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

Annual Report 2010

* 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

Care for Life
Care for Health

Company Profile

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

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

- **Pharmaceutical distribution segment**: Pharmaceutical distribution is the Group's principal business. The Group provides distribution, logistics and other value-added services for pharmaceutical and healthcare products of domestic and international manufacturers and other suppliers. The Group stands out 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 and franchises in major cities throughout China.
- **Other business operations segment**: The Group is also engaged in the production and sale of pharmaceutical products, chemical reagents and laboratory supplies, and also the sale of medical equipment.

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)
Mr. Wang Qunbin *(Non-executive Director)*
Mr. Chen Wenhao *(Non-executive Director)*
Mr. Zhou Bin *(Non-executive Director)*
Mr. Chen Qiyu *(Non-executive Director)*
Mr. Deng Jindong *(Non-executive Director)*
Mr. Fan Banghan *(Non-executive Director)*
Mr. Liu Hailiang *(Non-executive Director)*
Mr. Wei Yulin *(Executive Director and President)*
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. Yao Fang *(Chief Supervisor)*
Mr. Lian Wanyong
Ms. Zhang Jian

JOINT COMPANY SECRETARIES

Mr. Wu Aimin
Mr. Ngai Wai Fung

STRATEGIC AND INVESTMENT COMMITTEE

Mr. She Lulin *(Chairman)*
Mr. Wang Qunbin
Mr. Chen Qiyu
Mr. Zhou Bin
Mr. Fan Banghan
Mr. Wei Yulin

AUDIT COMMITTEE

Mr. Xie Rong *(Chairman)*
Mr. Chen Wenhao
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

Mr. Wei Yulin
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

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) 63391911
Email: ir@sinopharmholding.com

* The information of the Company is as at the issuance date of this report.

Financial Highlights

Unit: RMB'000

	2006	2007	2008	2009	2009 (adjusted)	2010	2009–2010 (Annual growth rate)
Operating results							
Revenue	23,736,642	31,110,214	38,191,909	47,045,853	**52,668,164**	**69,233,669**	31.45%
Gross profit	1,989,542	2,550,223	3,039,147	3,784,568	**4,407,340**	**5,835,870**	32.41%
Operating profit	480,251	789,346	1,173,510	1,550,279	**1,891,964**	**2,408,815**	27.32%
Profit before interest and tax	453,811	953,518	1,321,013	1,788,379	**2,140,065**	**2,670,204**	24.77%
Profit attributable to the shareholders	101,331	380,920	587,613	845,819	**967,165**	**1,208,751**	24.98%
Profit attributable to the shareholders after deduction of proceeds from sale of interest in subsidiary in 2009				743,409	**864,775**	**1,208,751**	39.77%
Profitability							
Gross margin	8.38%	8.20%	7.96%	8.05%	**8.37%**	**8.43%**	
Operating margin	2.02%	2.54%	3.07%	3.29%	**3.59%**	**3.48%**	
Net profit margin	0.43%	1.22%	1.54%	1.80%	**1.84%**	**1.75%**	
Rate of profit attributable to the shareholders after deduction of proceeds from sale of interest in subsidiary in 2009				1.58%	**1.69%**	**1.75%**	
Data per share (RMB)							
Earnings per share — Basic	0.06	0.23	0.36	0.47	**0.53**	**0.53**	0.00%
Earnings per share — Fully diluted	0.06	0.23	0.36	0.37	**0.43**	**0.53**	23.26%

	2006	2007	2008	2009	2009 (adjusted)	2010	2009–2010 (Annual growth rate)
Asset status							
Total assets	11,590,265	14,287,261	16,125,335	28,275,250	**32,545,024**	**42,014,480**	29.10%
Equity attributable to shareholders of the Group	1,759,628	1,683,759	2,267,046	10,910,856	**11,866,879**	**11,711,138**	-1.31%
Total liabilities	9,000,004	11,668,913	12,711,937	15,770,795	**18,522,507**	**27,295,400**	47.36%
Cash and cash equivalents	1,838,797	1,955,596	1,712,119	6,616,801	**7,567,839**	**7,474,698**	12.97%
Gearing ratio	77.65%	81.67%	78.83%	55.78%	**56.92%**	**64.97%**	
Liquidity ratio							
Current ratio (times)	1.14	1.09	1.15	1.71	**1.35**	**1.68**	
Inventory turnover ratio (days)	33.6	29.9	30.1	31.3	**32.0**	**36.9**	
Trade receivables turnover ratio (days)	67.1	64.4	67.0	71.3	**68.9**	**78.4**	
Trade payables turnover ratio (days)	84.7	82.0	84.4	89.4	**86.2**	**96.6**	

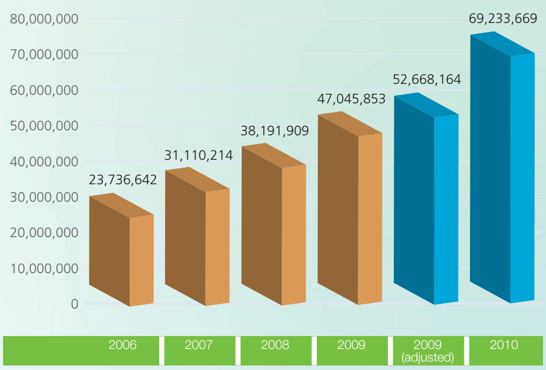
Note: The financial data of 2009 was retrospectively adjusted due to the merger of the enterprises under common control in 2010.

Revenue

RMB'000

CAGR of 2009–2010

▲ 31.45%

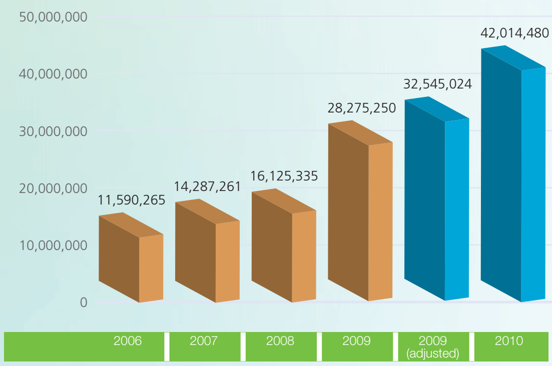


Total assets

RMB'000

CAGR of 2009–2010

▲ 29.10%

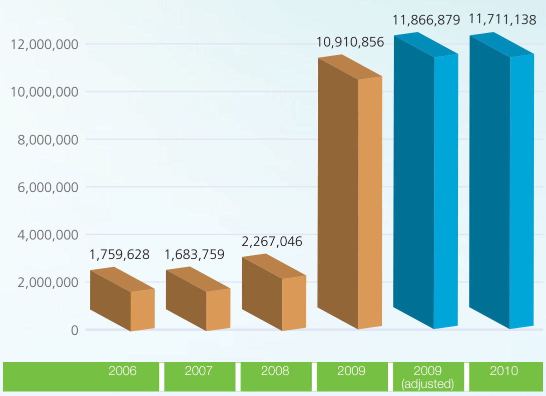


Equity attributable to shareholders of the Group

RMB'000

CAGR of 2009–2010

▼ 1.31%

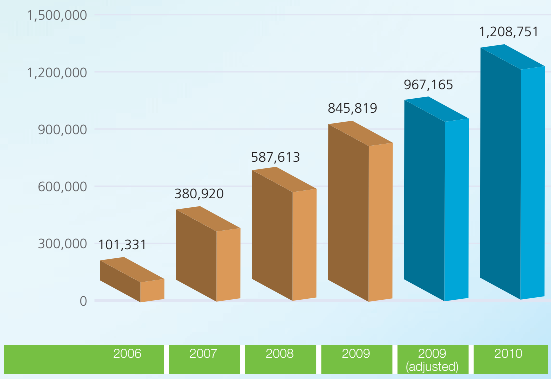


Profit attributable to shareholders

RMB'000

CAGR of 2009–2010

▲ 24.98%



Leading and Surpassing — Harmony and Integration

Chairman's Statement

Dear Shareholders,

I would like to express my heartfelt gratitude to the shareholders and the community for your continuing support to the Group.

2010 was a year full of opportunities and challenges for the Group. It was also a prosperous year for the development of the Group after the securitization of its capital. During the period, the Group over performed the strategic targets set out in the "Eleventh Five-Year Plan", which in turn laid a solid foundation for the "Twelfth Five-Year Plan".

Last year, the Group faced industrial trends such as the decrease in prices of medicine, the acceleration of the industry integration, and the increased demand in essential drugs. However, with the joint effort of all employees, the Group grasped the unprecedented opportunities brought by the promotion of the medical reform in China, fulfilled the demands in society, formulated a clear development strategy and took measures to boost up both its organic and external growth. As a result, the Group maintained a steady and sustainable growth, and its operating income and the total profit recorded significant increase.

The Group produced satisfactory results for its investors despite local and foreign complex political and economic challenges. It has maintained healthy and sustainable development in terms of production and operation. Its major economic and technical indicators reached their historical highs.

OPERATING RESULTS OF THE COMPANY CONTINUED TO GROW

In accordance with the HKFRS, sales of the Group in 2010 amounted to RMB69,234 million, representing a growth of 31.45% as compared with the corresponding period in 2009. Profit attributable to the shareholders was RMB1,209 million, representing a growth of 25.03% as compared with the corresponding period in 2009.

DIVIDENDS

Based on the Group's results and financial resources, and taking into consideration the need for the Group's future development, the Board proposed to distribute a dividend of RMB0.16 per share. Subject to the approval of the shareholders in the forthcoming annual general meeting, the dividend is expected to be distributed on 20 July 2011 to shareholders whose names appear on the register of members of the Company on 30 May 2011.

In 2010, total assets of the Group increased from RMB32,647 million in the corresponding period last year to RMB42,014 million and net assets increased from RMB14,023 million in the corresponding period last year to RMB14,719 million.

In 2010, capital expenditure of the Group for the year amounted to RMB2,700 million and was primarily used in developing and improving distribution channels, as well as building logistics centers.

In the past year, the global pharmaceutical market continued to grow steadily due to people's pursuit of life and health, and more importantly, a strong demands deriving from emerging markets. Regarding the relationship between the medical and healthcare segments and the national economy, the growth in medical and healthcare segments is no longer in "S" shape. There is an increasing demand and continuous growth in the medical and healthcare market.

The gross domestic product ("GDP") of China had already surpassed Japan and became the second largest economy in the world in 2010. From 2003 to 2009, the compound annual growth rate ("CAGR") of the commercial pharmaceutical market in China reached 17.60%, which was much higher than the growth of the average GDP.

Driven by the continuous increase in national medical and healthcare expenditure, together with the government's further investment in the medical and healthcare sector, coupled with the effects of medical reform in China, the demand in the market is becoming strong and the industry has grown rapidly. As the rapid growth of the medical and healthcare industry in China was beyond the market's expectation, IMS continued to adjust the scale ranking of China among global medical and healthcare industries. It is expected that the scale of medical and healthcare market in China will become the second largest in the world by 2020.

Nevertheless, comparing with developed western countries, pharmaceutical industry in China is still in its developing stage. In terms of the pharmaceutical distribution market, the market share of the top three enterprises in commercial pharmaceutical market in US accounted for almost 90% of the total share in US, while the market share of the top three enterprises in the commercial pharmaceutical market in Japan accounted for nearly 70% of the total share in Japan. However, the market share of the top three enterprises in the pharmaceutical market in China merely accounted for approximately 21% of the total share in China.

In order to safeguard the health interests of citizens and promote a rapid growth of the medical and healthcare industry in China, the Chinese Government continued to strengthen the medical reform and reinforced implementation of all corresponding auxiliary measures. The developmental plan of pharmaceutical distribution industry was specifically outlined in the "Twelfth Five-Year Plan" which shall be implemented soon.

"The Outline for the Development of Pharmaceutical Distribution Industry in 2011–2015 (Consultation Draft)" pointed out the direction of the future development of domestic pharmaceutical distribution industry. In this regard, mergers and acquisitions of pharmaceutical distribution enterprises as well as development of pharmaceutical retail chains are encouraged. National leading pharmaceutical enterprises and regional large-scale pharmaceutical enterprises will be established. Modern logistics will be greatly developed. Information management will be promoted in a comprehensive manner, and a standardized and centralized pharmaceutical operational model will be achieved.

