruments: Recognition and measurement', HKFRS 5, 'Non-current assets held for sale and discontinued operations' and HKFRS 8, 'Operating Segments' which are not addressed above. These amendments are unlikely to have any significant impact on the Group's financial statements and have therefore not been analysed in detail.



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (a) Basis of preparation (continued)

#### (iii) Amendments and interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting years beginning on or after 1 July 2009 or later years but are not relevant for the Group's operations:

- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective for annual year starting from 1 July 2009).
- HK (IFRIC) — Int 17 — 'Distributions of non-cash assets to owners' (effective for annual year starting from 1 July 2009).
- HK (IFRIC) — Int 18, 'Transfers of Assets from Customers' (effective for annual year starting from 1 July 2009).
- HKFRS 2, 'Share-based payment' (effective for annual year starting from 1 July 2009).
- HKAS 39, 'Financial instruments: Recognition and measurement' (effective for annual year starting from 1 January 2010).
- HK (IFRIC) — Int 9, 'Reassessment of embedded derivatives' (effective for annual year starting from 1 July 2009).
- HK (IFRIC) — Int 16, 'Hedges of a net investment in a foreign operation' (effective for annual year starting from 1 July 2009).

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (b) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries.

##### (i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

Control also exists when the Company owns half or less of the voting rights of an entity when there is: (1) the Company is the largest shareholder of the entity; (2) the other shareholdings in the entity individually or in aggregate are widely dispersed; (3) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by the Company; and (4) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by the Company.

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

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Consolidation (continued)

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

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

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

#### (iii) Accounting for business combinations not under common control

Other than merger accounting for common control combination of the Group, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group from third parties. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2(i)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

#### (iv) Inter-company eliminations

Inter-company transactions, balances and unrealised gains on transactions between companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (b) Consolidation (continued)

##### (v) Transactions with minority interest

The Group applies a policy of treating transactions with minority interest as transactions with parties external to the Group. Disposals to minority interest result in gains and losses for the Group and are recorded in the consolidated income statement. Purchases from minority interest result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

As noted in Note 2(a), the Group will apply HKAS 27 (amended) prospectively to transaction with minority interest on 1 January 2010. Upon the adoption of the HKAS 27 (amended), transaction with minority interest will be treated as equity transactions and will no longer result in goodwill or gains and losses.

##### (vi) Company's balance sheets

In the Company's balance sheets, the investments in subsidiaries are stated at cost less provision for impairment losses (if any). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

#### (c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. See note 2(j) for the impairment of non-financial assets including goodwill.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Associates (continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in associates are stated at cost less provision for impairment losses. The results of associate companies are accounted for by the Company on the basis of dividend received and receivable.

### (d) Segment reporting

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

### (e) Foreign currency translation

#### (i) Functional and presentation currency

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

#### (ii) Transactions and balances

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

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (e) Foreign currency translation (continued)

##### (ii) Transactions and balances (continued)

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within finance income or cost. All other foreign exchange gains and losses are presented in the income statement within other (losses)/gains — net.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

#### (f) Property, plant and equipment

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

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

Buildings	20–40 years
Plant and machinery	8–15 years
Motor vehicles	5–8 years
Furniture, fittings and equipment	5–8 years

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (f) Property, plant and equipment (continued)

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains — net, in the income statement.

### (g) Investment property

Investment property is held for long-term rental yields and is not occupied by the Group.

The land component of leasehold investment property is accounted for as land use rights.

The building component of investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses (if any). Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives of 20 to 40 years.

The residual values and useful lives of investment properties are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are included in the income statement when the changes arise.

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (h) Land use rights

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

#### (i) Intangible assets

##### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested for impairment and carried at cost less accumulated impairment losses (if any). Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

##### (ii) Sales network

Sales network are measured initially at cost and are amortised using the straight-line method over their estimated useful lives of 9 years.

##### (iii) Trademarks and patent rights

Trademarks are measured initially at cost and are amortised using the straight-line method over their estimated useful lives of 10 years. Patent rights are initially recorded at actual cost and are amortised using the straight-line method over the estimated useful lives of 3 to 6 years.

##### (iv) Computer software

Acquired computer software licenses are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 3 to 5 years.



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (j) Impairment of investments in subsidiaries, associates and non-financial assets

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

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

### (k) Financial assets

#### Classification

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

#### (i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k) Financial assets (continued)

##### Classification (continued)

##### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables, short-term loan receivable, pledged bank deposits and cash and cash equivalents in the balance sheet.

##### (iii) Available-for-sale financial assets

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

##### Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within other (losses)/gains — net, in the year in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) Financial assets (continued)

#### Recognition and measurement (continued)

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in other comprehensive income; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

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

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2(m).

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (l) Inventories

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

#### (m) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within general and administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against general and administrative expenses in the consolidated income statement.

#### (n) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

#### (o) Paid-in capital

Paid-in capital is classified as equity. Incremental costs directly attributable to paid-in capital are shown in equity as a deduction, net of tax, from the proceeds.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **(p) Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

### **(q) Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the year of the borrowings using the effective interest method.

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

### **(r) Borrowing costs**

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the year of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed as incurred.

### **(s) Current and deferred income tax**

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

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

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (s) Current and deferred income tax (continued)

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### (t) Employee benefits

The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (t) Employee benefits (continued)

The liability recognised in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of the RMB denominated (the currency in which the benefits will be paid) PRC government bonds, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the income statement.

Past-service costs are recognised immediately as incurred, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

### (u) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (u) Provisions (continued)

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

#### (v) Revenue recognition

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

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

#### (i) Sales of goods – pharmaceutical distribution

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

Medicine products are often sold with volume discounts. Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts at the time of sale. Accumulated experience is used to estimate and provide for the discounts. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of 30 to 180 days, which is consistent with the market practice.



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (v) Revenue recognition (continued)

#### (ii) Sales of goods – retail pharmacy operations

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

#### (iii) Sales of services

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

#### (iv) Rental income

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

#### (v) Franchise income

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

#### (vi) Interest income

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

#### (vii) Dividend income

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

### (w) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including upfront payment made for land use rights, are charged to the income statement on a straight-line basis over the year of the lease.

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (x) Government grants

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

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

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

#### (y) Dividend distribution

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

### 3 FINANCIAL RISK MANAGEMENT

#### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and fair value and cash flow interest rate risk), credit risk and liquidity risk. The ongoing global financial crisis which commenced in the middle of 2008 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and higher volatility in stock and currency markets. The uncertainties in the global financial markets have led to bank failures and bank rescues in the United States of America ("USA"), Western Europe and elsewhere. The global financial crisis has also led to current or potential recession in major economies. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

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

### 3 FINANCIAL RISK MANAGEMENT (continued)

#### (a) Financial risk factors (continued)

##### (i) Foreign currency risk

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

As at 31 December 2009, if RMB had strengthened/weakened by 10% against USD, HKD and EUR with all other variables held constant, post-tax profit for the year ended 31 December 2009 would have been approximately RMB31,245,000 (2008: RMB19,667,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD, HKD and EUR-denominated cash and cash equivalents and trade payables.

##### (ii) Fair value and cash flow interest rate risk

Except for bank deposits which earn interest at floating rates and short-term loan receivable (Note 18) which earn interest at fixed rates, the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

As at 31 December 2009, if interest rates on bank deposits had been 15% higher/lower than the actual benchmark annual rate of 0.36% (2008: 0.36%) announced by the People's Bank of China ("PBOC") with all other variables held constant, the post-tax profit for the year ended 31 December 2009 would have been RMB2,676,000 (2008: RMB2,808,000) higher/lower, mainly as a result of higher/lower interest income on bank deposits.

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

As at 31 December 2009, if interest rates on bank borrowings had been 15% higher/lower than the actual benchmark annual rate of 5.3 % (2008: 5.3%) announced by PBOC with all other variables held constant, the post-tax profit for the year ended 31 December 2009 would have been RMB8,927,000 (2008: RMB13,684,000) lower/higher, mainly as a result of higher/lower interest expense on bank borrowings.

## Notes to the Consolidated Financial Statements

### 3 FINANCIAL RISK MANAGEMENT (continued)

#### (a) Financial risk factors (continued)

##### (iii) Credit risk

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

Under the ongoing global financial crisis, debtors of the Group may be affected by the unfavourable economic conditions and the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of receivables. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

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

The Group has policies to place its cash and cash equivalents only with major financial institutions. As at 31 December 2009, most of the pledged bank deposits, short-term loan receivable and cash and cash equivalents were deposited with major financial institutions in Mainland China.

##### (iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities, discounting of bank acceptance notes to banks. The Group's objective is to maintain adequate committed credit lines to ensure sufficient and flexible funding is available to the Group. Details of the undrawn borrowing facilities available to the Group are disclosed in Note 21.

The Group has agreed to receive bank acceptance notes from certain customers with long-term business trading history and most of these notes are guaranteed by major banks in Mainland China. The maturity of these bank acceptance notes ranges from 3 to 6 months. To maintain flexibility in the Group's funding requirements, a major portion of these bank acceptance notes are discounted to banks with effective interest rates ranging from 1.50% to 2.97% per annum.

### 3 FINANCIAL RISK MANAGEMENT (continued)

#### (a) Financial risk factors (continued)

##### (iv) Liquidity risk (continued)

The liquidity crisis under the ongoing global financial crisis could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Management believes that they are taking all the necessary measures to maintain sufficient liquidity reserve to support sustainability and growth of the Group's business in the current circumstances and to repay outstanding borrowings when they fall due. Currently, the Group finances its working capital requirements through a combination of funds generated from operations and bank borrowings.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining year at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
<b>As at 31 December 2009</b>					
Borrowings	1,284,313	30,000	—	20,000	1,334,313
Interests payments on borrowings (Note)	12,575	2,085	3,564	3,339	21,563
Trade and other payables	13,386,845	—	—	—	13,386,845
	<b>14,683,733</b>	<b>32,085</b>	<b>3,564</b>	<b>23,339</b>	<b>14,742,721</b>
<b>As at 31 December 2008</b>					
Borrowings	1,504,170	30,000	100,000	—	1,634,170
Interests payments on borrowings (Note)	39,291	8,144	3,526	—	50,961
Trade and other payables	9,917,161	—	—	—	9,917,161
	11,460,622	38,144	103,526	—	11,602,292

Note: Interest is based on borrowings as at 31 December 2009 and 2008 and the interest rate as at 31 December 2009 and 2008.

## Notes to the Consolidated Financial Statements

### 3 FINANCIAL RISK MANAGEMENT (continued)

#### (b) Capital risk management

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

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

As at 31 December 2009, the Group was in a net cash position (total bank borrowings were less than the total of pledged bank deposits and cash and cash equivalents).

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by capital and reserves attributable to the Company's shareholders.

The gearing ratios are as follows:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Total borrowings	1,334,313	1,634,170
Capital and reserves attributable to the Company's shareholders	10,910,856	2,267,046
Gearing ratio	12%	72%

### 3 FINANCIAL RISK MANAGEMENT (continued)

#### (c) Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2009.

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale financial assets	48,441	7,510	—	55,951

## Notes to the Consolidated Financial Statements

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

#### **(a) De facto control over Shenzhen Accord Pharmaceutical Co., Ltd. (“Accord Pharma”) and China National Medicines Corporation Ltd. (“National Medicines”)**

The Company’s directors and the Group’s management are of the view that the Group has the power to govern the financial and operating policies of Accord Pharma although the Group held less than 50% of its equity interests since December 2004, after considering that (1) the Company has been the single largest shareholder of Accord Pharma; (2) the shareholding in Accord Pharma has been dispersed and the other top ten shareholders held less than 3% equity interests individually or less than 19% in aggregate; (3) the participation of the other shareholders at the shareholders’ meetings has been relatively low and passive; and (4) the majority of the executive directors of Accord Pharma were representatives of the Company.

The Company’s directors and the Group’s management are of the view that the Group has the power to govern the financial and operating policies of National Medicines although the Group held less than 50% of its equity interests since August 2006, after considering that (1) the Company has been the single largest shareholder of National Medicines; (2) the shareholding in National Medicines was dispersed and the other top ten shareholders held less than 2% equity interests individually or less than 13% in aggregate; (3) the participation of the other shareholders at the shareholders’ meetings has been relatively low and passive; and (4) the majority of the executive directors of National Medicines were representatives of the Company.



## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

### **(b) Useful lives and residual values of property, plant and equipment**

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

### **(c) Useful lives of sales network, trademarks and patent rights**

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

### **(d) Impairment of property, plant and equipment and land use rights**

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

## Notes to the Consolidated Financial Statements

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

#### **(d) Impairment of property, plant and equipment and land use rights** (continued)

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

#### **(e) Impairment of receivables**

The Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgements and estimates. Management reassesses the provisions at each balance sheet date.

#### **(f) Net realisable value of inventories**

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

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

### **(g) Income taxes and deferred income tax**

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

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

### **(h) Post-employment benefit obligations**

The valuation of the present value of post-employment benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of benefit obligations. Key assumptions for benefit obligations are based in part on current market conditions. Additional information is disclosed in Note 22.

### **(i) Impairment of goodwill**

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 9).

## Notes to the Consolidated Financial Statements

### 5 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the operating committee (comprising the general manager and the executives at the general manager 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 three business types in the PRC:

- (i) Pharmaceutical distribution — distribution of medicine and pharmaceutical products to customers, including hospitals, other distributors, retail drug stores and clinics;
- (ii) Retail pharmacy operations — operation of medicine chain stores; and
- (iii) Other business operations — distribution of laboratory supplies, manufacturing and distribution of chemical reagents and production and sale of pharmaceutical products.

Inter-segment revenue are conducted at prices and terms mutually agreed amongst those business segments.

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment assets consist primarily of land use rights, investment properties, property, plant and equipment, intangible assets, 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 and other liabilities that are incurred for financing rather than operating purpose.

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

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

## 5 SEGMENT INFORMATION (continued)

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

### (i) For the Year ended 31 December 2009 and 2008

	Pharmaceutical distribution RMB'000	Retail pharmacy operations RMB'000	Other business operations RMB'000	Elimination RMB'000	Group RMB'000
<b>Year ended 31 December 2009</b>					
<b>Segment results</b>					
External segment revenue	43,908,578	1,215,654	1,921,621	—	47,045,853
Inter-segment revenue	260,987	—	97,058	(358,045)	—
Revenue	44,169,565	1,215,654	2,018,679	(358,045)	47,045,853
Operating profit	1,425,014	12,913	114,934	(2,582)	1,550,279
Other gains	163,678	1,101	6,416	—	171,195
Share of results of associates	66,905	—	—	—	66,905
	1,655,597	14,014	121,350	(2,582)	1,788,379
Finance costs — net					(216,007)
Profit before income tax					1,572,372
Income tax expense					(386,234)
Profit for the year					1,186,138
<b>Other segment items included in the income statement</b>					
Provision for impairment of trade and other receivables, net	16,583	330	219	—	17,132
Provision for impairment of inventories	15,192	63	58	—	15,313
Provision for impairment of available-for-sale financial assets	18,503	—	—	—	18,503
Amortisation of land use rights	6,670	—	2,834	—	9,504
Depreciation of property, plant and equipment	93,253	5,268	34,654	—	133,175
Depreciation of investment properties	—	—	9,561	—	9,561
Amortisation of intangible assets	38,659	96	10,562	—	49,317
<b>Capital expenditures</b>	<b>195,569</b>	<b>21,958</b>	<b>131,168</b>	<b>—</b>	<b>348,695</b>

## Notes to the Consolidated Financial Statements

### 5 SEGMENT INFORMATION (continued)

#### (i) For the Year ended 31 December 2009 and 2008 (continued)

	Pharmaceutical distribution RMB'000	Retail pharmacy operations RMB'000	Other business operations RMB'000	Elimination RMB'000	Group RMB'000
<b>Year ended 31 December 2008</b>					
<b>Segment results</b>					
External segment revenue	35,745,080	952,162	1,494,667	—	38,191,909
Inter-segment revenue	213,020	—	98,144	(311,164)	—
Revenue	35,958,100	952,162	1,592,811	(311,164)	38,191,909
Operating profit	1,057,292	11,896	107,880	(3,558)	1,173,510
Other gains/(losses)	93,564	(616)	369	—	93,317
Share of results of associates	54,137	—	49	—	54,186
	1,204,993	11,280	108,298	(3,558)	1,321,013
Finance costs — net					(241,684)
Profit before income tax					1,079,329
Income tax expense					(259,286)
Profit for the year					820,043
<b>Other segment items included in the income statement</b>					
(Write-back of)/provision for impairment of trade and other receivables, net	(2,508)	(1,146)	85	—	(3,569)
Provision for impairment of inventories	1,060	1,061	2,365	—	4,486
Amortisation of land use rights	8,448	—	2,770	—	11,218
Depreciation of property, plant and equipment	81,862	4,391	33,208	—	119,461
Depreciation of investment properties	—	—	6,915	—	6,915
Amortisation of intangible assets	34,859	80	1,437	—	36,376
<b>Capital expenditures</b>	132,276	9,522	139,641	—	281,439

## 5 SEGMENT INFORMATION (continued)

### (ii) As at 31 December 2009 and 2008

	Pharmaceutical distribution RMB'000	Retail pharmacy operations RMB'000	Other business operations RMB'000	Elimination RMB'000	Group RMB'000
<b>As at 31 December 2009</b>					
<b>Segment assets and liabilities</b>					
Segment assets	25,826,528	619,293	2,006,658	(320,357)	28,132,122
Segment assets include:					
Investments in associates	306,254	—	24,591	—	330,845
Unallocated assets					143,128
Total assets					28,275,250
Segment liabilities	13,154,735	425,204	1,077,117	(317,835)	14,339,221
Unallocated liabilities					1,431,574
Total liabilities					15,770,795
<b>As at 31 December 2008</b>					
<b>Segment assets and liabilities</b>					
Segment assets	14,527,096	422,576	1,379,137	(346,509)	15,982,300
Segment assets include:					
Investments in associates	282,246	—	24,282	—	306,528
Unallocated assets					143,035
Total assets					16,125,335
Segment liabilities	10,318,922	299,396	715,667	(324,259)	11,009,726
Unallocated liabilities					1,702,211
Total liabilities					12,711,937

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

## Notes to the Consolidated Financial Statements

### 6 LAND USE RIGHTS — GROUP

Land in Mainland China is state-owned or collectively-owned and no individual land ownership right exists. The Group has acquired rights to use certain land. The Group's interests in land use rights represent prepaid operating lease payments and their net book amount are analysed as follows:

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Cost	571,005	473,373
Accumulated amortisation	(66,809)	(57,305)
Net book amount	504,196	416,068
Opening net book amount	416,068	398,028
Additions	54,402	29,258
Acquisition of subsidiaries (Note 39)	15,708	—
Transfer from construction in-progress (Note 8)	27,522	—
Amortisation	(9,504)	(11,218)
Closing net book amount	504,196	416,068

Land use rights are located in Mainland China with tenure of between 40 to 50 years (2008: 40 to 50 years).

Amortisation of land use rights has been included in general and administrative expenses.

As at 31 December 2009, land use rights with net book amount of approximately RMB8,121,000 (2008: RMB40,550,000) were pledged as collaterals for the Group's bank borrowings (Note 21).



## 7 INVESTMENT PROPERTIES – GROUP

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Cost	156,914	97,047
Accumulated depreciation	(61,592)	(26,284)
Net book amount	95,322	70,763
Opening net book amount	70,763	90,735
Transfer from property, plant and equipment (Note 8)	35,804	956
Transfer to property, plant and equipment (Note 8)	(1,684)	(14,013)
Depreciation	(9,561)	(6,915)
Closing net book amount	95,322	70,763

Investment properties are located in Mainland China, on land with land use rights of between 40 to 50 years (2008: 40 to 50 years).

As at 31 December 2009, buildings with a net book amount of RMB17,551,000 lack property rights certificates.

As at 31 December 2009, the fair value of the investment properties was estimated by the Company's directors to be approximately RMB180,765,890 (2008: RMB101,691,000). These estimates were based on (i) market transacted prices for similar properties in the vicinity of the relevant properties, or (ii) where market transacted prices were not available, the published price indices and guidelines from the relevant government authorities. As the carrying amounts of the Group's investment properties are not significant, the Company's directors are of the view that independent property valuation is not necessary.

## Notes to the Consolidated Financial Statements

### 7 INVESTMENT PROPERTIES — GROUP (continued)

Lease rental income relating to the leases of investment properties has been included in the consolidated income statements as follows:

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Revenue (Note 26)	42,723	35,718

### 8 PROPERTY, PLANT AND EQUIPMENT

#### The Group

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Construction in-progress RMB'000	Total RMB'000
<b>Year ended 31 December 2008</b>						
Opening net book amount	745,902	198,594	105,096	79,013	71,179	1,199,784
Acquisition of subsidiaries	4,916	—	—	—	—	4,916
Additions	20,011	9,871	57,533	23,791	104,240	215,446
Transfers	16,920	17,022	—	—	(33,942)	—
Transfer from investment properties (Note 7)	14,013	—	—	—	—	14,013
Transfer to investment properties (Note 7)	(956)	—	—	—	—	(956)
Disposal of subsidiaries	(7,847)	(2,089)	(8,214)	(759)	—	(18,909)
Disposals	(21,187)	(2,300)	(5,407)	(2,925)	—	(31,819)
Depreciation	(37,847)	(25,712)	(34,944)	(20,958)	—	(119,461)
Closing net book amount	733,925	195,386	114,064	78,162	141,477	1,263,014
<b>At 31 December 2008</b>						
Cost	958,554	302,300	221,072	147,980	141,477	1,771,383
Accumulated depreciation and impairment	(224,629)	(106,914)	(107,008)	(69,818)	—	(508,369)
Net book amount	733,925	195,386	114,064	78,162	141,477	1,263,014

## 8 PROPERTY, PLANT AND EQUIPMENT (continued)

### The Group (continued)

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Construction in-progress RMB'000	Total RMB'000
<b>Year ended 31 December 2009</b>						
Opening net book amount	733,925	195,386	114,064	78,162	141,477	1,263,014
Acquisition of subsidiaries (Note 39)	7,897	53,716	5,930	3,095	2,540	73,178
Additions	61,677	49,337	57,439	37,769	142,179	348,401
Transfers	93,483	32,542	8,267	—	(134,292)	—
Transfer from investment properties (Note 7)	1,684	—	—	—	—	1,684
Transfer to land use rights (Note 6)	—	—	—	—	(27,522)	(27,522)
Transfer to investment properties (Note 7)	(35,804)	—	—	—	—	(35,804)
Disposals	(14,368)	(10,933)	(11,297)	(5,232)	—	(41,830)
Depreciation	(43,711)	(37,152)	(34,440)	(17,872)	—	(133,175)
Closing net book amount	804,783	282,896	139,963	95,922	124,382	1,447,946
<b>At 31 December 2009</b>						
Cost	1,044,938	431,318	267,212	173,638	124,382	2,041,488
Accumulated depreciation and impairment	(240,155)	(148,422)	(127,249)	(77,716)	—	(593,542)
Net book amount	804,783	282,896	139,963	95,922	124,382	1,447,946

Depreciation expenses were charged to the consolidated income statements as follows:

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Cost of sales	63,132	46,533
Distribution and selling expenses	12,588	7,107
General and administrative expenses	57,455	65,821
	133,175	119,461

## Notes to the Consolidated Financial Statements

### 8 PROPERTY, PLANT AND EQUIPMENT (continued)

#### The Group (continued)

As at 31 December 2009, property, plant and equipment with net book amount of approximately RMB111,786,000 (2008: RMB147,600,000) were pledged as collateral of the Group's bank borrowings (Note 21).

As at 31 December 2009, buildings with net book amount of RMB28,456,000 lack property rights certificates.

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

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Borrowing cost capitalised	3,067	3,202
Weighted average borrowing cost rate	5.1%	5.9%

## 8 PROPERTY, PLANT AND EQUIPMENT (continued)

### The Company

	<b>Buildings</b> RMB'000	<b>Furniture, fittings and equipment</b> RMB'000	<b>Motor vehicles</b> RMB'000	<b>Total</b> RMB'000
<b>Year ended 31 December 2008</b>				
Opening net book amount	510	8,034	6,618	15,162
Additions	—	2,153	—	2,153
Disposals	—	—	80	80
Depreciation	—	(1,662)	(1,773)	(3,435)
Closing net book amount	510	8,525	4,925	13,960
<b>At 31 December 2008</b>				
Cost	768	14,750	10,234	25,752
Accumulated depreciation	(258)	(6,225)	(5,309)	(11,792)
Net book amount	510	8,525	4,925	13,960
<b>Year ended 31 December 2009</b>				
Opening net book amount	<b>510</b>	<b>8,525</b>	<b>4,925</b>	<b>13,960</b>
Additions	—	<b>811</b>	—	<b>811</b>
Disposals	—	<b>(312)</b>	—	<b>(312)</b>
Depreciation	—	<b>(2,000)</b>	<b>(1,541)</b>	<b>(3,541)</b>
Closing net book amount	<b>510</b>	<b>7,024</b>	<b>3,384</b>	<b>10,918</b>
<b>At 31 December 2009</b>				
Cost	<b>768</b>	<b>15,249</b>	<b>10,234</b>	<b>26,251</b>
Accumulated depreciation	<b>(258)</b>	<b>(8,225)</b>	<b>(6,850)</b>	<b>(15,333)</b>
Net book amount	<b>510</b>	<b>7,024</b>	<b>3,384</b>	<b>10,918</b>

## Notes to the Consolidated Financial Statements

### 9 INTANGIBLE ASSETS – GROUP

	<b>Goodwill</b> RMB'000	<b>Sales network</b> RMB'000	<b>Trademarks and patent</b> RMB'000	<b>Software</b> RMB'000	<b>Total</b> RMB'000
<b>Year ended 31 December 2008</b>					
Opening net book amount	25,860	116,908	60,119	14,258	217,145
Acquisition of subsidiaries	4,733	32,184	—	19	36,936
Disposal of subsidiaries	—	—	(20,998)	—	(20,998)
Additions	—	—	2,200	5,113	7,313
Amortisation	—	(23,072)	(6,576)	(6,728)	(36,376)
Closing net book amount	30,593	126,020	34,745	12,662	204,020
<b>At 31 December 2008</b>					
Cost	30,593	208,505	63,107	38,456	340,661
Accumulated amortisation	—	(82,485)	(28,362)	(25,794)	(136,641)
Net book amount	30,593	126,020	34,745	12,662	204,020
<b>Year ended of 31 December 2009</b>					
Opening net book amount	<b>30,593</b>	<b>126,020</b>	<b>34,745</b>	<b>12,662</b>	<b>204,020</b>
Acquisition of subsidiaries (Note 39)	<b>59,172</b>	<b>99,701</b>	<b>32,895</b>	<b>435</b>	<b>192,203</b>
Acquisition of Guangxi Accord Pharmacy Chain Store Co., Ltd. and Guangdong Accord Drugstore Co., Ltd. from Accord Pharma (Note 20)	<b>34,062</b>	—	—	—	<b>34,062</b>
Additions	—	—	—	<b>10,287</b>	<b>10,287</b>
Amortisation	—	<b>(27,061)</b>	<b>(17,088)</b>	<b>(5,168)</b>	<b>(49,317)</b>
Closing net book amount	<b>123,827</b>	<b>198,660</b>	<b>50,552</b>	<b>18,216</b>	<b>391,255</b>
<b>At 31 December 2009</b>					
Cost	<b>123,827</b>	<b>308,206</b>	<b>96,002</b>	<b>40,975</b>	<b>569,010</b>
Accumulated amortisation	—	<b>(109,546)</b>	<b>(45,450)</b>	<b>(22,759)</b>	<b>(177,755)</b>
Net book amount	<b>123,827</b>	<b>198,660</b>	<b>50,552</b>	<b>18,216</b>	<b>391,255</b>

## 9 INTANGIBLE ASSETS — GROUP (continued)

Amortisation expenses were charged to the consolidated income statements as follows:

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Distribution and selling expenses	28,481	25,942
General and administrative expenses	20,836	10,434
	<b>49,317</b>	36,376

### Impairment tests for goodwill:

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment, as follows:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Pharmaceutical distribution	19,199	4,127
Retail pharmacy operations	53,989	19,927
Pharmaceutical manufacturing	50,639	6,539
	<b>123,827</b>	30,593

## Notes to the Consolidated Financial Statements

### 9 INTANGIBLE ASSETS — GROUP (continued)

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the businesses in which the CGUs operate. The key assumptions used for value-in-use calculations are as follows:

	Pharmaceutical distribution	Retail pharmacy operations	Pharmaceutical manufacturing
Gross margin	6.0%	26.0%	30.0%
Growth rate to extrapolate cash flows beyond the budget period	4.0%	4.5%	6.0%
Discount rate	12.6%	12.9%	13.5%

Management determined budgeted gross margin and growth rates based on past performance and its expectations for market development. The discount rates used are pre-tax after reflecting specific risks of the relevant businesses.

### 10 INVESTMENTS IN SUBSIDIARIES — COMPANY

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Investments, at cost		
— Listed shares (i)	500,260	511,686
— Unlisted shares	5,133,396	1,579,977
	5,633,656	2,091,663
Quoted market value of listed shares	8,448,924	4,930,405

Note:

- (i) This represents the Group's investments in Accord Pharma and National Medicines, companies listed on the Shenzhen and Shanghai Stock Exchanges respectively in Mainland China.

Particulars of the Company's principal subsidiaries are set out in Note 41.



## 11 INVESTMENTS IN ASSOCIATES

### The Group

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Share of net assets	313,492	289,175
Goodwill	17,353	17,353
End of the year	330,845	306,528
Beginning of the year	306,528	255,360
Acquisitions	45,502	14,690
Reclassification from investments in subsidiaries upon cessation of control	—	21,956
Reclassification from available-for-sale financial assets (Note 13)	1,915	—
Share of results	66,905	54,186
Dividends declared by associates attributable to the Group	(49,922)	(25,713)
Disposals	(40,083)	(13,951)
End of the year	330,845	306,528

The Group's shares of the assets, liabilities, revenues and results of the associates are as follows:

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Assets	638,183	524,332
Liabilities	324,691	235,157
Revenues	1,503,188	1,023,589
Profit for the year	66,905	54,186

Particulars of the Company's principal associates, all of which are unlisted, are set out in Note 41.

## Notes to the Consolidated Financial Statements

### 11 INVESTMENTS IN ASSOCIATES (continued)

#### The Company

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Investments, at cost		
– Unlisted shares	14,690	14,690

### 12 FINANCIAL INSTRUMENTS BY CATEGORY

#### The Group

At 31 December 2009	Loans and receivables RMB'000	Available- for-sale RMB'000	Total RMB'000
<b>Assets as per balance sheet</b>			
Available-for-sale financial assets	–	55,951	55,951
Trade receivables	10,463,660	–	10,463,660
Other receivables	318,230	–	318,230
Short-term loans receivable	2,905,584	–	2,905,584
Pledged bank deposits	320,442	–	320,442
Cash and cash equivalents	6,616,801	–	6,616,801
<b>Total</b>	<b>20,624,717</b>	<b>55,951</b>	<b>20,680,668</b>
		<b>Other financial liabilities at amortised cost RMB'000</b>	<b>Total RMB'000</b>
<b>Liabilities as per balance sheet</b>			
Bank borrowings		1,334,313	1,334,313
Trade payables		12,135,002	12,135,002
Accruals and other payables		1,251,843	1,251,843
<b>Total</b>		<b>14,721,158</b>	<b>14,721,158</b>

## 12 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

### The Group (continued)

<b>At 31 December 2008</b>	Loans and receivables RMB'000	Available- for-sale RMB'000	Total RMB'000
<b>Assets as per balance sheet</b>			
Available-for-sale financial assets	—	52,926	52,926
Trade receivables	7,913,583	—	7,913,583
Other receivables	172,975	—	172,975
Pledged bank deposits	285,835	—	285,835
Cash and cash equivalents	1,712,119	—	1,712,119
<b>Total</b>	<b>10,084,512</b>	<b>52,926</b>	<b>10,137,438</b>
		Other financial liabilities at amortised cost RMB'000	Total RMB'000
<b>Liabilities as per balance sheet</b>			
Borrowings		1,634,170	1,634,170
Trade payables		9,053,074	9,053,074
Accruals and other payables		864,087	864,087
<b>Total</b>		<b>11,551,331</b>	<b>11,551,331</b>

## Notes to the Consolidated Financial Statements

### 12 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

#### The Company

	Loans and receivables As at 31 December	
	2009 RMB'000	2008 RMB'000
<b>Assets as per balance sheet</b>		
Loans to subsidiaries	1,304,973	655,764
Trade receivables	2,036,465	1,295,948
Other receivables	2,042,892	947,080
Short-term loan receivable	2,905,584	—
Cash and cash equivalents	1,272,398	301,008
<b>Total</b>	<b>9,562,312</b>	<b>3,199,800</b>

	Financial liabilities at amortised cost As at 31 December	
	2009 RMB'000	2008 RMB'000
<b>Liabilities as per balance sheet</b>		
Borrowings	43,531	605,000
Trade payables	2,261,561	1,707,023
Accruals and other payables	1,796,032	493,630
	<b>4,101,124</b>	<b>2,805,653</b>

## 13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

### The Group

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Listed equity investments, at fair value	48,441	21,137
Unlisted equity investments, at fair value	7,510	31,789
	55,951	52,926
Less: Current portion	(15)	(15)
	55,936	52,911

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Beginning of the year	52,926	56,982
Additions	—	13,661
Net gain/(loss) transferred to equity	27,304	(14,694)
Disposals	(3,861)	(3,023)
Reclassification to investments in associates (Note 11)	(1,915)	—
Provision for impairment	(18,503)	—
End of the year	55,951	52,926

## Notes to the Consolidated Financial Statements

### 13 AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

#### The Company

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Unlisted equity investment, at fair value	6,760	6,760
Beginning of the year	20,394	6,760
Additions	—	13,634
Provision for impairment	(13,634)	—
End of the year	6,760	20,394

The fair value of listed equity investments is based on the quoted market prices. For unlisted equity investments, the Company's directors estimate the fair value of these investments mainly based on the historical performance of these companies, market environment and the prospective industry overview, or prices of similar recent disposal if applicable.