Policies contained in the above-mentioned outline are reflective of the trend of mergers and acquisitions and resources integration in pharmaceutical distribution industry. As a leader in the pharmaceutical distribution industry, benefited from policies and capital allocation, the Group will continue to invest in the establishment of urban network layout and logistics system in provincial capital cities and prefectures-level cities. The Group has also established strategic partnerships with various local governments in China and has taken advantages of its resources in expanding the scope and base of its customers and in further improving its service capacity.

Leveraging on its extensive network and governmental resources, the Group strived to establish an innovative 4-in-1 pharmaceutical distribution network featuring national essential drugs, strategic reserve drugs, vaccines and special drugs such as poisons, anesthetic drugs, psychotropic drugs and radioactive drugs, so as to meet different needs. By doing so, the Group has not only formulated a business model with stable and sustainable growth, but also consolidated its leading position as the largest pharmaceutical enterprise in China, continued to enlarge the gap between the Group and the second largest enterprise in terms of market share.

Besides the fast expansion of its distribution network and the rapid increase in the number of newly franchised enterprises, the Group paid more attentions to strengthen the corporation's operational standard through various ways, including optimizing the structure of internal control. In light of its fast expansion, the Group continuously improved its internal control system, strengthened information management, and carried out supervisions to the implementation of policies on a regular basis. In 2010, the Group has established corporate risk management and control system focusing on four aspects, namely improved internal control, clear strategy, efficient organization and fine operation. These help the newly franchised enterprises realize a fast integration and a full utilization of its synergy.

PROSPECTS

2011 is the first year of the "Twelfth Five-year Plan". Thanks to the continuous growth of China's macro economy, further implementation of new medical reform and the increasing demands in pharmaceutical market due to the expansion of medical insurances, the domestic pharmaceutical industry has entered into a "Golden Era". The employees of the Group are going to seize this unprecedented opportunity to expand the Group's success in the "Eleventh Five-year" period together with all shareholders. The Group aims to accelerate mergers and acquisitions, achieve national coverage in the pharmaceutical distribution market, and enhance control over the ultimate market dominated by hospitals, pharmacies and other third parties. The Group will also continue business innovation and optimization of resources allocation, as well as enhance its ability in risk management and control. The Group is confident that it would continue to be a benchmark domestic pharmaceutical distribution enterprise, and becoming the first enterprise to have a sales revenue reaching RMB100 billion. The Group also has full strength and confidence in becoming an internationally competitive medicine and healthcare service provider, as well as the most reliable supply chain service provider in China, supporting the internationalization of domestic pharmaceutical enterprises.

I would like to express my gratitude to all shareholders, directors, members of senior management of the Company and all my fellow colleagues for their efforts during the past year. The Group will definitely have an even more glorious future.

She Lulin
Chairman
Shanghai, China

23 March 2011

We cooperate
We trust
We reciprocate

Shareholding Structure of the Group

As of the date of this report, the shareholding of the Group was as follows:

Management Discussion and Analysis

INDUSTRY REVIEW

In the past 40 years, the pharmaceutical market in China has maintained a steady growth, representing a booming opportunity for the industry brought by the rise of an emerging economy and initial investments of the new healthcare reform. Currently, the Chinese market is the largest emerging pharmaceutical market in the world. According to the forecast of IMS, the Chinese market will achieve a higher growth rate as compared with other markets and will become the second largest market following the United States by 2020. By that time, the volume of the Chinese market will amount to US$109.5 billion and the market share will increase to 7.5% from the existing level of 3%. The rapid expansion of pharmaceutical market in China is mainly attributable to sustainable, rapid and steady growth of its economy and the increase in domestic consumption level. Moreover, the government has been actively carrying out the healthcare reform and has been investing more resources in public medical services year by year. In addition, the accelerating aging problem and urbanization have resulted in an increasing demand for domestic medical and healthcare services. The Twelfth Five-Year Plan (2011–2015) also encourages the innovation and domestic demand for pharmaceutical industry. Through adjusting the structure of the pharmaceutical industry and implementing the new Good Manufacturing Practice ("GMP") and pharmacopoeia, the leading enterprises will further drive the growth in this industry.

During the Reporting Period, the healthcare reform and its related measures have been implemented as planned. The total budgeted government investments for the period 2009 to 2011 in healthcare reform has been increased from RMB850 billion to RMB1,134.2 billion representing an increase of RMB284.2 billion from the original budget. The Urban Resident Basic Medical Insurance and the coverage of the New Corporative Medical Scheme ("NCMS") will be greatly expanded. The government has increased its annual medical insurance subsidy for NCMS and urban residents to RMB200 per person and has further expanded the coverage of basic pharmaceutical allowance. The further expansion of the coverage of basic medicine allowance demonstrates the government's commitment to implement the healthcare reform.

With respect to the pharmaceutical distribution industry, the government also published in 2010 a "The Outline for the Development of Pharmaceutical Distribution Industry in 2011–2015 (Consultation Draft)". The outline promotes the concentration of domestic pharmaceutical distribution industry, structural adjustment of the industry, and encourages mergers and reorganization of the pharmaceutical distribution enterprises.

It is believed that national large-scale pharmaceutical groups will benefit from government policies, gaining more room for development. Major players in the pharmaceutical industry of China may expand their market shares through mergers and acquisitions. Based on the new market structure within the industry through consolidation, coupled with the increase in medical spending per capita, the scale of sales of large-scale pharmaceutical distribution enterprises is expected to steadily increase in the future.

BUSINESS REVIEW

As of 31 December 2010, the Group was well positioned to take advantages of the healthcare reform and the development of the pharmaceutical industry in China in maintaining and strengthening its leading positions as a medicine and healthcare product distributor and pharmaceutical supply chain service provider, and has operations in the following business segments:

- **Pharmaceutical distribution**: The Group provides pharmaceutical supply chain management services for the distribution of domestic and imported prescribed medicines and over-the-counter medicines from manufacturers and suppliers to hospitals, other medical institutions, retail drug stores and other customers. During the Reporting Period, the Group operated an extensive distribution network with 39 distribution centres covering 29 provinces, municipalities and autonomous regions in China. In 2010, the Group has expanded its business in provinces such as Jilin, Jiangxi, Guizhou, Gansu, Ningxia and Chongqing, etc., in order to provide products and services to customers in a timely and cost-efficient manner. The Group's direct customers included approximately 56.76% of all hospitals in China, (including 85.40% of the class-three hospitals which are the largest and most highly-ranked hospitals), and over 77,087 other customers, such as 3,692 pharmaceutical distributors, 37,246 retail pharmacies and 36,149 other healthcare institutions. During the Reporting Period, revenue of the pharmaceutical distribution business accounted for 93.46% of the total revenue.

- **Retail pharmacy**: The Group has a network of retail drug stores that are either directly operated by the Group or through franchises in major cities throughout China. Its retail drug stores operations accounted for 2.45% of its total revenue during the Reporting Period. In 2010, the number of additional retail drug stores was 447, among which 104 stores were newly found by the Group and 343 were acquired through mergers and acquisitions. At the end of 2010, the number of retail stores was 1,394, representing an increase of 47% as compared with last year. The Company successfully implemented the enterprise resource planning ("ERP") system into its retail business during the Reporting Period. The system has promoted the integration of the financial, operational, human resources and procurement systems within the Group.

- **Other business operations**: The Group's other business operations are the production or sale of pharmaceutical products, chemical reagents, laboratory supplies and medical equipment. Its other business operations accounted for 4.09% of its total revenue during the Reporting Period.

REVIEW ON MERGERS, ACQUISITIONS AND RESTRUCTURING

During the Reporting Period, the Group has taken advantages of favourable governmental policies and moved towards its goal of achieving national coverage in the pharmaceutical distribution market, by adopting strategic plans to boost up both its organic and external growth, integrating the effects of policies and capital investments.

As of the date of this report, the distribution network of the Group expanded to 29 provinces, with the addition of provincial companies in Xinjiang, Fujian, Guizhou, Heilongjiang, Gansu, Chongqing, Hebei, Jiangxi, Inner Mongolia and Jilin.

As of the date of this report, pharmaceutical distribution network of the Group covered 133 cities (including municipalities, provincial capitals and other prefecture-level cities) in China, representing 40% of the 333 cities (at or above prefecture-level) in China.

From 1 January 2010 to the date of this report, the Group has acquired Le Ren Tang Pharmaceutical Group Co., Ltd., Beijing Tianxingpuxin Bio-med Co., Ltd., Changzhou Yatai Wuzhou Pharmacetical Co., Ltd., Xinjiang New & Special Company, Wenzhou Biomedicin-Appliances Supplies Co., Ltd. and Foshan City Nanhai Pharmaceutical Group Co., Ltd., all of which are ranked among the “Top 100 Pharmaceutical Distribution Enterprises of 2009” selected by China Association of Pharmaceutical Commerce (the “Top 100 List”). The Group has also acquired several leading players in their respective regional markets. The results of some of the companies acquired are included in the consolidated statements of the Group in 2010 and they contributed sales revenue of approximately RMB14,549 million and net profit attributable to equity holders of RMB253 million to the Group.

The distribution networks of prefecture-level cities were actively developed relying on the regional strength and excellent resources of the provincial branch companies. The plan for expanding the coverage of the distribution networks to 39 prefecture-level cities was completed in the year 2010. The Group is accelerating its implementation of the integration plan with respect to strategic coverage of pharmaceutical distribution network across China.

Since 1 January 2010 to the date of this report, the Group has expanded its national distribution network in the following major regional markets. Through such expansion, the Group has further consolidated its unshakable leading position in the national market. The Group's extensive national network has shown incomparable significant synergy effect:

- **Northeast China**

  The Group achieved a leading position in the region by establishing Sinopharm Holding Merro (Dalian) Co., Ltd. in Liaoning, acquiring Heilongjiang Longwei Tongxin Pharmaceutical Co., Ltd., whose name has been changed to Sinopharm Holding Heilongjiang Co., Ltd. in Heilongjiang, and acquiring Jilin Longtai Pharmaceutcial Co., Ltd., whose name has been changed to Sinopharm Holding Jilin Co., Ltd in Jilin.

- **North China**

  In **Hebei**, the Group has acquired the distribution and chain stores businesses of Le Ren Tang Pharmaceutical Group Co., Ltd., which ranked 17th in the Top 100 List. Through the cooperation, the sales of medicine of the Group in Hebei will increase to RMB6 billion and the Group will be in a leading position in that region.

  In **Beijing**, the Group has acquired Beijing Tianxingpuxin Bio-med Co., Ltd., a company mainly engaged in the distribution of bio-products and ranked 44th in the Top 100 List. The sales of Beijing Tianxingpuxin Bio-med Co., Ltd. for 2010 represented more than 51% of the market shares of bio-products distribution in Beijing. As of 31 December 2010, the business scale of the Group ranked 1st in Beijing.

  In **Inner Mongolia**, the Group has established Sinophram Group Inner-Mongolia Co., Ltd. to operate a provincial distribution network. Through integration of local resources, Sinophram Group Inner-Mongolia Co., Ltd. has become the leading distributor in Inner Mongolia.

  In **Shanxi**, the Group expanded its prefecture-level network into Changzhi and Luliang and has become one of the leading players in that province. The expansion laid a solid foundation for the future development of the Group in that area.

- **East China**

  In **Shanghai**, the Group has acquired Shanghai Likang Medicine Co., Ltd., Shanghai Huyong Medicine Co., Ltd., Shanghai Linyun Pharmaceutical Co., Ltd. and Shanghai Peibaokang Pharmaceutical Co., Ltd., and steadily ranked 2nd in Shanghai in terms of market share. The Group further narrowed the gap between itself and other regional leaders by streamlining its operation and fully utilizing the synergy of its national distribution network.