## 14 DEFERRED INCOME TAX

### The Group

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net amounts are as follows:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Deferred income tax assets		
— to be recovered after more than 12 months	124,570	134,603
— to be recovered within 12 months	18,558	8,432
	143,128	143,035
Deferred income tax liabilities		
— to be settled after more than 12 months	(87,848)	(61,766)
— to be settled within 12 months	(9,413)	(6,275)
	(97,261)	(68,041)
Deferred income tax assets — net	45,867	74,994

The movement in the deferred income tax account is as follows:

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Beginning of the year	74,994	71,743
Acquisition of subsidiaries (Note 39)	(29,202)	(12,095)
Recognised in the consolidated income statements (Note 33(a))	6,901	11,673
Recognised in equity	(6,826)	3,673
End of the year	45,867	74,994

## Notes to the Consolidated Financial Statements

### 14 DEFERRED INCOME TAX (continued)

#### The Group (continued)

The movement in deferred income tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

#### Deferred income tax assets

	Employee benefit obligations RMB'000	Impairment provision on assets RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
<b>As at 1 January 2008</b>	69,839	41,388	8,905	18,387	138,519
Acquisition of subsidiaries	—	15	—	—	15
Recognised in the consolidated income statements	14,231	(709)	(5,118)	(3,903)	4,501
<b>At 31 December 2008</b>	<b>84,070</b>	<b>40,694</b>	<b>3,787</b>	<b>14,484</b>	<b>143,035</b>
Acquisition of subsidiaries (Note 39)	—	628	—	—	628
Recognised in the consolidated income statements	(12,455)	15,403	(1,739)	(1,744)	(535)
<b>At 31 December 2009</b>	<b>71,615</b>	<b>56,725</b>	<b>2,048</b>	<b>12,740</b>	<b>143,128</b>



## 14 DEFERRED INCOME TAX (continued)

### The Group (continued)

#### Deferred income tax liabilities

	Fair value adjustments on assets relating to business combinations RMB'000	Fair value gains from available-for- sale financial assets RMB'000	Total RMB'000
<b>As at 1 January 2008</b>	62,757	8,083	70,840
Acquisition of a subsidiary	8,046	—	8,046
Recognised in the consolidated income statements	(7,172)	—	(7,172)
Recognised in equity	—	(3,673)	(3,673)
<b>At 31 December 2008</b>	<b>63,631</b>	<b>4,410</b>	<b>68,041</b>
Acquisition of subsidiaries (Note 39)	<b>29,830</b>	—	<b>29,830</b>
Recognised in the consolidated income statements	<b>(7,436)</b>	—	<b>(7,436)</b>
Recognised in equity	—	<b>6,826</b>	<b>6,826</b>
<b>At 31 December 2009</b>	<b>86,025</b>	<b>11,236</b>	<b>97,261</b>

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately RMB24,471,000 (2008: RMB26,905,000) in respect of tax losses amounting to approximately RMB97,885,000 (2008: RMB107,619,000) that can be carried forward against future taxable income. As at 31 December 2009, tax losses amounting to RMB28,377,000, RMB17,011,000, RMB18,046,000, RMB15,763,000 and RMB18,688,000 will expire in 2010, 2011, 2012, 2013 and 2014, respectively.

## Notes to the Consolidated Financial Statements

### 14 DEFERRED INCOME TAX (continued)

#### The Company

The gross movement in deferred income tax account is as follows:

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Beginning of year	27,999	23,886
Recognised in the income statements	1,678	4,113
End of year	29,677	27,999

The movements in deferred income tax assets, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

#### Deferred income tax assets

	Employee benefit obligations RMB'000	Impairment provision on assets RMB'000	Others RMB'000	Total RMB'000
<b>At 1 January 2008</b>	11,263	8,715	3,908	23,886
Recognised in the income statements	1,937	830	1,346	4,113
<b>At 31 December 2008</b>	<b>13,200</b>	<b>9,545</b>	<b>5,254</b>	<b>27,999</b>
Recognised in the income statements	(2,104)	2,974	808	1,678
<b>At 31 December 2009</b>	<b>11,096</b>	<b>12,519</b>	<b>6,062</b>	<b>29,677</b>

## 15 INVENTORIES

### The Group

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Raw materials	112,135	75,056
Work in progress	20,211	73
Finished goods and trading merchandise	4,167,932	3,100,735
	4,300,278	3,175,864
Less: Provision for impairment	(27,471)	(21,044)
	4,272,807	3,154,820

Provision for impairment	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
At the beginning of year	21,044	29,938
Provision for the year (Note 29)	15,313	4,486
Credited to cost of sales when inventories were sold	(8,886)	(13,380)
At the end of year	27,471	21,044

The cost of inventories recognised as expense and included in cost of sales amounted to RMB43,152,082,000 for the year ended 31 December 2009 (2008: RMB35,076,533,000).

## Notes to the Consolidated Financial Statements

### 15 INVENTORIES (continued)

#### The Company

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Trading merchandise	814,772	581,588
Less: Provision for impairment	(5,428)	(324)
	<b>809,344</b>	581,264

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
<b>Provision for impairment</b>		
At the beginning of year	324	436
Provision/(write-back) for the year	5,104	(112)
At the end of year	<b>5,428</b>	324

### 16 TRADE RECEIVABLES

#### The Group

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Accounts receivable	9,814,925	7,455,442
Notes receivable	809,819	606,475
	<b>10,624,744</b>	8,061,917
Less: Provision for impairment	(161,084)	(148,334)
Trade receivables — net	<b>10,463,660</b>	7,913,583

## 16 TRADE RECEIVABLES (continued)

### The Group (continued)

The fair values of trade receivables approximate their carrying amounts.

Retail sales at the Group's medicine chain stores are usually made in cash or by debit or credit cards. For medicine distribution and medicine manufacture businesses, sales are made on credit terms ranging from 30 to 180 days. The ageing analysis of trade receivables (accounts receivable and notes receivable) is as follows:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Below 3 months	8,950,040	6,806,815
3 to 6 months	1,449,211	886,811
6 months to 1 year	188,174	316,861
1 to 2 years	9,205	8,875
Over 2 years	28,114	42,555
	<b>10,624,744</b>	8,061,917

Certain trade receivables that are past due are not considered impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
3 to 6 months	1,340,595	799,660
6 months to 1 year	167,317	297,519
1 to 2 years	5,494	6,387
Over 2 years	214	3,202
	<b>1,513,620</b>	1,106,768

## Notes to the Consolidated Financial Statements

### 16 TRADE RECEIVABLES (continued)

#### The Group (continued)

As of 31 December 2009, trade receivables of approximately RMB161,084,000 (2008: RMB148,334,000), were impaired, and had been fully provided for. These receivables mainly relate to wholesalers in unexpected difficult financial situations. The ageing of these receivables is as follows:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
3 to 6 months	108,616	87,151
6 months to 1 year	20,857	19,342
1 to 2 years	3,711	2,488
Over 2 years	27,900	39,353
	<b>161,084</b>	148,334

Movements of provision for impairment of trade receivables are as follows:

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
At the beginning of year	148,334	149,019
Provision for impairment (Note 29)	29,079	10,883
Receivables written off as uncollectible	(16,329)	(11,568)
At the end of year	<b>161,084</b>	148,334

The creation and release of provision for impairment of trade and other receivables have been included in general and administrative expenses. Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

The trade receivables are denominated in RMB.

As at 31 December 2009, notes receivable of RMB468,262,000 (2008: RMB234,166,000) and accounts receivable of RMB195,664,000 (2008: RMB44,298,000) were pledged as collaterals of the Group's bank borrowings (Note 21).

## 16 TRADE RECEIVABLES (continued)

### The Group (continued)

As at 31 December 2009, accounts receivable of RMB900,756,000 (2008: RMB390,839,000) were derecognised in the accounts receivable factoring programs without recourse. The ageing of these derecognised accounts receivable is within one year. The collection of such accounts receivable on behalf of banks amounted to RMB263,605,000 (2008: RMB14,190,000) was recorded in other payables (Note 25).

There is no concentration of credit risk with respect to trade receivable as the Group has a large number of customers.

### The Company

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Accounts receivable	1,887,464	1,259,860
Notes receivable	165,012	48,233
	2,052,476	1,308,093
Less: Provision for impairment	(16,011)	(12,145)
Trade receivables — net	2,036,465	1,295,948

The ageing analysis of trade receivables, before provision for impairment is as follows:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Below 3 months	2,047,727	1,184,518
3 to 6 months	832	90,614
6 months to 1 year	439	32,418
1 to 2 years	3,478	—
Over 2 years	—	543
	2,052,476	1,308,093

## Notes to the Consolidated Financial Statements

### 17 PREPAYMENTS AND OTHER RECEIVABLES

#### The Group

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Prepayments		
– purchase of inventories	316,945	380,219
– construction	42,030	23,463
– operating expenses	15,127	20,181
Value-added tax recoverable	117,930	40,567
Deposits	95,200	44,353
Staff advances	27,478	17,062
Receivables arising from disposal of land use rights	–	2,357
Amounts due from related parties		
– other receivables	–	29,121
– prepayments	15,594	602
Other receivables	123,481	97,338
	753,785	655,263
Less: Provision for impairment	(45,859)	(57,823)
	707,926	597,440

The fair values of other receivables approximate their carrying amounts.

The other receivables are denominated in RMB.



## 17 PREPAYMENTS AND OTHER RECEIVABLES (continued)

### The Group (continued)

Movements of provision for impairment of other receivables are as follows:

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
At the beginning of year	57,823	74,541
Write-back of impairment (Note 29)	(11,947)	(14,452)
Receivables written off as uncollectible	(17)	(2,266)
At the end of year	45,859	57,823

### The Company

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Amounts due from subsidiaries	1,681,638	919,504
Prepayments		
— purchase of inventories	75,879	131,844
Dividend receivable	346,662	—
Other receivables	29,594	52,114
	2,133,773	1,103,462
Less: Provision for impairment	(15,002)	(24,538)
	2,118,771	1,078,924

## Notes to the Consolidated Financial Statements

### 18 SHORT-TERM LOANS RECEIVABLE, PLEDGED BANK DEPOSITS, CASH AND CASH EQUIVALENTS

#### The Group

	As at 31 December	
	2009 RMB'000	2008 RMB'000
<b>Short-term loans receivable</b>	<b>2,905,584</b>	—

As at 31 December 2009, the Company placed HK\$ 3,300,000,000 with China Everbright Bank for short-term entrusted lending to Ministry of Railway of the PRC via China Pingan Trust & Investment Co., Ltd. or Zhonghai Trust Co., Ltd., with expected return of 2.1% per annum, and the recovery of principal guaranteed by China Everbright Bank. These loans were repaid in January and February 2010.

<b>Pledged bank deposits</b>		
Collateral for bank acceptance of notes	<b>320,442</b>	277,435
Collateral for bank borrowings (Note 21)	—	8,400
	<b>320,442</b>	285,835
<b>Cash and cash equivalents</b>		
— Cash at banks and on hand	<b>6,616,801</b>	1,712,119
Pledged bank deposits and Cash and cash equivalents Denominated in		
— RMB	<b>6,937,243</b>	1,994,268
— Others	—	3,686
	<b>6,937,243</b>	1,997,954

The maximum exposure to credit risk at the reporting dates approximates the carrying value of short-term loan receivable, pledged bank deposits and cash and cash equivalents.

RMB is currently not a freely convertible currency in the international market. The conversion of RMB into foreign currencies and the remittance of RMB out of the PRC are subject to the rules and regulations of foreign exchange controls promulgated by the PRC authorities.

## 18 SHORT-TERM LOANS RECEIVABLE, PLEDGED BANK DEPOSITS, CASH AND CASH EQUIVALENTS (continued)

### The Group (continued)

The effective interest rates cash at banks are as follows:

	As at 31 December	
	2009	2008
Weighted average effective interest rate (per annum)	0.4%	0.6%

### The Company

	As at 31 December	
	2009 RMB'000	2008 RMB'000
<b>Short-term loan receivable</b>	<b>2,905,584</b>	—
<b>Cash and cash equivalents</b>		
— Cash at banks and on hand	<b>1,272,398</b>	301,008
Denominated in		
— RMB	<b>1,272,398</b>	301,008

## Notes to the Consolidated Financial Statements

### 19 SHARE CAPITAL

	Number of shares '000	Domestic shares of RMB1 each RMB'000	H shares of RMB1 each RMB'000	Total RMB'000
<b>At 31 December 2008</b>	<b>1,637,037</b>	<b>1,637,037</b>	<b>—</b>	<b>1,637,037</b>
Conversion of the domestic shares to 62,753,102 H Shares (a)	—	(62,753)	62,753	—
Issuance of new H Shares upon listing (b)	627,531	—	627,531	627,531
<b>At 31 December 2009</b>	<b>2,264,568</b>	<b>1,574,284</b>	<b>690,284</b>	<b>2,264,568</b>

- (a) Pursuant to "Approval concerning transfer of domestic shares held by China National Pharmaceutical Group Corporation" (Guo Zi Chan Quan [2009] No 278) issued by State-owned Assets Supervision and Administration Commission of the State Council, CNPGC has transferred 62,753,102 domestic shares of the Company to National Council for Social Security Fund ("NCSSF"). Immediately after the aforesaid share transfer, these domestic shares were converted into H Shares during the initial public offering.
- (b) In September and October 2009, the Company issued a total of 627,531,023 H Shares at HK\$16.00 per share, in connection with its listing on the Main Board of The Stock Exchange of Hong Kong Limited on 23 September 2009, and raised gross proceeds of approximately RMB8,844,935,000 (equivalent to HK\$10,040,496,000). After deduction of the expenses of approximately RMB239,328,000 (equivalent to approximately HK\$271,496,000) in relation to the global offering, the total net proceeds raised from the global offering was approximately RMB8,605,607,000 (equivalent to approximately 9,769,000,000). A total of RMB342,391,000, comprises of the share issuance and listing expenses in relation to the global offering and other transaction fees of approximately RMB103,063,000, was recorded as a deduction from the related premium.