In **Jiangsu**, the Group completed the acquisition of Changzhou Yatai Wuzhou Pharmaceutical Co., Ltd., a company ranked 25th in the Top 100 List, and established a prefecture-level distribution network in Jiangsu covering major cities. Through other mergers and acquisitions, the Group has expanded its network in core major cities of Jiangsu, namely Nanjing, Changzhou, Wuxi, Xuzhou, Yancheng, Huai'an and Suzhou. The pharmaceutical distribution network of the Group covers more than half of Jiangsu and the Group has a business scale comparable to that of the leading player in the province.

In **Zhejiang**, the Group has completed the acquisition of Wenzhou Biomedicin-Appliances Supplies Co., Ltd., a company ranked 49th in the Top 100 List, Zhejiang Wenling Pharmaceutcial Co., Ltd., and Zhejiang Jinyun Pharmaceutcial Co., Ltd. After establishing distribution points in Wenzhou and Zhoushan, the Group has a business scale and market share gradually approaching to that of the regional leader.

In **Anhui**, the Group has established distribution points in Anqing and Bengbu and laid a solid foundation to compete with other players.

In **Fujian**, the Group has established a provincial network in Xiamen and has established Sinopharm Group Fujian Co., Ltd. The Group has also established distribution network in major cities such as Xiamen, Putian, Sanming, Longyan, leveraging on its existing full coverage in Fuzhou. The Group has equipped itself with the potential to rank 1st in the province.

In **Shandong**, the Group has established a prefecture-level network in Yantai, Jinan and Linyi and has gained competitive edges.

- **Central China**

In **Henan**, the Group has established a prefecture-level network in Anyang, Nanyang, Kaifeng, Puyang and Jiaozuo, and has gained competitive edges in terms of business scale.

In **Hubei**, the Group has established a prefecture-level network in Wuhan, Yichang, Huangshi, Jinzhou, Shiyan and Xiangyang and is the second largest in terms of business scale.

In **Hunan**, the Group has established a prefecture-level network in Chenzhou and Yueyang, and its business had gained competitive edges in the area.

- **Northwest China**

  In **Xinjiang**, the Group acquired Xinjiang Company and acquired a controlling interest in Xinjiang New & Special Company, which ranked 23rd in the Top 100 List. The company has the largest market share in the province with an annual turnover of over RMB4 billion in the year 2010.

  In **Gansu**, the Group established Sinopharm Gansu.

- **South China**

  In **Guangdong**, the Group completed the acquisition of Foshan City Nanhai Pharmaceutical Group Co., Ltd., a company ranked 63th in the Top 100 List. It has also established a prefecture-level network in Meizhou and Huizhou. Currently the Group's overall business scale is on a par with the regional leader.

  In **Guangxi**, the Group established a prefecture-level network in Wuzhou. The Group ranked 2nd in the market in terms of business scale.

- **Southwest China**

  In Yunnan, Guizhou, Sichuan and Chongqing, the Group has accomplished the establishment of provincial network.

BUSINESS INTEGRATION

The management of the Group adopts different management systems for its existing and new subsidiaries.

For existing subsidiaries, the Group adopts a management model focussing on the improvement of operation and management of risks. It establishes a grading system to classify the subsidiaries, and resources will be deployed in accordance with the grading system. At the same time, the Group has developed new distribution channels and marketing system, in order to further improve its quality of services, perfect its resources allocation system and utilize its synergy effects.

For new subsidiaries, the senior management of the Group sets up special working teams to devise appropriate risk management systems to enable these subsidiaries to integrate into the Group.

INTERNATIONAL COOPERATION

In 2010, under our international cooperation strategy of "Venturing to the outside market, bringing back investment opportunities", the Group cooperated with overseas companies, including the incorporation of Yujia Medical, a joint venture with Taiwan Excelsior Healthcare Group. The Group also launched various cooperation projects with internationally well-known pharmaceutical companies.

FINANCIAL SUMMARY

The financial summary sets 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 RMB69,234 million, representing an increase of RMB16,566 million, or 31.45%, as compared with the corresponding period of last year. Out of which, revenue from the distribution business was RMB65,363 million, representing an increase of RMB15,810 million, or 31.91%, as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded net profit of RMB1,830 million, representing an increase of RMB386 million, or 26.73%, as compared with the corresponding period of last year. Profit attributable to equity holders was RMB1,209 million, representing an increase of RMB242 million, or 25.03%, as compared with the corresponding period of last year.

During the Reporting Period, the earnings per share of the Group was RMB0.53, representing an increase of 23.26% as compared with the unrestated earnings per share of corresponding period of last year.

Revenue

The Group recorded revenue of RMB69,234 million during the Reporting Period, representing an increase of 31.45%, or RMB16,566 million, as compared with RMB52,668 million for the twelve months ended 31 December 2009. The increase in revenue of the Group was primarily due to substantial increase in revenue from the Group's pharmaceutical distribution, retail pharmacy and other operations. The revenue and market share of the Group grew more rapidly as compared with the overall development of pharmaceutical market in China and was at a level higher than the average industrial growth rate.

- **Pharmaceutical Distribution**: The revenue from pharmaceutical distribution of the Group was RMB65,363 million during the Reporting Period, representing an increase of 31.91% as compared with RMB49,553 million for the twelve months ended 31 December 2009, which accounted for 93.46% of the total revenue of the Group. The increase in revenue was primarily due to (1) the increase of the varieties and quantities of products sold by the existing customers of the Group, and in the number of new customers; (2) the expansion of the coverage of its distribution network by acquiring leading enterprises with extensive national or regional networks and by establishing new companies and businesses. The consolidated financial statements of 2010 show that the additional sales revenue of the Group contributed by such new companies amounted to RMB14.3 billion, which strengthened our advantageous position in first tier cities and expanded our market share in second and third tier cities; and (3) the expansion of our distribution network in clinics and other medical institutions, which also drove the growth in revenue.

- **Retail Pharmacy**: The revenue from retail pharmacy of the Group was RMB1,715 million during the Reporting Period, representing an increase of 23.74% as compared with RMB1,386 million for the twelve months ended 31 December 2009. The increase was primarily due to the growth driven by the acquisition and establishment of new retail outlets and retail companies during the Reporting Period.

- **Other Business Operations**: The revenue from other business operations of the Group was RMB2,860 million during the Reporting Period, representing an increase of 37.04% as compared with RMB2,087 million for the twelve months ended 31 December 2009. The increase was primarily due to the growth of pharmaceutical manufacturing business, chemical reagent business, laboratory supplies business and medical equipment business.

Note: the inter-segment revenue of above three segments is amounting to RMB704 million during the Reporting Period.

Cost of Sales

During the Reporting Period, the cost of sales of the Group was RMB63,398 million, representing an increase of 31.36% as compared with RMB48,261 million for the twelve months ended 31 December 2009. The increase was primarily due to an increase in the costs of purchasing merchandise following the increase in the revenue from sales, and the rate of increase in cost of sales was lower than that of sales for the same period.

Gross Profit

As a result of the above-mentioned factors, the gross profit of the Group increased by 32.43% from RMB4,407 million for the year ended 31 December 2009 to RMB5,836 million during the Reporting Period. The gross profit margin of the Group before retrospective adjustment for the twelve months ended 31 December 2009 was 8.04%. The gross profit margin after retrospective adjustment for the twelve months ended 31 December 2009 was 8.37%, and the gross profit margin for the twelve months ended 31 December 2010 was 8.43%. The increase in gross profit margin of the Group was due to (1) the acquisition of a series of pharmaceutical distribution business with higher gross margins during the year; (2) the effect of integration of mergers and acquisitions; and (3) the relatively rapid growth of businesses with higher gross profit margins. The Group enjoys one of the highest gross profit margin in the industry.

Other Income

During the Reporting Period, other income of the Group was RMB77 million, representing an increase of 42.59% as compared with RMB54 million for the twelve months ended 31 December 2009. The increase was primarily due to an increase in government grants received from the central government and local governments.

Distribution and Selling Expenses

During the Reporting Period, the distribution and selling expenses of the Group was RMB1,960 million, representing an increase of 39.60% as compared with RMB1,404 million for the twelve months ended 31 December 2009. As disclosed in the interim report of the Group for 2010, the distribution and selling expenses for the six months ended 30 June 2010 increased by 52.78% as compared with the six months ended 30 June 2009. During the Reporting Period, the distribution and selling expense of the Group accounted for 2.83% of total revenue, representing an increase of 0.16% as compared with 2.67% for the twelve months ended 31 December 2009. The increase was primarily due to the increase in operation scale, business development and expansion in distribution network of the Group by establishing and acquiring companies and businesses, as well as an expansion in the hospitals direct sales business. With the effect of integration of mergers and acquisitions in the future, the increase in distribution and selling expenses will be effectively managed.

General and Administrative Expenses

During the Reporting Period, the general and administrative expenses of the Group was RMB1,544 million, representing an increase of 32.42% as compared with RMB1,166 million for the twelve months ended 31 December 2009. The proportion of the Group's general and administrative expenses to the total revenue of the Group increased from 2.21% for the twelve months ended 31 December 2009 to 2.23% for the corresponding period in 2010. The increase was primarily due to an increase in scale of the Group and substantial expenses in mergers and acquisitions during the Reporting Period.

Operating Profit

As a result of the above-mentioned factors, the operating profit of the Group during the Reporting Period was RMB2,409 million, representing an increase of 27.33% from RMB1,892 million for the twelve months ended 31 December 2009. Our operating profit margin were 3.59% and 3.48% for the twelve months ended 31 December 2009 and 2010 respectively.

Other Gains — Net

The other gains of the Group less other losses decreased by 5.00% from RMB180 million for the twelve months ended 31 December 2009 to RMB171 million during the Reporting Period. The Group recorded a gain of RMB136 million in 2009 from the disposal of equity interests in subsidiaries. Such gains were not available in the Reporting Period.

Finance Costs — Net

During the Reporting Period, the finance costs of the Group was RMB272 million, representing an increase of 17.75% as compared with RMB231 million for the twelve months ended 31 December 2009. The increase was primarily due to the expansion in business scale and increase in interest rate during the Reporting Period.

Share of Results from Associates

During the Reporting Period, the Group's share of results from associates was RMB90 million, representing an increase of 32.35% as compared with RMB68 million for the twelve months ended 31 December 2009.

Income Tax Expenses

The Group's income tax expenses increased by 22.15%, from RMB465 million for the twelve months ended 31 December 2009 to RMB568 million during the Reporting Period. The increase was primarily due to the corresponding increase in income tax following the growth in profit. The Company's effective income tax rate was 23.69% for the twelve months ended 31 December 2010, which is similar to that of 24.36% for the twelve months ended 31 December 2009.

Annual Profits

The profit for the year of the Group was RMB1,830 million, representing an increase of 26.73% from RMB1,444 million for the twelve months ended 31 December 2009. The increase in annual profits was primarily due to the expansion in the distribution network and the rapid business growth.

Excluding the after tax gain of RMB102 million due to disposal of equity interests in subsidiaries in the corresponding period of 2009, the annual profit of the Group increased by 36.36% as compared with the adjusted annual profit of RMB1,342 million for the twelve months ended 31 December 2009.

Profit Attributable to Equity Holders of the Company

As a result of the above-mentioned factors, profit or net profit attributable to equity holders of the Group increased by 25.03%, or RMB242 million, from RMB967 million for the twelve months ended 31 December 2009 to RMB1,209 million during the Reporting Period. The Group's net profit margins during the Reporting Period and that of the corresponding period of 2009 were at a similar level, which were 1.75% and 1.84% respectively.

Minority Interests

Minority interests during the Reporting Period was RMB622 million, representing an increase of 30.40% from RMB477 million for the twelve months ended 31 December 2009.

Liquidity and Capital Resources

Working capital

The directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within the next 12 months from the date of this report.

During the Reporting Period, the Group had commercial banking facilities of RMB19,843 million, of which approximately RMB8,168 million were not yet utilized. Cash and cash equivalents of RMB7,475 million were primarily comprised of cash, bank deposits and income generated from operating activities.

Cash flow

The cash of the Group is primarily used for financing working capital, repaying credit interest and principal due, financing acquisitions and providing funds for capital expenditures, growth and expanding 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 2009 and 2010:

	2010 **RMB million**	2009 RMB million
Net cash generated from operating activities	**1,202**	1,118
Net cash (used in) investing activities	**(1,831)**	(3,312)
Net cash generated from financing activities	**536**	7,698
Net (decrease)/increase in cash and cash equivalents	**(93)**	5,504
Cash and cash equivalents at the beginning of year	**7,568**	2,064
Cash and cash equivalents at the end of year	**7,475**	7,568

Net cash generated from operating activities

The Group's cash inflow from operations primarily derives from payments for the sale of the products and services in its pharmaceutical distribution, retail pharmacy and other business operations segments. During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB1,202 million, representing an increase of RMB84 million from RMB1,118 million for the twelve months ended 31 December 2009. The increase was primarily due to the continued growth of the Group's operating activities.

Net cash used in investing activities

During the Reporting Period, the net cash used in investment activities of the Group was RMB1,831 million, representing a decrease of RMB1,481 million as compared with RMB3,312 million for the twelve months ended 31 December 2009. The decrease was primarily due to the redemption on maturity of short-term financial products purchased in 2009 for the purpose of hedging exchange risks.

Net cash generated from financing activities

During the Reporting Period, the net cash generated from financing activities of the Group was RMB536 million, representing a decrease of RMB7,162 million as compared with RMB7,698 million for the twelve months ended 31 December 2009. The decrease was primarily due to the lack of fund raising activity in 2010 as compared with the corresponding period in 2009.

Capital Expenditure

The Group's capital expenditures primarily include acquisitions and purchases of fixed assets. The Group's capital expenditures amounted to RMB1,156 million and RMB2,700 million as at 31 December 2009 and during the Reporting Period respectively.

The Group's current plans with respect to its capital expenditures may be modified according to the progress of its operation plans (including changes in market conditions, competition and other factors). As the Group continues to 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 operational results, financial condition and cash flows, economic, political and other conditions in China and Hong Kong, and the Chinese Government's policies relating to foreign currency borrowings.

Capital Structure

Indebtedness

As of 31 December 2010, the Group had aggregate banking facilities of RMB19,843 million, of which RMB8,168 million were not utilized and are available to be drawn down. These banking facilities primarily comprised short-term working capital loans. Among the Group's total borrowings as of 31 December 2010, RMB3,344 million will be due within one year and RMB91 million will be due after one year. During the Reporting Period, the Group did not experience any difficulties in renewing its bank loans with its lenders.

Gearing ratio

The Group's gearing ratio was 64.97% as of 31 December 2010 (31 December 2009: 57.05%), which is calculated based on the net liabilities divided by the aggregate of its total equity and net liabilities as of 31 December 2010. The gearing ratio is comparable with the market average. The increase in gearing ratio at the end of the Reporting Period is mainly due to further development of the Company's business, and the lack of fund raising activity in 2010 as compared with the corresponding period in 2009.

Foreign exchange risks

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

Equity Interest attributable to shareholders of the Group

The equity interest attributable to the shareholders of the Company was RMB11,711 million as of 31 December 2010, representing a slight decrease of 1.31% as compared with RMB11,867 million (restated) as of 31 December 2009. This was primarily due to an accounting adjustment made in the year 2010 as a result of business combination under common control.

Pledge of assets

As of 31 December 2010, part of the Group's bank loans was secured by properties with book value of RMB13 million, accounts receivables with book value of RMB615 million and notes receivable with book value of RMB110 million. Bank deposits with book value of RMB169 million were used as notes guarantees.

Contingent Liabilities, Legal and Potential Proceedings

As of 31 December 2010, the Group neither had any guarantees or other material or contingent liabilities, nor had any legal proceedings or potential proceedings.

Major Acquisitions and Disposals

During the Reporting Period, the total expenditures in relation to acquisition activities of the Group amounted to approximately RMB2,321 million, including the following major acquisitions:

During the Reporting Period, the Group carried out certain acquisitions, including: (1) the acquisition of a 80% equity interest in Xinjiang Company, the business of which covers the whole Xinjiang, at a consideration of approximately RMB736 million; (2) the acquisition of the medicine distribution business of Trading Company, the business of which is based in Beijing, at a consideration of approximately RMB275 million; (3) the acquisition of the medicine distribution business of Industry Company, the business of which is based in Beijing, at a consideration of approximately RMB222 million; (4) the acquisition of a 51% equity interest in Hubei Yibao, the business of which is based in Hubei, at a consideration of approximately RMB20 million; (5) the acquisition of a 36% equity interest in Xinjiang New & Special Company, at a consideration of approximately RMB416 million. All these acquisitions were made by the Group from connected persons and all have been completed.

The consideration of the above acquisitions were determined after arms-length negotiation and conformed to 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

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

Human Resources

As of 31 December 2010, the Group had 24,117 employees. In order to be in line with the substantial developmental trend, meet the development needs and support the implementation of the 2010 overall objectives of the Company, the Group has adopted an idea of professional management, reorganizing current human resources, creating management model, optimizing the management mechanism, and actively promoting the organizational reform. The Group has increased its speed of nurturing and recruiting talents. It has implemented a strict selection process for employees hiring and established a number of initiatives to enhance their productivity. The Group has conducted periodic performance reviews for its employees, and has adjusted their salaries and bonuses accordingly. In addition, the Group has implemented training programs for employees of 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. It will 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 the codes of the Company.

The Company has complied with the code provisions set out in the Corporate Governance Code during the Reporting Period.

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 Reporting Period.

COMPOSITION OF THE BOARD

As at the date of this report, the Board consists of 13 Directors, including one executive Director, Mr. Wei Yulin; eight non-executive Directors, namely Mr. She Lulin, Mr. Wang Qunbin, Mr. Chen Wenhao, Mr. Zhou Bin, Mr. Chen Qiyu, Mr. Deng Jindong, Mr. Fan Banghan and Mr. Liu Hailiang; 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.

The roles of the chairman of the Board and the president (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 president 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 president is responsible for managing the business of the Company and implementing policies, business objectives and plans formulated by the Board, and is accountable to the Board for the Company's overall operation. 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 president.

The Board has established an audit committee, a remuneration committee, a nomination committee and a 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 shareholders' general meeting has approved (1) the appointment of Mr. Chen Qiyu as non-executive Director of the Company, effective from 31 May 2010; (2) the appointment of Mr. Chen Wenhao as non-executive Director of the Company, effective from 7 January 2011; (3) the appointment of Mr. Zhou Bin as non-executive Director of the Company, effective from 7 January 2011; (4) the appointment of Mr. Qian Shunjian as Supervisor of the Company, effective from 31 May 2010; (5) the appointment of Mr. Yao Fang as Supervisor of the Company, effective from 7 January 2011; and (6) the appointment of Mr. Lian Wanyong as Supervisor of the Company, effective from 7 January 2011.

The Board has approved (1) the resignation of Mr. Guo Guangchang from the position of non-executive Director of the Company, effective from 31 May 2010; (2) the resignation of Ms. Fu Mingzhong from the position of executive Director of the Company, effective from 7 January 2011; (3) the resignation of Mr. Lian Wanyong from the position of non-executive Director of the Company, effective from 7 January 2011; (4) the resignation of Mr. Chen Qiyu from the position of Supervisor of the Company, effective from 31 May 2010; (5) the resignation of Mr. Qian Shunjian from the position of Supervisor of the Company, effective from 7 January 2011; and (6) the resignation of Mr. Xing Yonggang from the position of Supervisor of the Company, effective from 7 January 2011.

BOARD MEETINGS

The Board convened four regular meetings and four extraordinary meetings during the Reporting Period. 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:

Directors	Attendance/No. of meetings held
Executive Directors	
Ms. Fu Mingzhong	8/8
Mr. Wei Yulin	8/8
Non-executive Directors	
Mr. She Lulin	8/8
Mr. Guo Guangchang (from 1 January 2010 to 31 May 2010)	1/1
Mr. Wang Qunbin	7/8
Mr. Deng Jindong	8/8
Mr. Fan Banghan	8/8
Mr. Liu Hailiang	8/8
Mr. Lian Wanyong	8/8
Mr. Chen Qiyu (from 31 May 2010 to 31 December 2010)	6/7
Independent Non-executive Directors	
Mr. Wang Fanghua	8/8
Mr. Tao Wuping	8/8
Mr. Xie Rong	8/8
Mr. Zhou Bajun	8/8

Note: Mr. Wang Qunbin attended one meeting not in person but by his alternate; Mr. Chen Qiyu attended one meeting not in person but by his alternate.

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 any proposed resolution(s) in which he/she has conflict of interest.

AUDIT COMMITTEE

The audit committee of the Company consists of six Directors: Mr. Xie Rong, Mr. Chen Wenhao, 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. These responsibilities include, among others:

- making recommendations to the Board on the appointment, re-appointment and removal of the external auditor;

- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and

- developing and implementing policies on the engagement of an external auditor to supply non-audit services.

During the Reporting Period, two meetings were held by the Audit Committee to consider the annual report as at 31 December 2009 and the interim report for the six months ended 30 June 2010.

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

Directors	Attendance/No. of meetings held
Mr. Xie Rong	2/2
Mr. Wang Fanghua	2/2
Mr. Fan Banghan	2/2
Mr. Deng Jindong	2/2
Mr. Zhou Bajun	2/2

The audit committee has reviewed the audited annual results for the year ended 31 December 2010 and the audited annual consolidated financial statements for the year ended 31 December 2010. 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 2010. The audit committee was satisfied with the effectiveness and sufficiency of the internal control mechanism in its operations. In addition, the audit committee has also reviewed the adequacy of resources, qualification and experiences of employees in relation to the accounting and financial reporting function of the Company and the adequacy of training courses taken by the employees and the relevant budgets.

The audit committee has reviewed the remuneration of the auditor for 2010 and recommended the Board to re-appoint PricewaterhouseCoopers as the auditor of the Company for 2011, 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. These responsibilities include, among others:

- reviewing the structure, size and composition of the Board on a regular basis and making recommendations to the Board regarding any proposed changes;
- assessing the independence of independent non-executive Directors; and
- making recommendations to the Board on relevant matters relating to the appointment or reappointment of Directors, and the succession plans for Directors (in particular the chairman and the president).

The nomination procedures of the Directors are as follows: 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; the Board shall then submit the list of candidates 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 applicable to a Director and to state the opinion and recommendations on appointments in the form of proposals; and (3) to carry out other relevant work according to decisions of or feedback from the Board.

During the Reporting Period, three meetings were held by the nomination committee to consider the qualification of Mr. Chen Qiyu, Mr. Chen Wenhao and Mr. Zhou Bin who were candidates for Director.

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

Directors	**Attendance/No. of meetings held**
Mr. She Lulin	3/3
Mr. Wang Fanghua	3/3
Mr. Tao Wuping	3/3
Mr. Xie Rong	3/3
Mr. Fan Banghan	3/3

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. These responsibilities include, among others:

- making recommendations to the Board on the Company's policies and structure for all remuneration of Directors and senior management;

- determining the specific remuneration packages of all executive Directors and senior management, and making recommendations to the Board in relation to the remuneration of non-executive Directors; and

- reviewing and approving performance-based remuneration by reference to corporate goals and objectives determined by the Board from time to time.

During the Reporting Period, one meeting was held by the remuneration committee, during which the resolutions regarding the payment of remuneration of the President of the Company in 2010, the remuneration standards of the President in 2011 and the remuneration of management team of the Company in 2010 were discussed and approved.

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

Directors	Attendance/No. of meetings held
Mr. Tao Wuping	1/1
Mr. Wang Fanghua	1/1
Mr. Xie Rong	1/1
Mr. Fan Banghan	1/1
Mr. Liu Hailiang	1/1

STRATEGIC AND INVESTMENT COMMITTEE

The strategic and investment committee of the Company consists of six Directors: Mr. She Lulin, Mr. Wang Qunbin, Mr. Chen Qiyu, Mr. Zhou Bin, Mr. Fan Banghan and Mr. Wei Yulin. Mr. She Lulin currently serves as the chairman of the strategic and investment committee.