## 20 RESERVES

### The Group

	Note	Share premium RMB'000	Statutory reserves RMB'000	Capital reserves RMB'000	Available-for-sale financial assets change RMB'000	Retained earnings (Note (c)) RMB'000	Total RMB'000
<b>As at 1 January 2008</b>		11,175	49,249	(8,359)	12,313	(16,780)	47,598
Profit for the period		—	—	—	—	587,613	587,613
Transform into a joint stock limited company		244,914	(49,249)	—	—	(195,665)	—
Revaluation of available-for-sale financial assets							
— gross		—	—	—	(6,857)	—	(6,857)
— tax		—	—	—	1,655	—	1,655
Appropriation to statutory reserves	(a)	—	11,744	—	—	(11,744)	—
<b>As at 31 December 2008</b>		256,089	11,744	(8,359)	7,111	363,424	630,009
Profit for the year		—	—	—	—	845,819	845,819
Appropriation to statutory reserves	(a)	—	81,024	—	—	(81,024)	—
Issue of share	19	8,217,404	—	—	—	—	8,217,404
Share issuance and listing expenses	19	(342,391)	—	—	—	—	(342,391)
Dividends	36	—	—	—	—	(710,116)	(710,116)
Effect of business combination of Guangxi Guoda Pharmacy Chainstore Co., Ltd. and Guangxi Huiqing Investment Co., Ltd. under common control	39	—	—	(3,316)	—	—	(3,316)
Revaluation of available-for-sale financial assets							
— gross		—	—	—	11,883	—	11,883
— tax		—	—	—	(3,004)	—	(3,004)
<b>As at 31 December 2009</b>		8,131,102	92,768	(11,675)	15,990	418,103	8,646,288

## Notes to the Consolidated Financial Statements

### 20 RESERVES (continued)

#### The Company

	Note	Share premium RMB'000	Statutory reserves RMB'000	Capital reserves RMB'000	Retained Earnings (Note (c)) RMB'000	Total RMB'000
<b>As at 1 January 2008</b>		—	49,249	—	(280,493)	(231,244)
Profit for the year		—	—	—	563,490	563,490
Appropriation to statutory reserves	(a)	—	11,744	—	(11,744)	—
Transform into a joint stock limited company		244,914	(49,249)	—	(195,665)	—
<b>As at 31 December 2008</b>		<b>244,914</b>	<b>11,744</b>	<b>—</b>	<b>75,588</b>	<b>332,246</b>
Profit for the year		—	—	—	807,069	807,069
Appropriation to statutory reserves	(a)	—	81,024	—	(81,024)	—
Issue of share	19	8,217,404	—	—	—	8,217,404
Share issuance and listing expenses	19	(342,391)	—	—	—	(342,391)
Dividends	36	—	—	—	(710,116)	(710,116)
Effect of acquisition of Guangxi Accord Pharmacy Chain Store Co., Ltd. and Guangdong Accord Drugstore Co., Ltd. from Accord Pharma	(b)	—	—	(55,232)	—	(55,232)
<b>As at 31 December 2009</b>		<b>8,119,927</b>	<b>92,768</b>	<b>(55,232)</b>	<b>91,517</b>	<b>8,248,980</b>

Notes:

(a) PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the net profit (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to shareholders. Statutory reserves are created for specific purposes. In accordance with the Company Law, PRC companies are required to appropriate 10% of net profits to statutory surplus reserves. A company may discontinue the appropriation when the balance of its statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the companies or to increase capital of the companies. In addition, a company may make further contribution to discretionary surplus reserve using its post-tax profit in accordance with a resolution of the board of directors.

(b) **Acquisition of Guangxi Accord Pharmacy Chain Store Co., Ltd. and Guangdong Accord Drugstore Co., Ltd. from Accord Pharma**

In June 2009, the Company acquired Accord Pharma's 100% equity interests in Guangxi Accord Pharmacy Chain Store Co., Ltd. and Guangdong Accord Drugstore Co., Ltd., for RMB75,574,000. Because the acquisition involves entities under common control and within the Group, the difference between the consideration and the total net assets (book value) of Guangxi Accord Pharmacy Chain Store Co., Ltd. and Guangdong Accord Drugstore Co., Ltd. was recorded in the Company's "capital reserves" account.

After the acquisition, the Group's effective interests in Guangxi Accord Pharmacy Chain Store Co., Ltd. and Guangdong Accord Drugstore Co., Ltd. increased from 38.33% to 100%. This purchase from minority interest resulted in goodwill of RMB34,062,000 in the consolidated financial statements, being the difference between the consideration paid and the relevant share acquired of the carrying value of net assets of these two subsidiaries.

(c) Retained earnings as at 31 December 2009 include proposed final dividend of RMB22,879,250 (2008: RMB105,699,000).

## 21 BANK BORROWINGS

### The Group

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Secured	767,253	425,633
Unsecured	567,060	1,208,537
<b>Total bank borrowings</b>	<b>1,334,313</b>	1,634,170

The bank borrowings were denominated in RMB.

The Group's bank borrowings were repayable as follows:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Within 1 year	1,284,313	1,504,170
Between 1 to 2 years	30,000	30,000
Between 2 to 5 years	—	100,000
Over 5 years	20,000	—
	<b>1,334,313</b>	1,634,170

All of the Group's bank borrowings are on floating rates are as follows:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Weighted average effective interest rate (per annum)	4.8%	5.8%

Interest rates of bank borrowings are reset periodically according to the benchmark rates announced by the PBOC.

## Notes to the Consolidated Financial Statements

### 21 BANK BORROWINGS (continued)

#### The Group (continued)

The collaterals for the Group's secured bank borrowings are as follows:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Property, plant and equipment (Note 8)	111,786	147,600
Land use rights (Note 6)	8,121	40,550
Bank deposits (Note 18)	—	8,400
Notes receivable (Note 16)	468,262	234,166
Accounts receivable (Note 16)	195,664	44,298
	<b>783,833</b>	475,014

The fair values of the short-term borrowings approximate their carrying amounts. The carrying amounts and fair value of the non-current borrowings are as follows:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Carrying amount	50,000	130,000
Fair value	49,080	122,856

The Group has the following undrawn borrowing facilities:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Floating rate — expiring within one year	12,545,164	3,103,391

The facilities expiring within one year are annual facilities subject to review at various dates during the next 12 months.



## 21 BANK BORROWINGS (continued)

### The Company

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Secured	43,531	—
Unsecured	—	605,000
<b>Total bank borrowings</b>	<b>43,531</b>	<b>605,000</b>

At respective balance sheet dates, the Company's bank borrowings were repayable as follows:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Within one year	43,531	605,000

All of the Company's borrowings are on floating rates. The weighted average effective interest rates at respective balance sheet dates are as follows:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Bank borrowings	4.4%	5.1%

The security for the Company's borrowings is as follows:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Notes receivable	43,531	—

## Notes to the Consolidated Financial Statements

### 22 POST-EMPLOYMENT BENEFIT OBLIGATIONS — GROUP

Certain subsidiaries provide post-employment pension and medical benefits to their retirees. The Group accounts for these benefits using the accounting basis similar to a defined benefit plan.

The amounts recognised in the balance sheet are analysed as follows:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Present value of unfunded post-employment benefit obligations	282,292	307,193
Unrecognised past service cost	(6,006)	(4,496)
Liability in the balance sheet	276,286	302,697

Movement of the post-employment benefit obligations is as follows:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Beginning of the year	302,697	250,220
Total expenses, included in staff costs as shown below	320	80,585
Benefits paid	(26,731)	(28,108)
End of the year	276,286	302,697

## 22 POST-EMPLOYMENT BENEFIT OBLIGATIONS — GROUP (continued)

The amounts recognised in the consolidated income statements are as follows:

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Current service cost	3,463	3,388
Past service cost	17,161	12,602
Interest cost	10,331	11,455
Actuarial (gain)/loss	(9,646)	56,305
Gain on curtailment	(20,989)	(3,165)
Total expenses, included in staff costs	320	80,585

The above obligations are determined by an independent actuarial firm using the projected unit credit method, on each balance sheet date. The principal actuarial assumptions used are as follows:

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Discount rate	4.0%	4.5%
Future pension increases	0-2%	0-2%
Future medical cost increases	2-6%	2-6%

Mortality: Average life expectancy of residents in the Mainland China.

## Notes to the Consolidated Financial Statements

### 23 OTHER NON-CURRENT LIABILITIES

#### The Group

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Medical reserve funds (i)		
— general	242,118	226,009
— for 2009 H1N1 vaccines	286,436	—
— for 2008 Sichuan earthquake	—	64,000
Office relocation funds (ii)	33,392	24,351
Government grants for construction of logistic centers (iii)	19,107	—
Others	11,340	15,505
	<b>592,393</b>	329,865

#### Notes:

- (i) Certain medical reserves funds were received by CNPGC from the PRC government for it to purchase medical products (including medicines) required to respond to major disasters, epidemics and other emergencies. In accordance with a responsibility letter dated 4 January 2006 signed between CNPGC and the Company, CNPGC has re-allocated the funds in relation to medicines to the Group.

The Group will have to sell pharmaceutical products to specific customers at cost when there is any major disaster, epidemic and other emergency, and the relevant trade receivables from certain of these customers will be offset with the balance of the fund upon approval from CNPGC and the relevant PRC government authorities. The amount of the funds used to offset trade receivables during the year ended 31 December 2009 was RMB64,000,000 (2008: RMB4,000). The Group is required to maintain certain inventories at a level of not less than 70% of the general reserve funds. The medical reserve funds are required to be utilised for the aforementioned use and for no other purposes.

- (ii) Certain of the Group's subsidiaries received funds from local governments as compensation for losses arising from office relocation upon requests from local governments. Upon completion of the office relocation, such funds, after offsetting against actual losses arising from office relocation, will be recognised as other income. As at 31 December 2009, the directors expect that such office relocation will not be completed within one year and therefore, the balance is recorded as other non-current liabilities.
- (iii) Certain of the Group's subsidiaries received funds from local governments as a subsidy for construction of logistic centers. As at 31 December 2009, the directors expect that such constructions will not be completed within one year and therefore, the balance is recorded as other non-current liabilities.

## 23 OTHER NON-CURRENT LIABILITIES (continued)

### The Company

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Medical reserve funds		
– general	174,673	174,654
– for 2008 Sichuan earthquake	–	47,000
Others	768	768
	<b>175,441</b>	222,422

## 24 TRADE PAYABLES

### The Group

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Trade payables	8,143,977	6,380,442
Notes payable	3,991,025	2,672,632
	<b>12,135,002</b>	9,053,074

Purchases are made on credit terms ranging from 45 to 180 days.

## Notes to the Consolidated Financial Statements

### 24 TRADE PAYABLES (continued)

#### The Group (continued)

The ageing analysis of trade payables is as follows:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Below 3 months	11,152,293	8,266,668
3 to 6 months	470,378	293,825
6 months to 1 year	318,503	254,107
1 to 2 years	67,582	76,589
Over 2 years	126,246	161,885
	<b>12,135,002</b>	9,053,074

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

	As at 31 December	
	2009 RMB'000	2008 RMB'000
RMB	11,742,991	8,809,570
USD	392,011	243,504
	<b>12,135,002</b>	9,053,074

#### The Company

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Trade payables	1,639,567	1,525,634
Notes payable	621,994	181,389
	<b>2,261,561</b>	1,707,023

## 24 TRADE PAYABLES (continued)

### The Company (continued)

The ageing analysis of trade payables at respective balance sheet dates is as follows:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Below 3 months	2,247,085	1,661,998
3 to 6 months	11,260	20,969
6 months to 1 year	1,260	21,393
1 to 2 years	551	2,663
Over 2 years	1,405	—
	<b>2,261,561</b>	1,707,023

The Company's trade payables are denominated in RMB.

## 25 ACCRUALS AND OTHER PAYABLES

### The Group

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Accrual of operating expenses	217,411	212,194
Accounts receivables collection on behalf of banks for factoring programs (Note 16)	263,605	14,190
Salary and welfare payables	243,978	214,697
Advances from customers	142,454	126,489
Other deposits	27,562	40,471
Payables for share issuance and listing expenses	25,661	—
Taxes payable other than income tax and value added tax	57,655	19,299
Amounts due to related parties		
— other payables	7,920	10,286
Payables arising from acquisition of subsidiaries (Note 39)	63,241	—
Other payables	202,356	226,461
	<b>1,251,843</b>	864,087

The Group's other payables are denominated in RMB.

## Notes to the Consolidated Financial Statements

### 25 ACCRUALS AND OTHER PAYABLES (continued)

#### The Company

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Amounts due to subsidiaries	1,491,536	353,088
Amounts due to other related parties	2,770	—
Salary and welfare payables	27,530	42,261
Accrual of operating expenses	17,025	17,481
Accounts receivables collection on behalf of banks for factoring business	164,422	13,054
Taxes payable other than income tax and value added tax	4,530	2,719
Advances from customers	4,412	1,709
Other deposits	434	522
Payables arising from acquisition of subsidiaries	51,043	—
Other payables	32,330	62,796
	<b>1,796,032</b>	493,630

The Company's other payables are denominated in RMB.

### 26 REVENUE

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Sales of goods	46,960,869	38,110,586
Rental income (Note 7)	42,723	35,718
Franchise fees from medicine chain stores	11,189	15,255
Consulting income	14,965	13,126
Import agency income	16,107	15,204
Others	—	2,020
	<b>47,045,853</b>	38,191,909



## 27 OTHER INCOME

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Government grants (i)	52,487	69,919
Dividend income from available-for-sale financial assets	377	4
	<b>52,864</b>	<b>69,923</b>

Note:

- (i) Government grants mainly represented subsidy income received from various government organisations as incentives to certain Group companies.

## 28 OTHER GAINS — NET

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Gain on disposal of partial interests in subsidiaries (i)	136,547	75,965
Loss on disposal of subsidiaries	—	(11,118)
Gain on disposal of plant and equipment	5,080	3,644
Foreign exchange (loss)/gain — net	(3,813)	26,139
Write-back of certain liabilities (ii)	51,570	—
Loss on disposal of an associate (iii)	(3,858)	—
Donations	(7,104)	(3,855)
Others — net	(7,227)	2,542
	<b>171,195</b>	<b>93,317</b>

Notes:

**(i) Gain on disposal of partial interests in subsidiaries**

In 2009, the Group disposed of a 1.02% (2008: 0.99%) equity interest in National Medicines, and recognised a gain of approximately RMB63,980,000 (2008: RMB75,965,000). The Group's equity interest decreased from 45.03% to 44.01%.

In 2009, the Group disposed of a 0.81% (2008: nil) equity interest in Accord Pharma, and recognised a gain of approximately RMB37,568,000 (2008: nil). The Group's equity interest decreased from 39.14% to 38.33%.

In 2009, the Group disposed of a 9% (2008: nil) equity interest in Sinopharm Holding Beijing Huahong Co., Ltd. and recognised a gain of approximately RMB32,700,000 (2008: nil). The Group's equity interest decreased from 60% to 51%.

In 2009, the Group disposed of a 4% (2008: nil) equity interest in Sinopharm Holding Beijing Co., Ltd. and recognised a gain of approximately RMB2,299,000 (2008: nil). The Group's equity interest decreased from 100% to 96%.

## Notes to the Consolidated Financial Statements

### 28 OTHER GAINS — NET (continued)

Notes: (continued)

**(ii) Write-back of certain liabilities**

In 2009, the Group liquidated a few dormant subsidiaries and a subsidiary's branch, namely, Shanxi Yiyue Hotel, China National Pharmaceutical Group Shanxi New & Special Medicine Co., Ltd. and Shanxi Pharmaceutical Corporation Da Min Branch. In this connection, liabilities no longer payable of RMB45,277,000 was written-back, which is included as other gains. In addition, the Group also wrote-back other liabilities no longer payable of RMB6,293,000.

**(iii) Loss on disposal of an associate**

In 2009, the Group disposed of its 35% equity interest in Sinopharm Holding Hubei Xinlong Co., Ltd. and recognised a loss of approximately RMB3,858,000.

### 29 EXPENSES BY NATURE

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Raw materials and trading merchandise consumed	43,079,333	35,107,079
Changes in inventories of finished goods and work in progress	72,749	(30,546)
Employee benefit expenses (Note 30)	1,145,591	894,555
Provision for impairment of trade receivables (Note 16)	29,079	10,883
Write-back of impairment of other receivables (Note 17)	(11,947)	(14,452)
Provision for impairment of inventories (Note 15)	15,313	4,486
Provision for impairment of available-for-sale financial assets (Note 13)	18,503	—
Operating leases in respect of leasehold land and buildings	147,930	127,736
Depreciation of property, plant and equipment (Note 8)	133,175	119,461
Depreciation of investment properties (Note 7)	9,561	6,915
Amortisation of intangible assets (Note 9)	49,317	36,376
Amortisation of land use rights (Note 6)	9,504	11,218
Auditors' remuneration	10,750	20,251
Advisory and consulting fees	18,669	25,948
Transportation expenses	266,200	220,393
Travel expenses	78,594	85,561
Promotion and advertising expenses	264,698	214,188
Utilities	27,826	23,269
Others	183,593	225,001
Total cost of sales, distribution and selling expenses and general and administrative expenses	45,548,438	37,088,322

## 30 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Salaries, wages, allowances and bonuses	854,183	633,751
Contributions to pension plans (i)	92,154	68,672
Post-employment benefits (Note 22)	320	80,585
Housing benefits (ii)	39,533	27,346
Other benefits (iii)	159,401	84,201
	<b>1,145,591</b>	894,555

Notes:

- (i) As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its employees in Mainland China. The Group's employees make monthly contributions to the schemes at approximately 7% to 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 20% to 23% of such relevant income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.
- (ii) Housing benefits represent contribution 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.