During the Reporting Period, seven meetings were held by the strategic and investment 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.

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

Directors	Attendance/No. of meetings held
Mr. She Lulin	7/7
Mr. Wang Qunbin	6/7
Mr. Chen Qiyu	6/7
Mr. Fan Banghan	7/7
Mr. Wei Yulin	7/7

Note: Mr. Wang Qunbin attended one meeting not in person but by his alternate; Mr. Chen Qiyu attended one meeting not in person but by his alternate.

TERM OF OFFICE OF THE NON-EXECUTIVE DIRECTORS

Name	Position	Commencement date	Expiry date
Mr. She Lulin	Non-executive Director	22 September 2008	21 September 2011
Mr. Chen Wenhao	Non-executive Director	7 January 2011	6 January 2014
Mr. Zhou Bin	Non-executive Director	7 January 2011	6 January 2014
Mr. Chen Qiyu	Non-executive Director	31 May 2010	30 May 2013
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. 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

REMUNERATION OF AUDITORS

PricewaterhouseCoopers is the independent external auditor of the Company. The Company has paid PricewaterhouseCoopers approximately RMB9.9 million as remuneration for its auditing service provided for 2010. 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

The Group had made remarkable improvements in investor relationship in 2010 under the leadership and support of the Board and management. The Group has participated in a number of investment forums and successfully communicated with many fund houses through various means. 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. The Company also received various fund house investors for on-site visits. 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 2010. 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 2010.

In accordance with the arrangements disclosed in the Prospectus, the independent non-executive Directors have held two meetings during the Reporting Period and have reviewed all decisions made during the Reporting Period in relation to whether to exercise the options or rights of first refusal pursuant to the Non-

Competition Agreement (the "relevant Rights") and whether to take any business opportunity which was referred to the Company by CNPGC or any of its subsidiaries (other than the Company). The decisions and the rationale for them are as follows:

1. Excluded Companies (as defined in the Prospectus) against which the relevant Rights were exercised

(1) Hubei Yibao: the independent non-executive Directors decided to exercise the relevant Rights. The rationale for such decision is that acquisition of a 51% equity interest in Hubei Yibao can assist the Company to increase its concentration of medicine distribution coverage in the Hubei Province by taking advantage of Hubei Yibao's sales network and to improve the Company's competitiveness in the medicine distribution market in Hubei Province.

(2) Xinjiang Company: the independent non-executive Directors decided to exercise the relevant Rights. The rationale for such decision is that the businesses of Xinjiang Company in the Xinjiang region is already of considerable scale; acquisition of a 80% equity interest in Xinjiang Company can assist the Company to perfect its national medicine distribution network.

(3) Trading Company: the independent non-executive Directors decided to exercise the relevant Rights. The rationale for such decision is that under the new healthcare reform plan, the acquisition of the Western medicines distribution business of Trading Company can assist the Company to strengthen its Western medicines distribution business.

(4) Industry Company: the independent non-executive Directors decided to exercise the relevant Rights. The rationale for such decision is that under the new healthcare reform plan, the acquisition of the Western medicine distribution business of Industry Company can assist the Company to strengthen its Western medicines distribution business.

(5) Guangdong Dong Fang: the independent non-executive Directors decided to exercise the relevant Rights. The rationale for such decision is that acquisition of a 100% equity interest in Guangdong Dong Fang accords with the Company's current development strategy and can enhance the Company's competitiveness in the Guangzhou region, will result in the Company having additional and more extensive high quality customers and suppliers and will help to reduce competition and connected transaction between the Group and CNPGC.

2. Excluded Companies against which the relevant Rights were not exercised

(1) Tianjin Company: the independent non-executive Directors decided not to exercise the relevant Rights. The rationale for such decision is that shareholders of Tianjin Company have resolved to liquidate the company and the same will then be wound up.

(2) South Trade: the independent non-executive Directors decided not to exercise the relevant Rights. The rationale for such decision is that South Trade only engages in Western medicines distribution business to a limited extent. In addition, it also intends to cease to engage in any Western medicines distribution business within two years after the date of listing of the Company and to focus on its current principal business.

During the Reporting Period, CNPGC and its subsidiaries (other than the Company) did not refer any business opportunity to the Company 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. Therefore, the independent non-executive Directors did not make any decisions in relation to whether to take any such business opportunity.

Biographies of Directors, Supervisors and Senior Management

DIRECTORS

Mr. Wei Yulin, aged 53, executive Director, joined the Group on 16 January 2003, and has been an executive Director of the Company since 22 December 2008. Mr. Wei was the deputy general manager of the Company from January 2003 to December 2009 and has been the president of the Company 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 a master's degree in business administration for executives 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 its chairman from January 2004 to October 2004. Mr. Wei was also the chairman of each of Sinopharm Shanxi, Sinopharm Shenyang, Southwest Pharmaceutical, Sinopharm Hunan, Sinopharm Zhejiang 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. In addition, Mr. Wei was a director of Xinjiang Company from March 2009 to August 2009. Mr. Wei has been appointed as the chairman of Sinopharm Hongkong since January 2011 and the chairman of Beijing Tianxingpuxin Bio-Med Co., Ltd. since April 2010. He is currently the chairman of Sinopharm Medicine Holding Beijing HuaHong Co., Ltd. and Yujia Medical.

Mr. She Lulin, aged 54, non-executive Director, joined the Group as a non-executive Director of the Company on 8 January 2003. He was the vice chairman of the Company and has served as the Chairman of the Company since 30 August 2007. 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 a master's degree in business administration for executives from Tsinghua University in July 2005. Mr. She was previously the deputy head of the general manager's office, assistant to the 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 Industry Company 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 the 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 from December 1999 to January 2001.

Mr. Chen Wenhao, aged 57, non-executive Director, has around 27 years of working experience. He obtained a bachelor's degree in economics, majoring in finance, from Shanghai University of Finance and Economics in 1983 and a master's degree in economics, majoring in accounting, from Shanghai University of Finance and Economics in 1987. Mr. Chen has been teaching at Shanghai University of Finance and Economics since 1983 and has become a professor and a tutor of Ph.D. students since 1999. He has extensive experience in corporate financial affairs and corporate governance. Mr. Chen is also the vice chairman of Shanghai Institute of Finance (上海財務學會) , vice chairman of Shanghai Association of Real Estate and Accounting (上海房產會計協會) and a director of Shanghai Institute of Finance and Taxation (上海財税學會) . He has been an external director of CNGPC since August 2006 and an independent director of Shanghai Diesel Engine Company Limited (a company listed on the Shanghai Stock Exchange) since June 2009. Mr. Chen has served as a non-executive director of the Company since 7 January 2011.

Mr. Zhou Bin, aged 42, non-executive Director, has around 20 years of working experience. He obtained a bachelor's degree in pharmacology from China Pharmaceutical University in July 1990, a master's degree in business administration from China Europe International Business School in September 2005 and a doctorate degree in industrial economy from Shanghai Academy of Social Sciences in July 2008. He was a research trainee, a research assistant and an assistant to the director of the department of information of Shanghai Institute of Pharmaceutical Industry from July 1990 to July 1998. He was a deputy director, research assistant and secretary to the branch of the Party at the department of information of Shanghai Institute of Pharmaceutical Industry from July 1998 to December 1999. He was a deputy director, associate researcher and secretary to the branch of the Party at the department of information of Shanghai Institute of Pharmaceutical Industry from December 1999 to May 2002. Mr. Zhou was subsequently a director and a secretary to the branch of the Party at the department of information and the director of the department of market investment of Shanghai Institute of Pharmaceutical Industry from May 2002 to January 2003. He was an assistant dean, the director of the department of market investment and a secretary to the branch of the Party at the department of information of Shanghai Institute of Pharmaceutical Industry and the chairman of Shanghai Institute of Pharmaceutical Industry Pharmaceutical Co., Ltd. from January 2003 to October 2004. He was a vice dean, the director of the department of market investment and the director of the department of information of Shanghai Institute of Pharmaceutical Industry and the chairman of Shanghai Institute of Pharmaceutical Industry Pharmaceutical Co., Ltd. from October 2004 to September 2005. Mr. Zhou was a vice dean and a member of the Party committee of Shanghai Institute of Pharmaceutical Industry and the chairman of Shanghai Institute of Pharmaceutical Industry Pharmaceutical Co., Ltd. from September 2005 to September 2006. He was a vice dean of and a secretary to the Party committee of Shanghai Institute of Pharmaceutical Industry from October 2006 to April 2008. He has been the dean of and a secretary to the Party committee of Shanghai Institute of Pharmaceutical Industry and chairman of Shanghai Modern Pharmaceutical Co., Ltd. (a company listed on the Shanghai Stock Exchange) since April 2008 and a vice general manager of CNPGC since May 2010. He is also currently a vice president of the Shanghai Pharmaceutical Profession Association, a vice president of the Shanghai Biological Medicine Profession Association and the president of the National Medical Technology Market Profession Association. Mr. Zhou has served as a non-executive director of the Company since 7 January 2011.

Mr. Chen Qiyu, aged 38, non-executive Director, joined the Company on 8 January 2003, and had served as the chief Supervisor until 31 May 2010. He has around 16 years of working experience. He obtained a bachelor's degree in genetics from Fudan University in July 1993 and a master's degree in business administration, majoring in executive business administration, from China Europe International Business School in September 2005. Mr. Chen was previously the deputy general manager, the chief financial officer, the board secretary and the standing deputy general manager of Fosun Pharma from July 1998 to October 2007, and has been its 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 Stock Exchange of Hong Kong Limited) since October 2008. Mr. Chen has been the vice chairman of Tianjin Pharmaceutical Holdings Ltd. and a supervisor of Shanghai Friendship-Fortune since February 2009 and October 2003, respectively. Mr. Chen 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.

Biographies of Directors, Supervisors and Senior Management

Mr. Wang Qunbin, aged 41, non-executive Director, joined the Group on 8 January 2003, and has been a non-executive Director of the Company 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 science, majoring in genetics, from Fudan University in July 1991. Mr. Wang was previously a lecturer at the Genetic Research Institute of Fudan University from September 1991 to September 1993, and then the general manager of Fosun Pharma from October 1993 to October 2007 and a director of Tianjin Pharmaceutical Holdings Ltd. from March 2001 to February 2009. Mr. Wang has been the chairman of Fosun Pharma 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 Company 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 Biopharmaceutics Industry Association and the chairman of the Huzhou Chamber of Commerce in Shanghai.

Mr. Deng Jindong, aged 46, non-executive Director, joined the Group on 30 August 2007, and has been a non-executive Director of the Company 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., 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 57, non-executive Director, joined the Group on 8 January 2003, and has been a non-executive Director of the Company 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 since 2000 and a director of National Medicines 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 61, non-executive Director, joined the Group on 8 January 2003, and has been a non-executive Director of the Company 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 chief human resources supervisor of Fosun Pharma from March 2000 to May 2004, and has been a supervisor and the chief supervisor of Fosun Pharma since May 2004 and May 2008, respectively.

Mr. Wang Fanghua, aged 63, independent non-executive Director, joined the Group on 16 January 2003, and has been an independent non-executive Director of the Company 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), Shenzhen Auto Electric Power Plant Co., Ltd. (a company listed on the Shenzhen Stock Exchange) and Shanghai New World Co., Ltd. (a company listed on the Shanghai Stock Exchange) since June 2005, March 2007 and 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 55, independent non-executive Director, joined the Group on 16 January 2003, and has been an independent non-executive Director of the Company since then. Mr. Tao 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 at the Law and Politics College of East China Normal University, and the honorary dean and a part-time professor at the Law and Politics College of Shanghai Normal University since August 1994, March 2002, June 2003, and September 2003, respectively. Mr. Tao was recognized as 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 58, 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 been acting 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 its 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), China CITIC Bank Corporation Limited (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange) and Tianjin Capital Environmental Protection Group Company Limited (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange) since June 2003, February 2007 and 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 standing commissioner of the China Accounting Institute.