## Notes to the Consolidated Financial Statements

### 31 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

#### (a) Directors' emoluments

The remuneration of every Director for the year ended 31 December 2009 is set out below:

	Salary RMB'000	Discretionary bonuses RMB'000	Other benefits RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
<b>Executive directors</b>					
Ms. Fu Mingzhong	680	320	—	58	1,058
Mr. Wei Yulin	650	290	—	50	990
<b>Non-executive directors</b>					
Mr. She Lulin	—	—	—	—	—
Mr. Guo Guangchang	—	—	—	—	—
Mr. Wang Qunbin	—	—	—	—	—
Mr. Fan Banghan	—	—	—	—	—
Mr. Liu Hailiang	—	—	—	—	—
Mr. Lian Wanyong	—	—	—	—	—
Mr. Deng Jindong	—	—	—	—	—
<b>Independent non-executive directors</b>					
Mr. Wang Fanghua	187	—	—	—	187
Mr. Tao Wuping	187	—	—	—	187
Mr. Xie Rong	187	—	—	—	187
Mr. Zhou Bajun	93	—	—	—	93
<b>Supervisors</b>					
Mr. Chen Qiyu	—	—	—	—	—
Ms. Zhang Jian	250	200	—	50	500
Mr. Xing Yonggang	—	—	—	—	—
	<b>2,234</b>	<b>810</b>	<b>—</b>	<b>158</b>	<b>3,202</b>

## 31 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

### (a) Directors' emoluments (continued)

The remuneration of every Director for the year ended 31 December 2008 is set out below:

	Salary RMB'000	Discretionary bonuses RMB'000	Other benefits RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
<b>Executive directors</b>					
Ms. Fu Mingzhong	680	260	—	52	992
Mr. Wei Yulin	650	230	—	38	918
<b>Non-executive directors</b>					
Mr. She Lulin	—	—	—	—	—
Mr. Guo Guangchang	—	—	—	—	—
Mr. Wang Qunbin	—	—	—	—	—
Mr. Fan Banghan	—	—	—	—	—
Mr. Liu Hailiang	—	—	—	—	—
Mr. Chen Weigang	—	—	—	—	—
Mr. Deng Jindong	—	—	—	—	—
<b>Independent non-executive directors</b>					
Mr. Wang Fanghua	187	—	—	—	187
Mr. Tao Wuping	187	—	—	—	187
Mr. Xie Rong	187	—	—	—	187
<b>Supervisors</b>					
Mr. Chen Qiyu	—	—	—	—	—
Ms. Zhang Jian	250	150	—	44	444
Mr. Xing Yonggang	—	—	—	—	—
	2,141	640	—	134	2,915

## Notes to the Consolidated Financial Statements

### 31 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include two Directors whose emoluments are reflected in the analysis presented above.

The emoluments payable to the remaining three individuals are as follows:

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Salaries	1,680	1,680
Discretionary bonuses	720	570
Employer's contribution to pension scheme	167	147
Other benefits	—	—
	<b>2,567</b>	2,397

	Year ended 31 December	
	2009 Number	2008 Number
In the band of:		
Nil–HK\$500,000 (Nil–RMB440,945)	—	—
HK\$500,001–HK\$1,000,000 (RMB440,945–RMB881,890)	3	3

- (c) No emoluments were paid by the Group to any of the Directors, the Supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office, and no arrangement under which a Director or a Supervisor or the highest paid individual waived or agreed to waive any of the emoluments.

## 32 FINANCE INCOME AND COSTS

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Interest expenses:		
– Borrowings	106,648	121,640
– Discount of notes receivable	76,361	108,074
– Discount of accounts receivable	29,824	14,125
Gross interest expenses	212,833	243,839
Bank charges	29,999	25,359
Less: capitalised interest expenses	(3,067)	(3,202)
Finance costs	239,765	265,996
Finance income:		
– Interest income on bank deposits	(23,758)	(24,312)
Finance costs – net	216,007	241,684

## 33 TAXATION

### (a) Income tax expense

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
PRC current income tax	393,135	270,959
Deferred income tax (Note 14)	(6,901)	(11,673)
	386,234	259,286

## Notes to the Consolidated Financial Statements

### 33 TAXATION (continued)

#### (a) Income tax expense (continued)

The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities, as follows:

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Profit before income tax	1,572,372	1,079,329
Less: Share of results of associates	(66,905)	(54,186)
	1,505,467	1,025,143
Tax calculated at weighted average domestic tax rate applicable	366,064	241,671
Unrealised intra-group profit	5,228	—
Expenses not deductible for tax purposes	14,663	11,663
Tax losses for which no deferred income tax asset was recognised, net	501	6,335
Change of income tax rate	(222)	(383)
Income tax expense	386,234	259,286
Weighted average applicable domestic tax rate (i)	24%	24%

(i) The Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong.

Effective from 1 January 2008, income tax rates for all PRC enterprises have been unified at 25%. For enterprises which were established before the publication of the Corporate Income Tax Law of the Peoples Republic of China (the "new CIT Law") on 16 March 2007 and were entitled to preferential treatments of reduced tax rates granted by relevant tax authorities, the new CIT rate will be gradually increased to 25% within 5 years. For enterprises that enjoy a reduced income tax rate of 15%, the tax rate was 18% for 2008, 20% for 2009 and will be 22% for 2010, 24% for 2011 and 25% for 2012. For enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.



### 33 TAXATION (continued)

#### (a) Income tax expense (continued)

Details of the preferential Enterprise Income Tax ("EIT") arrangements are listed as follows:

Shanghai Tongyu Information Technology Co., Ltd. and Shanghai Sinopharm Waigaoqiao Co., Ltd. are domestic enterprises established in Pudong New Area, Shanghai, PRC. In accordance with the "Circular of the State Administration of Taxation on the Applicable EIT Rate of Domestic Enterprise Established in Pudong New Area, Shanghai" (Guo Shui Fa [1992] No.114) and "Implementation on Tax Policies for Domestic Enterprises Established in Pudong New Area, Shanghai" (Hu Cai Pu [1992] No.2), they enjoyed a preferential EIT rate of 15% prior to 1 January 2008. In accordance with the "Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies" released by State Council, their EIT rate was 18% for 2008 and 20% for 2009.

Guangxi Accord Pharmacy Chainstore Co., Ltd. enjoyed preferential EIT rate of 15% from 2006 to 2010 in accordance with the "Circular of Preferential Policies on Taxation on Development of the Western Region" released by Ministry of Finance, State Administration of Taxation and General Administration of Customs, "Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies" released by State Council and approval notification (Gui Di Shui Han [2007] No.302) released by Guangxi local tax authorities.

Accord Pharma, Guangdong Accord Drugstore Co., Ltd., Shenzhen Zhijun Pharmaceutical Co., Ltd., Shenzhen Zhijun Pharmaceutical Trade Co., Ltd., Shenzhen Accord Pharmacy Chainstore Co., Ltd., Shenzhen Jianmin Pharmaceutical Co., Ltd., Shenzhen Accord Pharmaceutical Logistics Co., Ltd. and Shenzhen Accord Traditional & Herbal Medicine Co., Ltd. enjoyed a preferential EIT rate of 15% prior to 1 January 2008. In accordance with the "Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies", their EIT rate was 18% for 2008 and 20% for 2009, except for Shenzhen Zhijun Pharmaceutical Co., Ltd., which was awarded a certificate as a national high-tech enterprise. In accordance with the Corporate Income Tax Law of the People's Republic of China, Shenzhen Zhijun Pharmaceutical Co., Ltd. is entitled to a preferential EIT rate of 15% for three years starting from 2008.

China National Pharmaceutical Logistics Corp., Ltd. is a foreign investment production enterprise established in the National Economy and Technology Development Zone. In accordance with the "Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies", its EIT rate was 18% for 2008 and 20% for 2009.

## Notes to the Consolidated Financial Statements

### 33 TAXATION (continued)

#### (a) Income tax expense (continued)

Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd. was awarded a certificate as a national high-tech enterprise. In accordance with the Corporate Income Tax Law of the People's Republic of China, it was entitled to a preferential EIT rate of 15% in 2009.

Sinopharm Holding Yunnan Co., Ltd. enjoyed preferential EIT rate of 15% from 2002 to 2010 in accordance with the "Circular of Preferential Policies on Taxation on Development of the Western Region" released by Ministry of Finance, State Administration of Taxation and General Administration of Customs, "Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies" released by State Council and approval notification (Yun Di Shui [2003] No.6) released by Yunnan local tax authorities.

#### (b) Business tax ("BT") and related taxes

Certain of the Group's revenues (including service fee income) are subject to BT at rates ranging from 3% to 5% of the amount of revenue. In addition, the Group is subject to city construction tax ("CCT") and educational surcharge ("ES") based on 1% to 7% and 1% to 3% of the amount of BT payable.

#### (c) Value-added tax ("VAT") and related taxes

Certain of the Group's revenues (including sales revenue) are subject to output VAT generally calculated at 0%, 13% or 17% of the selling prices. Input credit relating to input VAT paid on purchases can be used to offset the output VAT. The Group is also subject to CCT and ES based on 1% to 7% and 1% to 3% of the net VAT payable.

### 34 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company for the years ended 31 December 2009 is dealt with in the financial statements of the Company to the extent of RMB807,069,000 (2008: RMB563,490,000).

### 35 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year. The 1,637,037,451 shares issued on 6 October 2008 upon conversion of the Company into a joint stock limited liability company are considered as outstanding throughout 2008.

	Year ended 31 December	
	2009	2008
Profit attributable to shareholders of the Company (RMB'000)	845,819	587,613
Weighted average number of ordinary shares in issue ('000)	1,808,964	1,637,037
Basic earnings per share (RMB per share)	0.47	0.36

No diluted earnings per share is presented as there was no dilutive potential shares existed during the years.

### 36 DIVIDENDS

The directors recommend the payment of a final dividend of RMB1.01 cents per ordinary share, amounting to RMB22,879,250. Such dividend is to be approved by the shareholders of the Company at the Annual General Meeting to be held in May 2010. These financial statements have not reflected the payable of this dividend.

	Year ended 31 December	
	2009	2008
	RMB'000	RMB'000
Interim dividend declared	604,417	—
Proposed final dividend	22,879	105,699
	627,296	105,699

## Notes to the Consolidated Financial Statements

### 37 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Profit before income tax	1,572,372	1,079,329
<b>Adjustments for:</b>		
– Share of profit from associates (Note 11)	(66,905)	(54,186)
– Asset impairment	50,948	917
– Depreciation	142,736	126,376
– Amortisation	58,821	47,594
– Gain on disposal of plant and equipment (Note 28)	(5,080)	(3,644)
– Gain on disposal of partial interests in subsidiaries (Note 28)	(136,547)	(75,965)
– Write-back of certain liabilities (Note 28)	(51,570)	–
– Dividend income on available-for-sale financial assets (Note 27)	(377)	(4)
– Finance income (Note 32)	(23,758)	(24,312)
– Finance cost	209,766	240,637
– Loss on disposal of subsidiaries (Note 28)	–	11,118
– Loss on disposal of an associate (Note 28)	3,858	–
	1,754,264	1,347,860
<b>Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation)</b>		
– Inventories	(968,130)	(453,392)
– Trade receivables	(2,048,717)	(1,747,262)
– Prepayments and other receivables	(94,148)	(51,964)
– Trade payables	2,635,472	1,917,788
– Accruals and other payables	87,090	(57,790)
Cash generated from operations	1,365,831	955,240

### 37 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

In the cash flow statements, proceeds from disposals of land use rights and property, plant and equipment comprise:

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Net book amount (Note 8)	41,830	31,819
Gain on disposal	5,080	3,644
Proceeds from disposal in the years	46,910	35,463
Proceeds from disposal in prior years	—	915
	<b>46,910</b>	<b>36,378</b>

### 38 COMMITMENTS

#### (a) Capital commitments

Capital expenditures at balance sheet date are as follows:

#### The Group

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Property, plant and equipment:		
— contracted but not provided for	291,216	47,355
— authorised but not contracted for	322,000	138,441
Acquisition of equity interests		
— authorised but not contracted for	494,257	—
	<b>1,107,473</b>	<b>185,796</b>

## Notes to the Consolidated Financial Statements

### 38 COMMITMENTS (continued)

#### (b) Operating lease commitments

##### (i) The Group is the lessee:

The Group had future minimum lease payments under non-cancellable operating leases of land and buildings as follows:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Within 1 year	135,429	50,588
Later than 1 year and not later than 5 years	165,990	87,839
	<b>301,419</b>	138,427

Certain of the operating leases contain renewal options which allow the Group to renew the existing leases upon expiry at the then market rental for specified number of years.

##### (ii) The Group is the lessor:

The Group leases out certain office premises, plant and equipment under non-cancellable operating lease agreements. The further aggregate minimum rental receivable under these leases is as follows:

	As at 31 December	
	2009 RMB'000	2008 RMB'000
Within 1 year	17,537	14,723
Later than 1 year and not later than 5 years	41,780	30,225
Later than 5 years	9,300	23,123
	<b>68,617</b>	68,071

## 39 BUSINESS COMBINATIONS

### (a) Business combination under common control

In May 2009, the Group acquired a 100% equity interest in Guangxi Guoda Pharmacy Chainstore Co., Ltd. from a subsidiary of CNPGC.

In December 2009, the Group acquired a 100% equity interest in Guangxi Huiqing Investment Co., Ltd. from CNPGC.

The following is a reconciliation of the effect arising from the common control combination in respect of the acquisition of Guangxi Huiqing Investment Co., Ltd. and Guangxi Guoda Pharmacy Chainstore Co., Ltd. on the consolidated balance sheets.

The consolidated balance sheet as at 31 December 2008:

	The Group, excluding Guangxi Huiqing Investment Co., Ltd. and Guangxi Guoda Pharmacy Chainstore Co., Ltd. RMB'000	Guangxi Huiqing Investment Co., Ltd. RMB'000	Guangxi Guoda Pharmacy Chainstore Co., Ltd. RMB'000	Adjustments RMB'000	Consolidated RMB'000
Investment in Guangxi Huiqing Investment Co., Ltd. and Guangxi Guoda Pharmacy Chainstore Co., Ltd.	—	—	—	—	—
Other assets/(liabilities) — net	3,411,260	2,816	(678)	—	3,413,398
Net assets	3,411,260	2,816	(678)	—	3,413,398
Share capital	1,637,037	7,101	3,000	(10,101)	1,637,037
Capital premium	256,089	—	—	—	256,089
Statutory reserves	11,744	—	—	—	11,744
Available-for-sale financial assets change	7,111	—	—	—	7,111
Capital reserves	(11,175)	—	—	—	(8,359)
Retained earnings	364,102	(4,285)	(3,678)	2,816	363,424
Minority interests	1,146,352	—	—	7,285	1,146,352
	3,411,260	2,816	(678)	—	3,413,398

## Notes to the Consolidated Financial Statements

### 39 BUSINESS COMBINATIONS (continued)

#### (a) Business combination under common control (continued)

The consolidated balance sheet as at 31 December 2009:

	The Group, excluding Guangxi Huiqing Investment Co., Ltd. and Guangxi Guoda Pharmacy Chainstore Co., Ltd. RMB'000	Guangxi Huiqing Investment Co., Ltd. RMB'000	Guangxi Guoda Pharmacy Chainstore Co., Ltd. RMB'000	Adjustments RMB'000	Consolidated RMB'000
Investment in Guangxi Huiqing Investment Co., Ltd. and Guangxi Guoda Pharmacy Chainstore Co., Ltd.	8,151	—	—	(8,151)	—
Other assets/(liabilities) — net	12,497,537	7,651	(733)	—	12,504,455
Net assets	12,505,688	7,651	(733)	(8,151)	12,504,455
Share capital	2,264,568	7,101	3,000	(10,101)	2,264,568
Capital premium	8,131,102	—	—	—	8,131,102
Statutory reserves	92,768	55	—	(55)	92,768
Available-for-sale financial assets change	15,990	—	—	—	15,990
Capital reserves	(8,359)	—	—	(3,316)	(11,675)
Retained earnings	416,020	495	(3,733)	5,321	418,103
Minority interests	1,593,599	—	—	—	1,593,599
	12,505,688	7,651	(733)	(8,151)	12,504,455

No significant accounting adjustments were made to the net assets and net profit or loss of any entities or businesses as a result of the business combination under common control to achieve consistency of accounting policies.



## 39 BUSINESS COMBINATIONS (continued)

### (b) Business combinations not under common control

Other than the acquisition of Guangxi Guoda Pharmacy Chainstore Co., Ltd. and Guangxi Huiqing Investment Co., Ltd. from CNPGC, which was accounted for under merger accounting, the Group also acquired equity interests in certain subsidiaries from independent third parties, during the year as follows:

In January 2009, the Group acquired a 100% equity interest in Dongguan Accord Pharmaceutical Co., Ltd. from an independent third party.

In February 2009, the Group acquired a 80% equity interest in Sinopharm Holding Hebei Co., Ltd. from an independent third party.

In March 2009, the Group acquired a 75% equity interest in Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd. from an independent third party.

In April 2009, the Group acquired a 67% equity interest in Sinopharm Holding Anhui Co., Ltd. ("Sinopharm Anhui") from an independent third party.