Mr. Zhou Bajun, aged 61, 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 doctorate degree in Economics from East China Normal University in October 1988. Mr. Zhou worked as 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.

SUPERVISORS

Mr. Yao Fang, aged 42, the chief Supervisor, has around 17 years of working experience. He obtained a bachelor's degree in economics from Fudan University in July 1989 and a master of business administration degree from The Chinese University of Hong Kong in July 1993. Mr. Yao worked in the International Business Department of Shanghai Wanguo Securities Co., Ltd. (currently known as Shenyin & Wanguo Securities Co., Ltd.) from 1993 to 1996, where he was engaged in research, investment and financing activities. He served as the general manager of Shanghai Industrial Assets Operation Co., Ltd. and an executive director of Shanghai Industrial Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange) from 1996 to 2009, where he was responsible for the planning and implementation of merger and acquisition projects. Mr. Yao served as a non-executive director of Lianhua Supermarket Holdings Co., Ltd. (a company listed on the Main Board of the Hong Kong Stock Exchange) from 28 June 2007 to 27 May 2009. Mr. Yao served as the standing deputy general manager and the chief financial officer of Fosun Pharma from April 2010 to June 2010. He has been the general manager and the vice-chairman of Fosun Pharma since June 2010. He has served as the chief Supervisor of the Company since 7 January 2011.

Mr. Lian Wanyong, aged 40, joined the Group on 22 December 2008, and has been a non-executive Director since then. He has over 14 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. He has served as a Supervisor of the Company since 7 January 2011.

Ms. Zhang Jian, aged 37, 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 was appointed as the supervisor of National Medicines from May 2008 to August 2010. She has been appointed as the supervisor of Xinjiang Company and Beijing Tianxingpuxin Bio-Med Co., Ltd. since March 2009 and April 2010 respectively. She is currently the supervisor of Sinopharm Medicine Holding Beijing HuaHong Co., Ltd., Sinopharm Shanxi and Beijing Kangchen Pharmaceutical Co., Ltd. (北京康辰藥業有限公司).

COMPANY SECRETARIES

Mr. Wu Aimin, one of the joint company secretaries, is also a vice president of the Company and secretary to the Board. Please refer to the section headed "Senior Management" for Mr. Wu's biography.

Mr. Ngai Wai Fung, aged 48, 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 in the United Kingdom, a master's degree in business administration from Andrews University in the United States 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 the vice president of the Hong Kong Institute of Chartered Secretaries and the chairman of its Membership Committee.

SENIOR MANAGEMENT

Mr. Wei Yulin, is the president of the Company. Please refer to the section headed "Directors" above for Mr. Wei's biography.

Mr. Li Guangpu, aged 54, joined the Company on May 2010, and has been a vice president of the Company since then. He has over 31 years of working experience, over 26 years of which is management experience in the pharmaceutical industry. Mr. Li completed his undergraduate education in Chinese medicine at the College of Chinese Traditional Medicine of Guangzhou University of Chinese Medicine (廣州中醫學院中藥系) in January 1982 and obtained a master's degree in business administration from Jinan University in Guangzhou in June 2002. He was the general manager of and secretary to the Party Committee of Traditional & Herbal Medicine Company, the vice chairman of China Association of Traditional Chinese Medicine, the pharmaceutical department head and the assistant manager of Guangzhou Medical Station (廣州醫藥站) and the general manager of and secretary to the Party Committee of CNPGC from July 2003 to May 2010. He has been the executive director of Sinopharm Logistics Co., Ltd. since October 2010.

Ms. Shen Linian, aged 53, joined the Group on 16 January 2003, and has been a vice president 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 completed her graduate education in political economics at 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. She is currently the chairman of Sinopharm Shanxi, Sinopharm Suzhou and Sinopharm Gansu.

Mr. Lu Jun, aged 53, joined the Group on 8 January 2003, and has been a vice president of the Company since 29 June 2004. He served as the assistant to the general manager of the Company, the general manager of medicine retail business department and the head of the investment department of the Company concurrently from April 2003 to June 2004. 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 from September 2007 to December 2008 and of Xinjiang Company from March 2009 to August 2009. Mr. Lu has been the chairman of Sinopharm Guoda since July 2008. He is currently the chairman of Sinopharm Chongqing, Sinopharm Wuxi and Siopharm Lingyun, a director of Sinopharm Changzhouand Yujia Medical and an executive director of Sinopharm Nanjing.

Mr. Wu Aimin, aged 41, joined the Group on 3 July 2003, and has been a vice president 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 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 a master's degree in business administration from Shanghai Jiao Tong University in December 2006. He is a qualified accountant in the PRC. He previously worked 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 from December 2005 to May 2009. Mr. Wu has been a director of Accord Pharma since January 2005 and a supervisor of National Medicines since May 2009. He is currently the chairman of China National Pharmaceutical Group Chemical Reagent Co., Ltd. and Sinopharm Zhejiang, and a director of Sinopharm Guoda and Sinopharm Hongkong.

Mr. Shi Jinming, aged 44, joined the Group on 8 January 2003, and has been a vice president of the Company since 9 January 2009. He has over 20 years of working experience, over 15 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 a master's degree in business administration for executives from Sun Yat-sen University in June 2005. Mr. Shi was previously the general manager of Accord Pharma 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. He has been the director and general manager of Sinopharm Hongkong since May 2010, and is currently an executive director of Sinopharm Jiangxi, Sinopharm Guizhou and Jilin A-Think Pharmaceutical Co., Ltd., and an executive director of Sinopharm Distribution.

Mr. Liu Yong, aged 41, joined the Group on 8 January 2003, and has been a vice president 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 has been the chairman of Sinopharm Shenyang since January 2009. He has also been the chairman of Sinopharm Henan since February 2009. He has been the chairman of Sinopharm Anhui and Beijing Kangchen Pharmaceutical Co., Ltd. (北京康辰藥業有限公司) since May and October 2009, and is currently chairman of Sinopharm Beijing and Sinopharm Jilin and a director of Sinopharm Henan.

Mr. Li Zhiming, aged 49, joined the Company in May 2010, and has been the vice president since then. He has nearly 31 years of working experience, over 21 years of which is management experience. Mr. Li graduated from the economic management discipline of the Urumuqi Branch of Xi'an Military Academy (西安陸軍學院烏魯木齊分院) . He was the deputy secretary to the Party Committee, vice chairman and general manager of Xinjiang Pharmaceutical Group Company (新疆藥業集團公司) from October 2003 to January 2008. He was the secretary to the Party Committee, chairman and general manager of Xinjiang Pharmaceutical Group Company from January 2008 to February 2009. He has been the secretary to the Party Committee, chairman and general manager of Xinjiang Company since February 2009. He has also been the chairman of National Medicines and Sinopharm Tianjin since 2010.

Mr. Cai Zhongxi, aged 46, joined the Company as vice president of the Company since May 2010. He has over 21 years of working experience, nearly 21 years of which is management experience. Mr. Cai graduated from the military medical discipline of Second Military Medicine University in 1989. He obtained a master's degree in business administration from the School of Management of Maastricht University of the Netherlands in August 2000 and a doctorate degree in business administration from the Southwestern University of the United States in September 2002. Mr. Cai was a doctor of 302 Military Hospital from August 1989 to April 1991. He held various positions in China National Pharmaceutical Group Shanghai Corporation, including deputy manager of specialized medicines department, assistant to general manager, deputy general manager, deputy general manager of general affairs and general manager, from August 1995 to December 2005. He was the chairman of Shanghai Yijia Medical Equipment Co., Ltd. (上海倚嘉醫療器械有限公司) from January to July 2006 and has been the chairman of Shanghai Shengtai Medical Technology Co., Ltd. (上海盛泰醫療科技有限公司) since July 2006. He has been the general manager of Shanghai Shengtai Medical Technology Co., Ltd. (上海盛泰醫療科技有限公司) and chairman of Wenzhou Biomedicin-Appliances Supplies Co., Ltd. since May 2010. He has also been the chairman of Shanghai Huyong Medicines Co., Ltd. (上海滬甬醫藥有限公司),China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd. and Shanghai Bionuo Industrial Co., Ltd. (上海培寶康企業管理公司) since October 2010.

Mr. Ma Wanjun, aged 42, acted as vice president of the Company since September 2010. He has nearly 21 years of working experience, over 11 years of which is management experience. He obtained a bachelor of science degree in chemistry from Nankai University in July 1991 and an EMBA from China Europe International Business School in September 2006. He is a senior pharmacist. He was a business officer and manager in purchase and supply station of China National Pharmaceutical (Group) Tianjin Corporation from July 1991 to November 1999, and deputy general manager and deputy general manager of general affairs of China National Pharmaceutical (Group) Tianjin Corporation from December 1999 to May 2003. Since he joined the Company in May 2003, he has held various positions including deputy general manager of department of pharmaceutical business, the general manager and deputy general manager of department of pharmaceutical business of Sinopharm Tianjin and the general manager and deputy general manager of operation centre of Sinopharm Distribution. He is currently the chairman of Sinopharm Henan and Guangdong Dong Fang and a director of Sinopharm Shenyang, Sinopharm Suzhou, Sinopharm Changzhouand Shanghai Bionuo Medicines Co, (上海培寶康醫藥公司).

Mr. Xu Shuangjun, aged 42, acted as vice president of the Company since March 2011. He has 21 years of working experience, 12 years of which is management experience in the pharmaceutical industry. He graduated from the School of Pharmacy of the Second Military Medical University in Shanghai and obtained a bachelor's degree in medicine in 2001. He obtained a master's degree in business administration from the Macau University of Science and Technology in 2006 and has the qualifications of practicing pharmacist and chief pharmacist. He served as a manager of the operating branch of Shijiazhuang City Medicines and Herbs Co., Ltd. (石家莊市醫藥藥材股份有限公司) from March 1999 to February 2002. He was also the deputy general manager of Shijiazhuang City Medicines and Herbs Co., Ltd. (石家莊市醫藥藥材股份有限公司) from February 2002 to August 2004. He was the chairman and general manager of Hebei Zhongrui Medicines Co., Ltd. (河北中瑞醫藥有限公司) from August 2004 to December 2004. He served as the general manager and secretary to the Party Committee of Shijiazhuang Le Ren Tang Pharmaceutical Co., Ltd. (石家莊樂仁堂醫藥股份有限公司) from December 2004 to December 2005. He has been the chairman and general manager of and secretary to the Party Committee of Le Ren Tang Pharmaceutical Group Co., Ltd. since December 2005.

Mr. Jiang Xiuchang, aged 47, joined the Company in May 2010, and has been the chief financial officer of the Company since then. He has over 25 years of working experience, over 13 years of which is management experience. Mr. Jiang obtained a bachelor's degree in financial accounting from Zhongnan University of Economics and Law in July 1986 and received his postgraduate education in corporate management from the School of Business of University of International Business and Economics. Mr. Jiang joined China Medicines Corporation in July 1986 and was the deputy head of the department of information, reform office, finance department and department of pharmacy from May 1998 to March 2002. He also worked as deputy head, head and chief financial officer of the finance department of National Medicines from March 2002 to May 2010. He is currently a director of National Medicines and the supervisor of Sinopharm Guoda and Yujia Medical.

Report of the Board of Directors

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2010.

PRINCIPAL BUSINESS

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

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

- **Pharmaceutical distribution segment**: Pharmaceutical distribution is the Group's principal business. The Group provides distribution, logistics and other value-added services for domestic and international manufacturers and other suppliers of pharmaceutical and healthcare products. 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 production and sale of pharmaceutical products, chemical reagents and laboratory supplies, and also the sale of medical equipment.

RESULTS

The operating results of the Group is set out in the consolidated income statement on page 75 of this annual report.

DIVIDENDS

The Board proposed to distribute a dividend of RMB0.16 per share in the total amount of RMB362,330,956 to all shareholders whose names appear on the register of members of the Company on 30 May 2011, 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 2011.