In September 2009, the Group acquired a 95% equity interest in Shanghai Guoda Dongxin Pharmacy Chain Store Co., Ltd. from an independent third party.

In November 2009, the Group acquired a 67% equity interest in Sinopharm Holding Shandong Co., Ltd. ("Sinopharm Shandong") from an independent third party.

In November 2009, the Group acquired a 70% equity interest in Sinopharm Holding Fuzhou Co., Ltd. ("Sinopharm Fuzhou") from an independent third party.

In November 2009, the Group acquired a 60% equity interest in Sinopharm Holding Yunnan Co., Ltd. ("Sinopharm Yunnan") from an independent third party.

In December 2009, the Group acquired a 100% equity interest in Zhanjiang Tianfeng Pharmaceutical Co., Ltd. from an independent third party.

In December 2009, the Group acquired a 80% equity interest in Sinopharm Holding Hainan Co., Ltd. ("Sinopharm Hainan") from an independent third party.

## Notes to the Consolidated Financial Statements

### 39 BUSINESS COMBINATIONS (continued)

#### (b) Business combinations not under common control (continued)

The effect of the above acquisitions is summarised as follow:

	2009 RMB'000
Acquisition consideration — Cash	281,963
Fair value of the acquired net assets	(222,791)
Goodwill — Pharmaceutical distribution and manufacturing (2008: pharmaceutical retail)	59,172

The goodwill is attributable to the acquired human resources and economies of scale expected from combining the operations of the Group and Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd., Sinopharm Anhui, Sinopharm Shandong, Sinopharm Fuzhou, Sinopharm Yunnan and Sinopharm Hainan.

## 39 BUSINESS COMBINATIONS (continued)

### (b) Business combinations not under common control (continued)

The details of the assets and liabilities acquired and cash flow relating to these acquisitions are summarised as follows:

	Fair values at acquisition date RMB'000	Acquirees' carrying amounts at acquisition date RMB'000
Cash and cash equivalents	139,692	139,692
Property, plant and equipment	73,178	73,178
Intangible assets		
— sales network	99,701	—
— trademarks and patent	32,895	3,835
— software	435	435
Land use rights	15,708	3,519
Deferred income tax assets	628	628
Inventories	154,907	154,907
Other non-current assets	1,466	1,466
Trade and other receivables	557,736	557,736
Trade and other payables	(650,516)	(650,516)
Deferred income tax liabilities	(29,830)	—
Other non-current liabilities	(1,700)	(1,700)
Borrowings	(70,800)	(70,800)
Net assets	323,500	212,380
Minority interests	(100,709)	
Net assets acquired	222,791	
Purchase consideration settled in cash	218,722	
Cash and cash equivalents in subsidiaries acquired	(139,692)	
Cash outflow on acquisition	79,030	

## Notes to the Consolidated Financial Statements

### 39 BUSINESS COMBINATIONS (continued)

#### (b) Business combinations not under common control (continued)

The revenue, net profit and cash flow of these newly acquired subsidiaries from the respective acquisition dates to 31 December 2009 are summarised as follows:

	From acquisition date to 31 December 2009 RMB'000
Revenue	918,369
Net profit	7,066
Cash outflows from operating activities:	(32,233)
Net cash outflow	(28,747)

### 40 SIGNIFICANT RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The PRC government, indirectly, owns 100% of CNPGC, the ultimate holding company of the Company. The Group's significant transactions with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government are a large portion of its sales of goods, purchase of goods, purchase of fixed assets, interest expenses on bank borrowings and interest income from bank deposits. The Group's significant balances with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government are a large portion of its trade receivables, prepayments and other receivables, trade payables and other payables, bank borrowings, pledged bank deposits, short-term loan receivable, cash and cash equivalents.

## 40 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

Besides other PRC government-related entities, the Company's directors and the Group's management consider the following entities are related parties of the Group:

Name of related party	Nature of relationship
CNPGC	The ultimate holding company of the Company
Shanghai Fosun Grand Medicine Chain Operating Co., Ltd. ("Fosun Grand Medicine")	Former shareholder of the Company
Shanghai Fosun Pharmaceutical (Group) Co., Ltd. ("Fosun Pharma")	Former shareholder of the Company
Beijing Zhongguan Pharmaceutical Co., Ltd. (北京中冠藥業有限責任公司)	Controlled by CNPGC
China National Pharmaceutical Foreign Trade Corporation (中國醫藥對外貿易公司)	Controlled by CNPGC
China National Pharmaceutical Industry Corporation (中國醫藥工業有限公司)	Controlled by CNPGC
China National Pharmaceutical Industry Co., Ltd. (國藥集團工業有限公司)	Controlled by CNPGC
China National Pharmaceutical Group Beijing Medical Equipment Co., Ltd. (國藥集團北京醫療器械有限公司)	Controlled by CNPGC
China National Group Corporation of Traditional & Herbal Medicine (中國藥材集團公司)	Controlled by CNPGC
China National Group Corporation of Traditional & Herbal Medicine Chengde Co., Ltd. (中國藥材集團公司承德藥材有限責任公司)	Controlled by CNPGC
Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd. (廣東南方醫藥對外貿易有限公司)	Controlled by CNPGC
Guangdong Dong Fang New & Special Medicines Co. (廣東東方新特藥公司)	Controlled by CNPGC
Guangdong Renbo Medical Equipment Co., Ltd. (廣東仁博醫療器材有限公司)	Controlled by CNPGC
Guangdong Tianliang Pharmaceutical Co., Ltd. (廣東天量醫藥有限公司)	Controlled by CNPGC
Guangxi Wuzhou Huawu Traditional & Herbal pharmaceutical Co., Ltd. (廣西梧州華梧藥材有限公司)	Controlled by CNPGC
Hehua Pharmaceutical Co., Ltd. (華禾藥業股份有限公司)	Controlled by CNPGC
Sichuan Industrial Institute of Antibiotic Co., Ltd. (四川抗菌素工業研究所有限公司)	Controlled by CNPGC
Hebei Traditional & Herbal Medicine Co., Ltd. (河北省醫藥藥材公司)	Controlled by CNPGC
Yunnan Traditional & Herbal Medicine Co., Ltd. (雲南藥材有限公司)	Controlled by CNPGC
Zk Medical Equipment Corporation Ltd. (北京國藥中康醫療器械有限公司)	Controlled by CNPGC

## Notes to the Consolidated Financial Statements

### 40 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

Name of related party	Nature of relationship
Xinjiang Province New & Special National Pharmaceutical Co., Ltd. (新疆新特藥民族藥業有限責任公司)	Controlled by CNPGC
Shanghai Traditional & Herbal Co., Ltd. (上海國藥藥材有限公司)	Controlled by CNPGC
Xinjiang Province New & Special West Pharmaceutical Co., Ltd. (新疆新特西部藥業有限責任公司)	Controlled by CNPGC
Sinopharm Wuhan Pharmaceutical Industry Design Institute (中國醫藥集團武漢醫藥設計院)	Controlled by CNPGC
Reed Sinopharm Exhibitions Co., Ltd. (國藥勵展展覽有限責任公司)	Controlled by CNPGC
Beijing Huamiao Traditional Chinese Medicine Technology and Project Development Centre (北京華邈中藥工程技術開發中心)	Controlled by CNPGC
Heilongjiang Traditional & Herbal Corporation (黑龍江省藥材公司)	Controlled by CNPGC
China National Medical Equipment Industry Corporation (中國醫療器械工業公司)	Controlled by CNPGC
Union China National Medical Equipment Corporation (國藥集團聯合醫藥器械有限公司)	Controlled by CNPGC
Kelamayi Province New & Special Pharmaceutical Co., Ltd. (克拉瑪依新特藥業有限責任公司)	Controlled by CNPGC
Kashi New & Special Drugs Co., Ltd. (喀什新特藥業有限責任公司)	Controlled by CNPGC
Lanzhou Bio-technology development Co., Ltd. (蘭州生物技術開發有限公司)	Controlled by CNPGC
Shanghai Institute of Bio-products (上海生物製品研究所)	Controlled by CNPGC
Sinopharm Holding Shenzhen Chinese Herbal Co., Ltd. (國藥控股深圳中藥有限公司)	Associate and controlled by CNPGC
China National Pharmaceutical Group Shanghai Medical Equipment Co., Ltd. (國藥集團上海醫療器械有限公司)	Associate and controlled by CNPGC
China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd. (國藥集團上海立康醫藥股份有限公司)	Associate
Qinghai Pharmaceutical Co., Ltd. (青海製藥廠有限公司)	Subsidiary of associate
Shenzhen Main Luck Pharmaceutical Co., Ltd. (深圳萬樂藥業有限公司)	Associate
Shanghai Donghong Pharmaceutical Co., Ltd. (上海東虹醫藥有限公司)	Associate
Yichang Humanwell Pharmaceutical Co., Ltd. (宜昌人福藥業有限責任公司)	Associate
Shanghai Beiyi Guoda Traditional & Herbal pharmaceutical Co. Ltd (上海北翼國大醫藥藥材有限公司)	Associate
Dongshi Pharmaceutical Information Co., Ltd. (東氏醫藥信息有限公司)	Associate
Sinopharm Holding Ningxia Co., Ltd. (國藥控股寧夏有限公司)	Associate

## 40 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, and balances arising from related party transaction.

### (a) Significant related party transactions

#### (i) Significant transactions with related parties except for other PRC government-related entities

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
<b>Sales of goods</b>		
Shanghai Donghong Pharmaceutical Co., Ltd.	172,782	172,360
Xinjiang Province New & Special National Pharmaceutical Co., Ltd.	170,644	—
Xinjiang Province New & Special West Pharmaceutical Co., Ltd.	59,324	—
China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd.	41,775	43,461
Sinopharm Holding Ningxia Co., Ltd.	29,378	—
Hubei Yibao Meheco International Trade Co., Ltd.	25,016	—
Guangdong Dong Fang New & Special Medicines Co.	22,422	3,380
China National Pharmaceutical Industry Corporation	9,065	18,701
Guangdong Tianliang Pharmaceutical Co., Ltd.	6,486	50
Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd.	3,957	42,610
Kashi New & Special Drugs Co., Ltd.	1,863	—
Hebei Traditional & Herbal Medicine Co., Ltd.	1,673	—
Kelamayi Province New & Special Pharmaceutical Co., Ltd.	1,582	—
China National Pharmaceutical Foreign Trade Corporation	1,177	33,269
Sichuan Industrial Institute of Antibiotic Co., Ltd.	1,076	—
China National Group Corporation of Traditional & Herbal Medicine	603	2,850
Sinopharm Holding Hubei Xinlong Co., Ltd.	—	32,631

## Notes to the Consolidated Financial Statements

### 40 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

#### (a) Significant related party transactions (continued)

##### (i) Significant transactions with related parties except for other PRC government-related entities (continued)

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
<b>Provision of logistic service</b>		
China National Pharmaceutical Industry Corporation	3,581	2,382
China National Pharmaceutical Foreign Trade Corporation	2,802	2,020

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
<b>Purchases of goods</b>		
Yichang Humanwell Pharmaceutical Co., Ltd.	403,529	303,473
China National Pharmaceutical Foreign Trade Corporation	96,889	192,065
Guangdong Dong Fang New & Special Medicines Co.	78,758	24,590
Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd.	43,512	34,705
Shenzhen Main Luck Pharmaceutical Co., Ltd.	36,519	22,361
China National Group Corporation of Traditional & Herbal Medicine	26,845	20,091
Shanghai Donghong Pharmaceutical Co., Ltd.	23,216	18,477
China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd.	21,164	40,598
Qinghai Pharmaceutical Co., Ltd.	15,134	26,218
Union China National Medical Equipment Corporation	7,975	—
Lanzhou Bio-technology development Co., Ltd.	4,318	—
China National Pharmaceutical Industry Co., Ltd.	2,767	2,327
Sinopharm Holding Shenzhen Chinese Herbal Co., Ltd.	1,832	—
China National Pharmaceutical Industry Corporation	1,316	25,800



## 40 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

### (a) Significant related party transactions (continued)

#### (i) Significant transactions with related parties except for other PRC government-related entities (continued)

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
<b>Interest expenses</b>		
CNPGC	<b>23,230</b>	23,706

#### (ii) Key management compensation

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Salaries and other short-term employee benefits	<b>8,016</b>	5,915
Termination benefits	—	—
Post-employment benefits	—	—
Other long-term benefits	—	—
	<b>8,016</b>	5,915

Except for the sales of medical products to specific customers under major disaster, epidemic and other emergency which are priced at cost (Note 23), the above related party transactions were carried out on terms mutually agreed between the parties. In the opinion of the Company's directors and the Group's management, these transactions are in the ordinary course of business of the Group.

## Notes to the Consolidated Financial Statements

### 40 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

#### (b) Balances with related parties

##### (i) Significant balances with related parties except for other PRC government-related entities

	As at 31 December	
	2009 RMB'000	2008 RMB'000
<b>Trade receivables due from</b>		
Shanghai Donghong Pharmaceutical Co., Ltd.	29,142	25,400
Guangdong Dong Fang New & Special Medicines Co.	20,626	695
Xinjiang Province New & Special National Pharmaceutical Co., Ltd.	8,732	—
China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd.	4,753	962
Hubei Yibao Meheco International Trade Co., Ltd.	4,012	—
Xinjiang Province New & Special West Pharmaceutical Co., Ltd.	1,705	—
Sinopharm Holding Ningxia Co., Ltd.	819	—
China National Group Corporation of Traditional & Herbal Medicine	609	373
China National Pharmaceutical Group Shanghai Medical Equipment Co., Ltd.	484	—
Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd.	300	13,868
Kashi New & Special Drugs Co., Ltd.	286	—
Guangdong Tianliang Pharmaceutical Co., Ltd.	160	9
China National Pharmaceutical Foreign Trade Corporation	151	9,183
Shanghai Traditional & Herbal Co., Ltd.	88	—
China National Pharmaceutical Group Beijing Medical Equipment Co., Ltd.	40	—
Hebei Traditional & Herbal Medicine Co., Ltd.	33	19
Guangxi Wuzhou Huawu Traditional & Herbal pharmaceutical Co., Ltd.	26	16
China National Pharmaceutical Group Shanghai Medical Equipment Co., Ltd.	16	—
Sichuan Industrial Institute of Antibiotic Co., Ltd.	8	23
Shanghai Beiyi Guoda Traditional & Herbal pharmaceutical Co. Ltd	—	10,272
Sinopharm Holding Hubei Xinlong Co., Ltd.	—	2,503
China National Pharmaceutical Industry Corporation	—	893
China National Pharmaceutical Industry Co., Ltd.	—	233
Zk Medical Equipment Corporation Ltd.	—	84
Sinopharm Prospect Dentech (Beijing) Co., Ltd.	—	5
	<b>71,990</b>	<b>64,538</b>

## 40 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

### (b) Balances with related parties (continued)

#### (i) Significant balances with related parties except for other PRC government-related entities (continued)

	As at 31 December	
	2009 RMB'000	2008 RMB'000
<b>Other receivables due from</b>		
Shanghai Donghong Pharmaceutical Co., Ltd.	—	7
China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd.	—	5,000
Shanghai Beiyi Guoda Traditional & Herbal pharmaceutical Co. Ltd	—	136
Guangxi Nanning Medicines Wholesales Station	—	21,444
CNPGC	—	500
Zk Medical Equipment Corporation Ltd.	—	2,034
	—	29,121

	As at 31 December	
	2009 RMB'000	2008 RMB'000
<b>Prepayments due from</b>		
Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd.	13,037	—
Sichuan Industrial Institute of Antibiotic Co., Ltd	2,400	—
Union China National Medical Equipment Corporation	157	—
China National Pharmaceutical Industry Co., Ltd.	—	500
Sinopharm Holding Hubei Xinlong Co., Ltd.	—	99
Guangdong Dong Fang New & Special Medicines Co.	—	3
	15,594	602

## Notes to the Consolidated Financial Statements

### 40 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

#### (b) Balances with related parties (continued)

##### (i) Significant balances with related parties except for other PRC government-related entities (continued)

	As at 31 December	
	2009 RMB'000	2008 RMB'000
<b>Trade payables due to</b>		
Yichang Humanwell Pharmaceutical Co., Ltd.	102,176	221,429
China National Pharmaceutical Foreign Trade Corporation	25,295	29,205
Guangdong Dong Fang New & Special Medicines Co.	13,385	2,448
Shenzhen Main Luck Pharmaceutical Co., Ltd.	9,471	4,557
Qinghai Pharmaceutical Co., Ltd.	8,697	11,653
CNPGC	8,327	5,900
Union China National Medical Equipment Corporation	3,765	—
Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd.	3,162	2,091
Shanghai Donghong Pharmaceutical Co., Ltd.	2,590	929
China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd.	1,139	2,256
Shanghai Institute of Bio-products	940	—
China National Pharmaceutical Industry Corporation	44	10,133
Guangdong Tianliang Pharmaceutical Co., Ltd.	20	16
China National Pharmaceutical Industry Co., Ltd.	18	—
China National Pharmaceutical Group Beijing Medical Equipment Co., Ltd.	9	—
Guangxi Wuzhou Huawu Traditional & Herbal pharmaceutical Co., Ltd.	3	—
Hebei Traditional & Herbal Medicine Co., Ltd.	—	2,367
Sinopharm Holding Hubei Xinlong Co., Ltd.	—	322
China National Pharmaceutical Group Beijing Medical Equipment Co., Ltd.	—	77
China National Pharmaceutical Industry Co., Ltd.	—	66
Beijing Huamiao Traditional Chinese Medicine Technology and Project Development Centre	—	10
Heilongjiang Traditional & Herbal Corporation	—	1
	<b>179,041</b>	<b>293,460</b>

## 40 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

### (b) Balances with related parties (continued)

#### (i) Significant balances with related parties except for other PRC government-related entities (continued)

	As at 31 December	
	2009 RMB'000	2008 RMB'000
<b>Other payables due to</b>		
Qinghai Pharmaceutical Group Co., Ltd.	5,000	—
CNPGC	2,350	3,312
Zk Medical Equipment Corporation Ltd.	570	—
Sichuan Industrial Institute of Antibiotic	—	6,503
Shanghai Beiyi Guoda Traditional & Herbal pharmaceutical Co. Ltd.	—	463
Dongshi Pharmaceutical Information Co., Ltd.	—	8
	<b>7,920</b>	<b>10,286</b>

	As at 31 December	
	2009 RMB'000	2008 RMB'000
<b>Dividends payable</b>		
CNPGC	—	185,620
Fosun Grand Medicine	—	145,583
Fosun Pharma	—	32,756
	<b>—</b>	<b>363,959</b>

The receivables from related parties were unsecured, non-interest bearing and repayable on demand.

The payables to related parties were unsecured and non-interest bearing.

## Notes to the Consolidated Financial Statements

### 41 PRINCIPAL SUBSIDIARIES AND ASSOCIATES

As at 31 December 2009, the Company has direct and indirect interests in the following subsidiaries:

#### Principle subsidiaries:

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective	Effective	Principal activities and place of operations
			interests held by the Group Direct %	interests held by the Group Indirect %	
Shanghai Sinopharm Waigaoqiao Co., Ltd. (上海國藥外高橋醫藥有限公司)	PRC, 30 January 2002	2,000,000	90	10	Distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Holding Shenyang Co., Ltd. (國藥控股瀋陽有限公司)	PRC, 27 November 2003	800,000	90	10	Distribution of pharmaceutical products, laboratory supplies and chemical reagents; provision of pharmaceutical logistics services in the PRC
Sinopharm Holding Tianjin Co., Ltd. (國藥控股天津有限公司)	PRC, 1 December 2004	500,000	90	10	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
National Medicines (國藥集團藥業股份有限公司)	PRC, 21 December 1999	478,800	44.01 (Note 4(a))	—	Distribution of pharmaceutical products and laboratory supplies in the PRC
Sinopharm Holding Beijing Co., Ltd. (國藥控股北京有限公司)	PRC, 28 October 2003	400,000	96	—	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC

## 41 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

### Principle subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective	Effective	Principal activities and place of operations
			interests held by the Group Direct %	interests held by the Group Indirect %	
Sinopharm Logistics Co., Ltd. (國藥集團醫藥物流有限公司)	PRC, 18 December 2002	300,000	100	—	Provision of pharmaceutical logistics services in the PRC
Accord Pharma (深圳一致藥業股份有限公司)	PRC, 18 June 2001	288,149	38.33 (Note 4(a))	—	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
China National Pharmaceutical Group Chemical Reagent Co., Ltd. (國藥集團化學試劑有限公司)	PRC, 24 October 2003	250,000	90	10	Distribution of chemical reagents in the PRC
Sinopharm Holding GuoDa Drug Store Co., Ltd. (國藥控股國大藥房有限公司)	PRC, 23 March 2004	200,000	99	—	Distribution of pharmaceutical and healthcare products in the PRC
China National Pharmaceutical Logistics Co., Ltd. (國藥物流有限責任公司)	PRC, 8 November 2002	90,620	—	51	Provision of pharmaceutical logistics services in the PRC
Sinopharm Holding Shanghai Co., Ltd. (國藥集團醫藥控股上海有限公司)	PRC, 1 December 2003	80,000	90	10	Distribution of pharmaceutical products and chemical reagents in the PRC

## Notes to the Consolidated Financial Statements

### 41 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

#### Principle subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective	Effective	Principal activities and place of operations
			interests held by the Group Direct %	interests held by the Group Indirect %	
Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd. (蘇州致君萬慶藥業有限公司)	PRC, 10 March 2003	80,000	—	75	Medicine manufacture, research and inspection of pharmaceutical products in the PRC
Sinopharm Holding Beijing Huahong Co., Ltd. (國藥控股北京華鴻有限公司)	PRC, 18 November 2003	80,000	51	—	Distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Holding Hubei Co., Ltd. (國藥控股湖北有限公司)	PRC, 1 December 2003	80,000	70	—	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Shenzhen Zhijun Pharmaceutical Co., Ltd. (深圳致君製藥有限公司)	PRC, 22 December 1984	69,000	—	100	Medicine manufacture, research and inspection of pharmaceutical products in the PRC
China National Pharmaceutical Group Guorui Medicine Co., Ltd (國藥集團國瑞藥業有限公司)	PRC, 31 March 2000	60,000	—	98	Medicine manufacture and trading in the PRC



## 41 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

### Principle subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective	Effective	Principal activities and place of operations
			interests held by the Group Direct %	interests held by the Group Indirect %	
Sinopharm Holding Henan Co., Ltd. (國藥控股河南股份有限公司)	PRC, 11 December 2006	57,765	51	—	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Hong Kong Co., Ltd. (國藥控股股份香港有限公司)	PRC, 14 August 2009	USD9.5 million	100	—	Investment: distribution of pharmaceutical, healthcare products; medicine chain store; and provision of pharmaceutical logistics services in the PRC
Sinopharm Holding Guangzhou Co., Ltd. (國藥控股廣州有限公司)	PRC, 1 September 2003	50,000	—	100	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Guangdong Huixin Investment Co., Ltd. (廣東惠信投資有限公司)	PRC, 6 May 1985	50,000	—	100	Medicine trading; property rental in the PRC
Guangdong Accord Drugstore Co., Ltd. (廣東一致藥店有限公司)	PRC, 1 July 2004	50,000	100	—	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Hunan Co., Ltd. (國藥控股湖南有限公司)	PRC, 21 June 2001	50,000	80	—	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Jiangsu Co., Ltd. (國藥控股江蘇有限公司)	PRC, 17 January 1991	41,489	65	—	Distribution of pharmaceutical and healthcare products in the PRC

## Notes to the Consolidated Financial Statements

### 41 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

#### Principle subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective	Effective	Principal activities and place of operations
			interests held by the Group Direct %	interests held by the Group Indirect %	
China National Pharmaceutical Group Shanghai Corporation (中國醫藥集團上海公司)	PRC, 24 July 1988	40,237	100	—	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Logistics Tianjing Co., Ltd. (國藥控股天津物流有限公司)	PRC, 29 September 2005	40,000	—	100	Provision of pharmaceutical logistics services in the PRC
Sinopharm Holding Zhejiang Co., Ltd. (國藥控股浙江有限公司)	PRC, 9 October 1995	40,000	70	—	Distribution of pharmaceutical products and laboratory supplies in the PRC
Sinopharm Holding Fuzhou Co., Ltd. (國藥控股福州有限公司)	PRC, 15 September 1998	40,000	70	—	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
Beijing Sinopharm Tianyuan Real Estate & Property Management Co., Ltd. (北京國藥天元物業管理有限公司)	PRC, 28 December 1981	36,130	100	—	Property rental in the PRC

## 41 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

### Principle subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective	Effective	Principal activities and place of operations
			interests held by the Group Direct %	interests held by the Group Indirect %	
China National Pharmaceutical (Group) Tianjin Corporation (中國醫藥(集團)天津公司)	PRC, 1 December 1952	32,540	—	100	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Yunnan Co., Ltd. (國藥控股雲南有限公司)	PRC, 20 November 2000	31,000	60	—	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
Shanghai GuoDa Pharmacy Chain Store Co., Ltd. (上海國大藥房連鎖有限公司)	PRC, 18 May 2001	30,000	—	65	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Logistics Hunan Co., Ltd. (國藥控股湖南物流有限公司)	PRC, 15 December 2008	30,000	100	—	Provision of pharmaceutical and healthcare products in the PRC
Sinopharm Holding Shandong Co., Ltd. (國藥控股山東有限公司)	PRC, 12 April 2006	30,000	67	—	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
Sinopharm Logistics Hennan Co., Ltd. (國藥控股河南物流有限公司)	PRC, 12 June 2009	30,000	100	—	Provision of pharmaceutical logistics services in the PRC

## Notes to the Consolidated Financial Statements

### 41 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

#### Principle subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group	Effective interests held by the Group	Principal activities and place of operations
		RMB'000	Direct %	Indirect %	
Sinopharm Holding Anhui Co., Ltd. (國藥控股安徽有限公司)	PRC, 5 January 2007	30,000	67	—	Distribution of pharmaceutical products in the PRC
Sinopharm Holding Nanning Co., Ltd. (國藥控股南寧有限公司)	PRC, 15 March 2004	29,000	—	100	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Liuzhou Co., Ltd. (國藥控股柳州有限公司)	PRC, 1 December 2003	20,531	—	51	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Guangdong Xinlong Co., Ltd. (國藥控股廣東新龍有限公司)	PRC, 1 December 2004	20,000	—	100	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Shanxi Co., Ltd. (國藥控股山西有限公司)	PRC, 17 January 2004	20,000	60	—	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
China National Pharmaceutical Group Southwest Medicine Co., Ltd. (國藥集團西南醫藥有限公司)	PRC, 19 November 1997	20,000	67	3	Distribution of pharmaceutical and healthcare products in the PRC

## 41 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

### Principle subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective	Effective	Principal activities and place of operations
			interests held by the Group Direct %	interests held by the Group Indirect %	
Shanghai Ourchem Chemical Reagent Co., Ltd. (上海沃凱藥業有限公司)	PRC, 11 August 1988	18,850	100	—	Property rental, distribution of laboratory supplies and chemical reagents in the PRC
Shanxi Pharmaceutical Corporation. (陝西省醫藥公司)	PRC, 29 March 1994	18,630	—	100	Distribution of pharmaceutical and healthcare products in the PRC
Zhejiang Intlmedicine Drugstore Co., Ltd. (浙江英特藥房有限公司)	PRC, 13 March 2000	15,000	—	51	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Holding Suzhou Co., Ltd. (國藥控股蘇州有限公司)	PRC, 3 January 1993	15,000	70	—	Distribution of pharmaceutical products and laboratory supplies in the PRC
Sinopharm Logistics Shanxi Co., Ltd. (國藥控股山西物流有限公司)	PRC, 13 December 2008	15,000	100	—	Provision of pharmaceutical logistics services in the PRC
Jiangsu Dadesheng Pharmacy Chain Store Co., Ltd. (江蘇大德生藥房連鎖有限公司)	PRC, 23 August 2001	13,980	—	100	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC

## Notes to the Consolidated Financial Statements

### 41 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

#### Principle subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective	Effective	Principal activities and place of operations
			interests held by the Group Direct %	interests held by the Group Indirect %	
Sinopharm Holding Beijing Kangchen Bio-medicine Co., Ltd. (國藥控股北京康辰生物醫藥有限公司)	PRC, 19 January 2005	12,000	51	—	Distribution of pharmaceutical products and laboratory supplies in the PRC
Shenzhen Accord Pharmacy Chain Store Co., Ltd. (深圳市一致醫藥連鎖有限公司)	PRC, 3 July 1985	10,800	—	100	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Liaoning Guoda Pharmacy Chain Store Co., Ltd. (遼寧國大藥房連鎖有限公司)	PRC, 12 May 1998	10,460	—	100	Distribution of pharmaceutical and healthcare products in the PRC
GuoDa Ningxia Pharmacy Chain Store Co., Ltd. (寧夏國大藥房連鎖有限公司)	PRC, 17 November 2008	10,000	—	100	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Holding Hainan Co., Ltd. (國藥控股海南有限公司)	PRC, 10 July 2000	10,000	80	—	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC

## 41 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

### Principle subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective	Effective	Principal activities and place of operations
			interests held by the Group Direct %	interests held by the Group Indirect %	
China National Pharmaceutical Group Northwest Medicine Co., Ltd. (國藥集團西北醫藥有限公司)	PRC, 30 May 2001	10,000	60	—	Distribution of pharmaceutical and healthcare products, logistics services in the PRC
Beijing Guoda Pharmacy Chain Store Co., Ltd. (北京國大藥房連鎖有限公司)	PRC, 1 August 2001	10,000	—	100	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC
Guoda Shenyang Tianyitang Pharmacy Chain Store Co., Ltd. (瀋陽國大天益堂藥房連鎖有限公司)	PRC, 2 August 2002	10,000	—	51	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Holding Co., Ltd. (國藥控股河北有限公司)	PRC, 5 January 1997	10,000	—	80	Distribution of pharmaceutical products in the PRC
Tianjin Orient Bookcom Pharmaceutical Trade Co., Ltd. (天津東方博康醫藥貿易有限公司)	PRC, 6 January 1994	10,000	—	51	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC

## Notes to the Consolidated Financial Statements

### 41 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

#### Principle subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective	Effective	Principal activities and place of operations
			interests held by the Group Direct %	interests held by the Group Indirect %	
Sinopharm Holding Anyang Co., Ltd. (國藥控股安陽有限公司)	PRC, 11 December 2009	10,000	—	70	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
Sinopharm Holding Nanyang Co., Ltd. (國藥控股南陽有限公司)	PRC, 11 December 2009	10,000	—	70	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
China National Pharmaceutical Tianjin Purchasing & Supplying Station Development Zone Branch (中國醫藥天津採購供應站開發區藥品公司)	PRC, 1 July 1993	9,000	—	100	Distribution of pharmaceutical products and laboratory supplies in the PRC
Guangxi Huiqing Investment Co., Ltd. (廣西惠慶投資有限公司)	PRC, 22 August 1990	7,100	—	100	Investment in logistics and transportations, property rental and provide medical consulting service in the PRC
Shenzhen Accord Traditional & Herbal Medicine Co., Ltd. (深圳市一致藥材有限公司)	PRC, 1 December 2001	6,000	—	100	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC



## 41 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

### Principle subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective	Effective	Principal activities and place of operations
			interests held by the Group Direct %	interests held by the Group Indirect %	
Tianjin Guoda Pharmacy Chain Store Co., Ltd. (天津國大藥房連鎖有限公司)	PRC, 18 September 2001	5,000	—	100	Medicine chain store; distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Guangxi Accord Medicine Co., Ltd. (廣西一致醫藥有限公司)	PRC, 17 January 2004	5,000	—	100	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Shenzhen Jianmin Pharmaceutical Co., Ltd. (深圳市健民醫藥有限公司)	PRC, 8 January 2001	5,000	—	100	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
China National Pharmaceutical Group Shenyang Chemical Reagent Co., Ltd. (國藥集團化學試劑瀋陽有限公司)	PRC, 7 September 1998	5,000	—	51	Distribution of chemical reagents in the PRC
China National Pharmaceutical Group Beijing Chemical Reagent Co., Ltd. (國藥集團化學試劑北京有限公司)	PRC, 30 December 1953	4,570	—	100	Distribution of chemical reagents and healthcare products in the PRC

## Notes to the Consolidated Financial Statements

### 41 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

#### Principle subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective	Effective	Principal activities and place of operations
			interests held by the Group Direct %	interests held by the Group Indirect %	
China National Pharmaceutical Group Shanghai Chemical Reagent Co., Ltd. (國藥集團化學試劑上海有限公司)	PRC, 12 June 2006	4,500	—	100	Distribution of laboratory supplies and chemical reagents in the PRC
Taicang Hushi Chemical Reagent Co., Ltd. (太倉滬試劑有限公司)	PRC, 24 June 2002	4,000	—	60	Chemical reagents manufacture and trading in the PRC
Guangdong Yuexing Pharmaceutical Co., Ltd. (廣東粵興醫藥有限公司)	PRC, 1 December 1993	3,000	—	100	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
Guangxi Guoda Pharmacy Chainstore Co., Ltd. (廣西國大藥房連鎖有限公司)	PRC, 14 August 2001	3,000	—	100	Medicine chain store; distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Dongguan Accord Pharmaceutical Co., Ltd. (東莞一致醫藥有限公司)	PRC, 12 September 2001	2,800	—	100	Distribution of pharmaceutical products in the PRC