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

Any resident enterprise (as defined under the CIT Law) which has been legally incorporated in the PRC or which has established effective administrative entities in the PRC pursuant to the laws of foreign countries (regions) and whose name appears on the Company's H share register on 30 May 2011 must deliver a legal opinion ascertaining its status as a resident enterprise furnished by a qualified PRC lawyer (with the seal of the issuing law firm affixed thereon) and relevant documents to Computershare Hong Kong Investor Services Limited no later than 4: 30 pm on Friday, 29 April 2011, if they do not wish to have the 10% corporate income tax withheld and paid on their behalf by the Company.

The 10% corporate income tax will not be withheld from the final dividend payable to any natural person shareholders whose names appear on the H share register of members of the Company on 30 May 2011. Any natural person investor whose H shares are registered under the name of non-individual shareholders and who does not wish to have any corporate income tax to be withheld by the Company may consider transferring the legal title of the relevant H shares into his or her name and duly lodge all transfer documents with the relevant H share certificates with the Company's H share registrar for registration on or before 4:30 p.m. on Friday, 29 April 2011.

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

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

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the Reporting Period, 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 43 to the financial statements.

RESERVES

Movements in reserves during the Reporting Period are set out in the consolidated statement of changes in equity on page 77 of this annual report, while the details of which during the Reporting Period are set out in note 21 to the financial statements.

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.

As at 31 December 2010, distributable reserves of the Group, calculated based on the above principles and after deducting the above dividends, amounted to approximately RMB334.9 million, which is prepared in accordance with the HKFRS.

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 notes 7 and 8 to the financial statements.

CHARITABLE DONATIONS

During the Reporting Period, charitable donations made by the Group amounted to approximately RMB6.9 million.

BORROWINGS

The details of borrowings of the Group are set out in note 22 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 2010, 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

Connected transactions

(i) Connected transactions relating to the acquisitions of Guandong Dong Fang and Hebei Company

On 25 February 2010, the Company entered into (i) an equity transfer agreement with Traditional & Herbal Medicine Company and Guangdong Dong Fang for the acquisition of the entire equity interest in Guangdong Dong Fang held by Traditional & Herbal Medicine Company; and (ii) an equity transfer agreement with Traditional & Herbal Medicine Company and Hebei Company for the acquisition of the entire equity interest in Hebei Company held by Traditional & Herbal Medicine Company, and for the further capital injection of RMB50,000,000.00 by way of cash into Hebei Company by the Company. Pursuant to the aforesaid equity transfer agreements, the considerations payable for the acquisitions of Guangdong Dong Fang and Hebei Company were RMB95,000,000.00 and RMB27,000,000.00, respectively.

As Traditional & Herbal Medicine Company is a wholly-owned subsidiary of CNPGC, the controlling shareholder of the Company, it is a connected person of the Company. As such, the aforesaid acquisitions constituted connected transactions of the Company according to Chapter 14A of the Listing Rules.

The aforesaid acquisitions accord with the Company's current development strategy and will enlarge the scale of operation and market share of the Company in pharmaceutical distribution business in the PRC and enhance the Company's competitiveness in Guangzhou and Shijiazhuang. Furthermore, as a result of the acquisitions, the Company had more extensive base of quality customers and suppliers. The acquisition would also help to reduce competition and connected transactions between the Group and CNPGC.

(ii) Connected transactions relating to the acquisition of the equity interest in Xinjiang Company and Hubei Yibao and the acquisition of the Western medicines distribution business of Industry Company and Trading Company

On 23 March 2010, (i) the Company entered into an equity transfer agreement with CNPGC to acquire CNPGC's 80% equity interest in Xinjiang Company; (ii) Sinopharm Holding Hubei Co., Ltd., a subsidiary of the Company, entered into an equity transfer agreement with Industry Company to acquire Industry Company's 51% equity interest in Hubei Yibao; (iii) Sinopharm Beijing, a subsidiary of the Company, entered into a transfer agreement with Industry Company to acquire the Western medicines distribution business of Industry Company; and (iv) Sinopharm Holding Beijing Huahong Co, Ltd., a subsidiary of the Company, entered into a transfer agreement to acquire the Western medicine distribution business of Trading Company. Pursuant to the aforesaid agreements, the consideration for the acquisitions were RMB735,800,000.00, RMB10,194,594.00, RMB221,760,000.00 and RMB274,927,000.00 respectively.

As CNPCG is the controlling shareholder of the Company, and Industry Company and Trading Company are subsidiaries of CNPCG, they are connected persons of the Company. As such, the aforesaid acquisitions constituted connected transactions of the Company.

The aforesaid acquisitions accord with the Company's current development strategy and will enlarge the scale of operation and market share of the Group in the pharmaceutical distribution business in the PRC and enhance the Group's competitiveness in Beijing, Hubei and Xinjiang. Furthermore, as a result of the acquisitions, the Group had a more extensive base of quality customers and suppliers. The acquisitions would also help to reduce competition and connected transaction between the Group and the Company's controlling shareholder, CNPGC.

(iii) Connected transactions relating to the acquisition of equity interest in Xinjiang New & Special Company

On 2 November 2010, Xinjiang Company, a subsidiary of the Company entered into (i) the equity transfer agreement with Zhuhai Zhong Zhu and Zhong Zhu Holding for the acquisition of 36% equity interest in Xinjiang New & Speical Company held by Zhuhai Zhong Zhu; and (ii) another equity transfer agreement with Zhuhai Zhong Zhu for the acquisition of 36% equity interest of Zhuhai Zhong Zhu. The consideration payable by Xinjiang Company under the equity transfer agreement was RMB416,230,000.00. There was no consideration payable by Xinjiang Company under another equity transfer agreement.

As Zhong Zhu Holding, which holds 36% equity interest of Xinjiang New & Special Company, is a substantial shareholder of Xinjiang New & Special Company, a subsidiary of the Company, and Zhuhai Zhong Zhu is the holding company of Zhong Zhu Holding, each of Zhuhai Zhong Zhu and Zhong Zhu Holding is a connected person of the Company by virtue of their relationship with the subsidiary of the Company. As such, the aforesaid acquisitions constituted connected transactions of the Company.

The aforesaid acquisitions accord with the Company's current development strategy and will improve the profit of the Company.

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 2010 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

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

(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.

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 2010 in relation to the above continuing connected transactions.

Transaction	Annual cap for 2010 (RMB million)	Actual figure for the year ended 31 December 2010 (RMB million)
1. Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with the Controlling Shareholder	433	287
2. Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with Fosun Pharma	150	138
3. Master Pharmaceutical Products, Healthcare Products and Medical Supplies Sales Agreement with Zhejiang Intmedic	549	451
4. Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with Fosun Pharma	300	186
5. Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with Qianxitang Pharmaceutical	35	—
6. Master Pharmaceutical Products, Healthcare Products and Medical Supplies Procurement Agreement with the Controlling Shareholder	3,000	1,436

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 have 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, and the announcements of the Company dated 24 March and 18 April 2010.

DIRECTORS AND SUPERVISORS

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

Executive Director
Mr. Wei Yulin

Non-Executive Directors
Mr. She Lulin
Mr. Chen Wenhao
Mr. Zhou Bin
Mr. Chen Qiyu
Mr. Wang Qunbin
Mr. Deng Jindong
Mr. Fan Banghan
Mr. Liu Hailiang

Independent Non-executive Directors
Mr. Wang Fanghua
Mr. Tao Wuping
Mr. Xie Rong
Mr. Zhou Bajun

Supervisors
Mr. Yao Fang
Mr. Lian Wanyong
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, 19 August 2009, 31 May 2010 or 7 January 2011 (as the case may be), which is subject to termination in certain circumstances as stipulated in the relevant contract.

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

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 38 to 46 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 32 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 32 to the consolidated financial statements from page 166 of this annual report.

INTERESTS OF DIRECTORS AND SUPERVISORS IN MATERIAL CONTRACTS

As at 31 December 2010 and during the Reporting Period, 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 2010 and during the Reporting Period, 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.

As at 31 December 2010 and during the Reporting Period, 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 2010, three non-executive Directors, namely 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. 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 2010, the aggregate revenue of the Fosun Distribution Companies attributable to their medicines distribution business was approximately RMB818 million, representing only approximately 1.20% 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 there is sale of pharmaceutical products to all of the Fosun Distribution Companies, such aggregate revenue represents only approximately 0.02% of the Company's total audited revenue for the year ended 31 December 2010. Furthermore, even though there is purchase of pharmaceutical products from all of the Fosun Distribution Companies, such costs represent only approximately 0.03% of the Company's total audited costs for the year ended 31 December 2010.

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 certain 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 2.88% of the Company's total audited revenue for the year ended 31 December 2010. Furthermore, because, as discussed in the previous paragraph, 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.

Independence

The Company is financially independent from the Fosun Production Companies. It is also operationally independent from the Fosun Production Companies. Even though there is sale of pharmaceutical products to certain of the Fosun Production Companies and also sale of chemical reagent and laboratory supplies to them, such aggregate revenue represents only approximately 0.12% of the Company's total audited revenue for the year ended 31 December 2010. Even though there is purchase of pharmaceutical products from certain of the Fosun Production Companies, such costs represent only approximately 0.25% of the Company's total audited costs for the year ended 31 December 2010.

As mentioned above, Mr. Wang Qunbin, who is a non-executive Director, is a director of two of the Fosun Production Companies. Mr. Chen Qiyu, who is a non-executive Director, is a director of certain of the Fosun Production 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 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 0.05% of the Company's total audited revenue for the year ended 31 December 2010. 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 there is sale of pharmaceutical products to two of the Fosun Retail Companies, such aggregate revenue represents only approximately 0.06% of the Company's total audited revenue for the year ended 31 December 2010.

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

To the best knowledge of the Directors of the Company, as at 31 December 2010, 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 2010, 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:

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 relevant class of shares (%)	Long position/ short position/ shares available for lending
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

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 relevant class of shares (%)	Long position/ short position/ shares available for lending
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	40,648,000	1.79	5.89	Long position
Blackrock, Inc.	H shares	Interest of controlled corporation	36,783,291	1.62	5.33	Long position
			3,696,682	0.16	0.54	Short position
Matthews International Capital Management, LLC	H shares	Investment manager	35,500,000	1.57	5.14	Long position

Notes:

(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 2010, 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 were received after deduction of relevant expenses. During the period from 23 September 2009 to 31 December 2010, 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 are set out in note 31 to the financial statements.

ENTRUSTED DEPOSIT AND MATURED TIME DEPOSIT

As at 31 December 2010, 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.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the Reporting Period, the Company has complied with the code provisions set out in the Corporate Governance Code. For details, please see page 29 to page 30 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 Reporting Period.

AUDIT COMMITTEE

Details of the audit committee of the Company are set out in the Corporate Governance Report from page 32 to page 33 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 2011

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 2010, the Supervisory Committee held 1 meeting and the details are as follows:

On 23 March 2010, the third meeting of the first session of the Supervisory Committee was convened to discuss the report of the Supervisory Committee of 2009.

II. COMMENTS OF THE SUPERVISORY COMMITTEE ON CERTAIN MATTERS OF THE COMPANY IN 2010

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.

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 2010 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 2010 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
Yao Fang

23 March 2011

Corporate Social Responsibility

The Company, as a leading enterprise in the pharmaceutical distribution industry in China, actively undertakes its corporate social responsibilities and pays close attention to social problems while expanding its business. The Group has actively participated in various community welfare campaigns and has demonstrated the role of a good corporate citizen in areas such as energy saving, emission reduction, community activities and social charities participation, SA8000 social accountability system advancement, as well as the promotion of safe production and occupational health and safety.

1. ACTIVELY PARTICIPATINING IN COMMUNITY ACTIVITIES AND SOCIAL CHARITIES

As a national enterprise providing specialized medicine reserves for rescues, military needs and foreign aid, the Company successfully completed the assignment of providing emergency supply of medicine reserves for earthquakes in Haiti and Yushu, Qinghai in 2010. The Company met the pharmaceutical needs in the affected areas by formulating and implementing contingency measures in the purchase, supply and transport of the relevant medicines in a timely manner.