## 41 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

### Principle subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective	Effective	Principal activities and place of operations
			interests held by the Group Direct %	interests held by the Group Indirect %	
Guangxi Accord Chinese Herbal Slice Co., Ltd. (廣西一致中藥飲片 有限公司)	PRC, 12 June 2007	2,000	—	100	Medicine manufacture and trading in the PRC
Guangzhou Accord Pharmacy Chain Store Co., Ltd. (廣州一致藥店連鎖 有限公司)	PRC, 1 September 2001	2,000	—	100	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Holding Foshan Co., Ltd. (國藥控股佛山有限公司)	PRC, 15 January 1986	2,000	—	100	Medicine chain store; distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Shenzhen Zhijun Pharmaceutical Trade Co., Ltd. (深圳致君醫藥貿易 有限公司)	PRC, 1 March 1985	1,890	—	100	Distribution of pharmaceutical, healthcare products and laboratory supplies in the PRC
Yangzhou Weikang Pharmaceutical Co., Ltd. (揚州衛康醫藥有限公司)	PRC, 29 December 1992	1,420	—	85	Distribution of pharmaceutical products in the PRC

## Notes to the Consolidated Financial Statements

### 41 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

#### Principle subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective	Effective	Principal activities and place of operations
			interests held by the Group Direct %	interests held by the Group Indirect %	
Shanghai Tongyu Information Technology Co., Ltd. (上海统御信息科技有限公司)	PRC, 27 December 2005	1,000	95	5	Information technology development and medicine consulting in the PRC
China National Pharmaceutical Group Suzhou Chemical Reagent Co., Ltd. (國藥集團化學試劑蘇州有限公司)	PRC, 25 August 2004	1,000	—	100	Distribution of chemical reagents in the PRC
China National Pharmaceutical Group Chengdu Chemical Reagent Co., Ltd. (國藥集團化學試劑成都有限公司)	PRC, 15 November 2004	1,000	—	60	Distribution of laboratory supplies in the PRC
Sinopharm Holding Tianjin Enterprise Development Co., Ltd. (天津國藥企業發展有限公司)	PRC, 28 July 2004	1,000	—	100	Consulting and technology services in the PRC

## 41 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

### Principle subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective	Effective	Principal activities and place of operations
			interests held by the Group Direct %	interests held by the Group Indirect %	
Shenzhen Accord Pharmaceutical Logistics Co., Ltd. (深圳一致藥業物流有限公司)	PRC, 1 September 2005	1,000	—	100	Provision of pharmaceutical logistics services in the PRC
Shanghai Guoda Pharmaceutical Co., Ltd. (寧夏國大藥品有限公司)	PRC, 9 April 2004	1,000	—	100	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
Shanghai Guoda Shanghong Qibao Drugstore Co., Ltd. (上海國大上虹七寶藥房有限公司)	PRC, 9 April 2004	1,000	—	51	Medicine chain store in the PRC
Shanxi Dongshi Business Enterprise Development Co., Ltd. (陝西東氏企業發展有限公司)	PRC, 19 May 2004	600	—	90	Property rental etc. in the PRC
China National Pharmaceutical Group Shanxi Co., Ltd. (國藥集團陝西醫藥有限公司)	PRC, 15 August 2000	600	—	100	Distribution of pharmaceutical products and chemical reagents in the PRC

## Notes to the Consolidated Financial Statements

### 41 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

#### Principle subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective	Effective	Principal activities and place of operations
			interests held by the Group Direct %	interests held by the Group Indirect %	
Zhanjiang Tianfeng Pharmaceutical Co., Ltd. (湛江市天豐醫藥有限公司)	PRC, 8 February 1985	600	—	100	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Chemical Reagent Shanxi Co., Ltd. (陝西化玻器械有限公司)	PRC, 15 August 2000	600	—	100	Distribution of chemical reagents, etc. in the PRC
Guangdong Hengchang Logistics Co., Ltd. (廣東恒暢物流有限公司)	PRC, 14 August 1993	540	—	100	Provision of pharmaceutical logistics services in the PRC
Shanghai Guoda Dongsheng Drugstore Co., Ltd. (上海國大東盛大藥房有限公司)	PRC, 1 July 2003	500	—	50	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
Guangxi Accord Pharmacy Chain Store Co., Ltd. (廣西一致藥店連鎖有限公司)	PRC, 1 December 2001	500	100	—	Medicine chain store; distribution of pharmaceutical, healthcare products and chemical reagents; property rental in the PRC

## 41 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

### Principle subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective	Effective	Principal activities and place of operations
			interests held by the Group Direct %	interests held by the Group Indirect %	
Zhejiang Intlmedicine DrugStore Dongshan Co., Ltd. (浙江英特藥房東山藥店有限公司)	PRC, 1 December 2000	500	—	51	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
Shanghai Guoda Dongxin Pharmacy Chain Store Co., Ltd. (上海國大東信藥房有限公司)	PRC, 27 September 1995	300	—	100	Medicine chain store in the PRC
Beijing China Reagent & Fine Chemicals Consulting Co., Ltd. (北京國化精試諮詢有限公司)	PRC, 27 December 2001	100	—	100	Chemical reagents consultation in the PRC
Guangdong Accord Pharmaceutical Skilling Training Centre (廣東一致醫藥職業技能培訓中心)	PRC, 8 April 2006	30	—	100	Pharmaceutical skill training in the PRC

## Notes to the Consolidated Financial Statements

### 41 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

As at 31 December 2009, the Company has direct and indirect interests in the following associates:

#### Principle associates:

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group %	Principal activities and place of operations
Qinghai Pharmaceutical Group Co., Ltd. (青海製藥(集團)有限公司)	PRC, 17 January 2000	132,266	47	Medicine manufacture and trading in the PRC
Yichang Humanwell Pharmaceutical Co., Ltd.	PRC, 1 August 2001	60,000	20	Medicine manufacture and trading in the PRC
Shenzhen Main Luck Pharmaceutical Co., Ltd.	PRC, 4 July 1990	USD5 million	35	Research and inspection of pharmaceutical products in the PRC
Shanghai Beiyi Guoda Traditional & Herbal pharmaceutical Co. Ltd	PRC, 26 July 1994	12,000	26	Distribution of pharmaceutical products and chemical reagents in the PRC
China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd.	PRC, 27 July 1994	10,000	30	Distribution of pharmaceutical products in the PRC



## 41 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

### Principle associates: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group %	Principal activities and place of operations
Shanghai Donghong Pharmaceutical Co., Ltd.	PRC, 2000	6,000	35	Distribution of pharmaceutical and healthcare products in the PRC
China National Pharmaceutical Group Shanghai Medical Equipment Co., Ltd.	PRC, November 1997	5,000	20	Distribution of healthcare equipment and medical supplies in the PRC
Sinopharm Prospect Dentech (Beijing) Co., Ltd. (國藥前景口腔科技(北京)有限公司)	PRC, 04 August 2004	2,000	39	Oral healthcare products manufacture and trading in the PRC
Dongshi Pharmaceutical Information Co., Ltd.	PRC, 22 October 1999	1,000	46	Corporate management services in the PRC
Sinopharm Holding Shenzhen Chinese Herbal Co., Ltd.	PRC, 13 July 1990	5,000	47	Medicine manufacture and trading in the PRC
Sinopharm Holding Ningxia Co., Ltd.	PRC, 21 November 2008	3,000	49	Distribution of pharmaceutical products in the PRC

#### Notes:

- (i) Except for Accord Pharma and National Medicines which are joint stock limited liability companies, China National Pharmaceutical Group Shanghai Corporation, China National Pharmaceutical (Group) Tianjin Corporation and Shanxi Pharmaceutical Corporation which are enterprises owned by the whole people, Guangdong Accord Pharmaceutical Skilling Training Centre which is private non-enterprise organisation, the other subsidiaries of the Group are limited liability entities.
- (ii) The English names of certain subsidiaries, associates and auditors represented the best effort by management of the Company in translating their Chinese names as they do not have official English names.

## Notes to the Consolidated Financial Statements

### 42 EVENTS AFTER THE BALANCE SHEET DATE

After 31 December 2009, the Company made the following significant acquisitions:

- (a) In January 2010, the Company acquired a 70% equity interest in Sinopharm Holding Fujian Co., Ltd. (國藥控股福建有限公司) from an independent third party.
- (b) In January 2010, the Company acquired a 70% equity interest in Sinopharm Holding Gansu Co., Ltd. (國藥控股甘肅有限公司) from an independent third party.
- (c) In February 2010, the Company acquired a 17.7% equity interest in Sinopharm Holding Ningxia Co., Ltd. (國藥控股寧夏有限公司) from an independent third party. After the acquisition, the Group holds 66.7% equity interests in Sinopharm Holding Ningxia Co., Ltd., and Sinopharm Holding Ningxia Co., Ltd. became the Company's subsidiary.
- (d) In March 2010, the Company acquired a 100% equity interest in Hebei Traditional & Herbal Medicine Co., Ltd. (河北省醫藥藥材公司) and Guangdong Dong Fang New & Special Drugs Corporation (廣東東方新特藥公司) from a subsidiary of CNPGC.
- (e) In March 2010, the Company acquired a 67% equity interest in Sinopharm Holding Jiangxi Co., Ltd. (國藥控股江西有限公司) from an independent third party.

The total consideration for the above acquisition amounted to RMB278,270,000.

# Definitions

“Accord Pharma”	Shenzhen Accord Pharmaceutical Co., Ltd. (深圳一致藥業股份有限公司), a joint stock limited company incorporated in the PRC whose A shares and B shares are listed on the Shenzhen Stock Exchange;
“Articles of Association”	the articles of association of the Company approved at the extraordinary general meeting of the shareholders of the Company held on 8 October 2008 and as amended from time to time;
“Associates”	has the meaning ascribed thereto under the Listing Rules;
“Board” or “Board of Directors”	the Board of Directors of the Company;
“Chinese medicines”	medicines whose clinical function and application are expressed in terms of Chinese medicine theories originated from traditional medical practices in China and which are applied in accordance with Chinese medicine theories;
“CNPGC”	China National Pharmaceutical Group Corporation (中國醫藥集團總公司), an enterprise owned by the whole people established in the PRC;
“Company”	Sinopharm Group Co. Ltd. (國藥控股股份有限公司), a joint stock limited liability company incorporated in the PRC;
“Core Business”	the core business carried on by the Company, namely, the distribution of Western medicines in the PRC;
“Corporate Governance Code”	the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules;
“Director(s)”	the director(s) of the Company, including all executive, non-executive and independent non-executive directors;
“Fosun Company”	Fosun International Limited (復星國際有限公司), a limited liability company incorporated in Hong Kong;
“Fosun Distribution Companies”	certain companies which are principally engaged in the distribution of medicines in the PRC; and the non-executive Director, Mr. Guo Guangchang is a substantial shareholder of these companies, the non-executive Director, Mr. Fan Banghan is a director of each of these companies and the non-executive Director, Mr. Wang Qunbin is a director of one of these companies;

## Definitions

“Fosun High Technology”	Shanghai Fosun High Technology (Group) Co., Ltd. (上海復星高科技(集團)有限公司), a limited liability company incorporated in the PRC;
“Fosun Holdings”	Fosun Holdings Limited (復星控股有限公司), a limited liability company incorporated in Hong Kong;
“Fosun International Holdings”	Fosun International Holdings Ltd. (復星國際控股有限公司), a limited liability company incorporated in the British Virgin Island;
“Fosun Investment”	Shanghai Fosun Industrial Investment Co., Ltd. (上海復星產業投資有限公司), a limited liability company incorporated in the PRC;
“Fosun Pharma”	Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (上海復星醫藥(集團)股份有限公司), a joint stock limited company established in the PRC whose A shares are listed on the Shanghai Stock Exchange;
“Fosun Production Companies”	certain companies which are principally engaged in the production of medicines in the PRC; and the non-executive Director, Mr. Guo Guangchang, is a substantial shareholder of certain of these companies and the non-executive Director, Mr. Wang Qunbin, is a director of two of these companies;
“Fosun Retail Companies”	certain companies which are principally engaged in the operation of retail drug stores in the PRC; and the non-executive Director, Mr. Guo Guangchang, is a substantial shareholder of certain of these companies and a director of one of these companies, and the non-executive Director, Mr. Fan Banghan, is a director of certain of these companies;
“Group”	the Company and its subsidiaries;
“HKFRS”	Hong Kong Financial Reporting Standards;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time);

“Model Code”	the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 to the Listing Rules;
“National Medicines”	China National Medicines Co., Ltd. (國藥集團藥業股份有限公司), a joint stock limited company established in the PRC whose A shares are listed on the Shanghai Stock Exchange;
“Non-Competition Agreement”	the non-competition agreement date 31 August 2009 entered into between CNPGC and the Company;
“NSSF”	National Council for Social Security Fund of the People’s Republic of China (中華人民共和國全國社會保障基金理事會), serving as a strategic reserve fund accumulated by the central government to support future social security expenditures;
“PRC”	the People’s Republic of China;
“PRC GAAP”	the PRC Accounting Standards for Business Enterprises, and the Application Guidance for Accounting Standard for Business Enterprises and Interpretation of Accounting Standards for Business Enterprises and other relevant regulations;
“Prospectus”	the prospectus of the Company dated 10 September 2009;
“Qishen Company”	Shanghai Qishen Investment Co., Ltd. (上海齊紳投資管理有限公司), a limited liability company incorporated in the PRC;
“Reporting Period”	12 months of the year ended 31 December 2009;
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“Shanghai Friendship-Fortune”	Shanghai Friendship-Fortune Holding Co., Ltd. (上海友誼復星(控股)有限公司), a limited liability company incorporated in the PRC;
“Shanghai Guoda Chain Store”	Shanghai Guoda Pharmacy Chain Store Co., Ltd. (上海國大藥房連鎖有限公司), a limited liability company incorporated in the PRC;
“Sinopharm Anhui”	Sinopharm Holding Anhui Co., Ltd. (國藥控股安徽有限公司), a limited liability company incorporated in the PRC;
“Sinopharm Beijing”	Sinopharm Holding Beijing Co., Ltd. (國藥控股北京有限公司), a limited liability company incorporated in the PRC;

## Definitions

“Sinopharm Guoda”	Sinopharm Holding Guoda Drug Store Co., Ltd. (國藥控股國大藥房有限公司), a limited liability company incorporated in the PRC;
“Sinopharm Henan”	Sinopharm Holding Henan Co., Ltd. (國藥控股河南股份有限公司), a joint stock limited company established in the PRC;
“Sinopharm Hunan”	Sinopharm Holding Hunan Co., Ltd. (國藥控股湖南有限公司), a limited liability company incorporated in the PRC;
“Sinopharm Investment”	Sinopharm Industrial Investment Co., Ltd. (國藥產業投資有限公司), a limited liability company incorporated in the PRC;
“Sinopharm Shandong”	Sinopharm Holding Shandong Co., Ltd. (國藥控股山東有限公司), a limited liability company incorporated in the PRC;
“Sinopharm Shanxi”	Sinopharm Holding Shanxi Co., Ltd. (國藥控股山西有限公司), a limited liability company incorporated in the PRC;
“Sinopharm Shenyang”	Sinopharm Holding Shenyang Co., Ltd (國藥控股瀋陽有限公司), a limited liability company incorporated in the PRC;
“Sinopharm Tianjin”	Sinopharm Holding Tianjin Co., Ltd (國藥控股天津有限公司), a limited liability company incorporated in the PRC;
“Sinopharm Waigaoqiao”	Shanghai Sinopharm Waigaoqiao Co., Ltd. (上海國藥外高橋醫藥有限公司), a limited liability company incorporated in the RPC;
“Southwest Pharmaceutical”	China National Pharmaceutical Group Southwest Medicine Co., Ltd. (國藥集團西南醫藥有限公司), a limited liability company incorporated in the PRC;
“Supervisor(s)”	the supervisors of the Company;
“Suzhou Zhijun Wanqing”	Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd. (蘇州致君萬慶藥業有限公司), a limited liability company incorporated in the PRC;
“Western medicines”	encompasses a range of medicines and practices involved to maintain and restore human health, including theories, diagnosis and treatments derived from dissection, microscopic analysis and chemical derivation, other than Chinese medicines;
“Xinjiang Company”	China National Pharmaceutical Group Xinjiang Medicines Co., Ltd. (國藥集團新疆藥業有限公司), a limited liability company established in the PRC.