The Company donated RMB100,000 to the Huangpu branch of Shanghai Charity Foundation to subsidize people living in poverty. It also made a donation of RMB1.36 million to the areas in Yushu, Qinghai, which were affected by the earthquake for reconstruction.

The Company continued to help alleviate poverty in Fujun Village, Gangyuan Town in Chongming County a poor rural village, and helped it to construct and repair roads. A new Poverty Alleviation Agreement (結對幫扶協議) was also signed.

The Company launched a campaign named "Pioneers of the World Expo" (世博先鋒行動) and encouraged its staff to participate actively in various activities to realize the theme of "participating, serving and contributing to the World Expo (參與世博、服務世博、貢獻世博)". The Company purchased summer gift packs amounting to RMB300,000 and distributed them to front-line workers and volunteers working in hot weather in the World Expo Park.

2. ACCELERATED ESTABLISHMENT OF SOCIAL ACCOUNTABILITY SYSTEM

The Company issued the first "2009 Corporate Social Responsibility Report of Sinopharm Group Co. Ltd.", which revealed and disclosed the development and activities of its corporate operation, social responsibility and environmental protection. The report also formulated plans for new measures and other campaigns of the Company in the future in areas such as corporate development strategies, operation, quality and safety, staff development, company culture, environmental protection and social charity.

The Company has deployed the certification of SA8000 Social Accountability System for five of its subsidiaries to pave the way for gradual establishment of SA8000 Social Accountability System for all of its subsidiaries.

3. EMPHASIZING ON ENVIRONMENTAL PROTECTION

The Company has issued a "Guideline of Responsibility on Energy Saving and Emission Reduction" (節能減排目標責任書) to its subsidiaries. It targets to reduce resources consumption and environmental pollution to the maximum extent through implementation of "Environmental Impact Assessment and Three Synchronies" (環評和三同時) in new and modification projects, green purchases of raw materials, control and effective management of three types of waste emitted during production processes, etc. In addition, through implementing measures like enhancing sustainability of the Group's economic development, it targets to save energy, reduce consumption, minimize emission and enhance efficiency.

The Company has fully applied and upgraded the office automation ("OA") office software and implemented a paperless and electronic documentation system within all subsidiaries. Over 90% of subsidiaries have been equipped with video conferencing equipment and more than 600 video conferences were held during the year, which enhanced work efficiency, saved administrative fees and reduced carbon emission.

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

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 71 to 227, which comprise the consolidated and company balance sheets as at 31 December 2010, 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 CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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.

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 about 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 2010, 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 2011

Consolidated Balance Sheet

As at 31 December 2010

	Note	As at 31 December 2010 RMB'000	2009 RMB'000 (Restated)
ASSETS			
Non-current assets			
Land use rights	6	665,499	584,084
Investment properties	7	149,545	164,001
Property, plant and equipment	8	3,330,750	1,794,052
Intangible assets	9	1,591,588	422,666
Investments in associates	11	486,412	313,668
Available-for-sale financial assets	13	55,576	56,334
Deferred income tax assets	14	234,084	193,410
Other non-current assets	15	637,726	11,544
		7,151,180	3,539,759
Current assets			
Inventories	16	7,530,376	5,301,152
Trade receivables	17	17,751,877	11,979,788
Prepayments and other receivables	18	1,373,261	1,022,197
Available-for-sale financial assets	13	990	548
Short-term loan receivable	19	—	2,905,584
Restricted bank deposits	19	732,098	329,700
Cash and cash equivalents	19	7,474,698	7,567,839
		34,863,300	29,106,808
Total assets		42,014,480	32,646,567
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	20	2,264,568	2,264,568
Reserves	21	9,446,570	9,602,311
		11,711,138	11,866,879
Non-controlling interests		3,007,942	2,155,638
Total equity		14,719,080	14,022,517

Consolidated Balance Sheet

As at 31 December 2010

	Note	As at 31 December 2010 RMB'000	2009 RMB'000 (Restated)
LIABILITIES			
Non-current liabilities			
Bank borrowings	22	**90,900**	50,977
Deferred income tax liabilities	14	**265,651**	110,090
Post-employment benefit obligations	23	**368,712**	403,008
Other non-current liabilities	24	**816,061**	641,931
		1,541,324	1,206,006
Current liabilities			
Trade payables	25	**19,831,205**	13,703,430
Accruals and other payables	26	**2,332,509**	1,885,554
Dividends payable		**13,575**	35,288
Current income tax liabilities		**232,605**	126,007
Bank borrowings	22	**3,344,182**	1,667,765
		25,754,076	17,418,044
Total liabilities		**27,295,400**	18,624,050
Total equity and liabilities		**42,014,480**	32,646,567
Net current assets		**9,109,224**	11,688,764
Total assets less current liabilities		**16,260,404**	15,228,523

She Lulin
Director

Wei Yulin
Director

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

Company Balance Sheet

As at 31 December 2010

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Investment properties		**5,589**	5,836
Property, plant and equipment	8	**25,888**	10,918
Intangible assets	9	**3,686**	—
Investments in subsidiaries	10	**8,736,400**	5,633,656
Investments in associates	11	**13,829**	14,690
Available-for-sale financial assets	13	**6,620**	6,760
Deferred income tax assets	14	**35,156**	29,677
Other non-current assets	15	**599,512**	902
		9,426,680	5,702,439
Current assets			
Inventories	16	**1,374,188**	809,344
Trade receivables	17	**2,569,969**	2,036,465
Prepayments and other receivables	18	**3,591,840**	2,118,771
Short-term loan receivable	19	**—**	2,905,584
Cash and cash equivalents	19	**2,856,923**	1,272,398
		10,392,920	9,142,562
Total assets		**19,819,600**	14,845,001
EQUITY			
Share capital	20	**2,264,568**	2,264,568
Reserves	21	**8,620,010**	8,248,980
Total equity		**10,884,578**	10,513,548

Company Balance Sheet

As at 31 December 2010

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
LIABILITIES			
Non-current liabilities			
Other non-current liabilities	24	**263,232**	175,441
Post-employment benefit obligations		**42,248**	44,383
		305,480	219,824
Current liabilities			
Trade payables	25	**3,569,836**	2,261,561
Accruals and other payables	26	**3,903,768**	1,796,032
Current income tax liabilities		**25,938**	10,505
Bank borrowings	22	**1,130,000**	43,531
		8,629,542	4,111,629
Total liabilities		**8,935,022**	4,331,453
Total equity and liabilities		**19,819,600**	14,845,001
Net current assets		**1,756,878**	5,030,933
Total assets less current liabilities		**11,190,058**	10,733,372

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 2010

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000 (Restated)
Revenue	5, 27	**69,233,669**	52,668,164
Cost of sales		**(63,397,799)**	(48,260,824)
Gross profit		**5,835,870**	4,407,340
Other income	28	**77,370**	54,482
Distribution and selling expenses		**(1,960,018)**	(1,404,129)
General and administrative expenses		**(1,544,407)**	(1,165,729)
Operating profit		**2,408,815**	1,891,964
Other gains — net	29	**171,381**	180,329
Finance income		**76,388**	25,889
Finance costs		**(348,640)**	(256,548)
Finance costs — net	33	**(272,252)**	(230,659)
Share of results of associates	11	**90,008**	67,772
Profit before income tax		**2,397,952**	1,909,406
Income tax expense	34	**(567,595)**	(465,314)
Profit for the year		**1,830,357**	1,444,092
Attributable to:			
Shareholders of the Company		**1,208,751**	967,165
Non-controlling interests		**621,606**	476,927
		1,830,357	1,444,092
Earnings per share for profit attributable to the shareholders of the Company during the year (expressed in RMB per share)			
— Basic and fully diluted	36	**0.53**	0.53
Dividends	37	**362,331**	627,296

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	Attributable to shareholders of the Company RMB'000	Attributable to Non-controlling interests RMB'000	Total equity RMB'000
Year ended 31 December 2010				
Profit for the year		**1,208,751**	**621,606**	**1,830,357**
Other comprehensive income:				
Revaluation of available-for-sale financial assets				
— gross	13	**628**	**798**	**1,426**
— tax	14	**(175)**	**(222)**	**(397)**
Currency translation differences		**(1,199)**	**—**	**(1,199)**
Other comprehensive income, net of tax		**(746)**	**576**	**(170)**
Total comprehensive income for the year		**1,208,005**	**622,182**	**1,830,187**
Year ended 31 December 2009 (Restated)				
Profit for the year		967,165	476,927	1,444,092
Other comprehensive income:				
Revaluation of available-for-sale financial assets				
— gross		11,883	15,421	27,304
— tax		(3,004)	(3,822)	(6,826)
Other comprehensive income, net of tax		8,879	11,599	20,478
Total comprehensive income for the year		976,044	488,526	1,464,570

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

Consolidated Statement of Changes In Equity

As at 31 December 2010

	Note	Paid-in capital RMB'000	Reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
As at 1 January 2009 (Restated)		1,637,037	768,054	2,405,091	1,203,150	3,608,241
Total comprehensive income		—	976,044	976,044	488,526	1,464,570
Issue of shares, net of expenses		627,531	7,875,013	8,502,544	—	8,502,544
Changes in shareholding of subsidiaries		—	—	—	598,061	598,061
Effect of business combination under common control	41	—	735,300	735,300	—	735,300
Dividends		—	(710,116)	(710,116)	(134,099)	(844,215)
Distribution of subsidiaries acquired under common control prior to acquisition		—	(41,984)	(41,984)	—	(41,984)
As at 31 December 2009 (Restated)		2,264,568	9,602,311	11,866,879	2,155,638	14,022,517
Total comprehensive income		**—**	**1,208,005**	**1,208,005**	**622,182**	**1,830,187**
Effect of transactions with non-controlling interests		**—**	**(117,245)**	**(117,245)**	**(27,704)**	**(144,949)**
Changes in shareholding of subsidiaries		**—**	**—**	**—**	**485,268**	**485,268**
Effect of business combination under common control	41	**—**	**(1,217,780)**	**(1,217,780)**	**(147,316)**	**(1,365,096)**
Dividends	37	**—**	**(22,872)**	**(22,872)**	**(80,126)**	**(102,998)**
Distribution of subsidiaries acquired under common control prior to acquisition		**—**	**(5,849)**	**(5,849)**	**—**	**(5,849)**
As at 31 December 2010		**2,264,568**	**9,446,570**	**11,711,138**	**3,007,942**	**14,719,080**

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

Consolidated Cash Flow Statement

For the year ended 31 December 2010

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000 (Restated)
Cash flows from operating activities:			
Cash generated from operations	38	**1,709,331**	1,549,465
Income tax paid		**(506,794)**	(431,706)
Net cash generated from operating activities		**1,202,537**	1,117,759
Cash flows from investing activities:			
Proceeds from disposal of land use rights		**180**	—
Proceeds from disposal of property, plant and equipment		**66,223**	49,697
Proceeds from disposal of available-for-sale financial assets		**46,904**	6,612
Proceeds from disposal of associates		**1,629**	35,000
Proceeds from disposal of investment properties		**446**	—
Proceeds from disposal of partial interests in subsidiaries		**—**	156,173
Disposal of subsidiaries, net of cash disposed		**(66,765)**	—
Dividends received from associates		**49,238**	43,478
Dividends received from available-for-sale financial assets		**—**	377
Interest received		**65,789**	25,889
Payment for acquisition		**(616,151)**	—
Acquisition of land use rights		**(86,515)**	(54,402)
Acquisition of property, plant and equipment		**(1,429,332)**	(534,458)
Acquisition of intangible assets		**(14,936)**	(10,496)
Disposal/acquisition of short-term loan receivable	19	**2,905,584**	(2,905,584)
Acquisition of subsidiaries, net of cash acquired		**(2,320,980)**	(79,030)
Acquisition of associates		**—**	(45,502)
Acquisition of Non-controlling interests		**(432,793)**	—
Net cash used in investing activities		**(1,831,479)**	(3,312,246)

Consolidated Cash Flow Statement

For the year ended 31 December 2010

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000 (Restated)
Cash flows from financing activities:			
(Increase)/decrease in restricted bank deposits	19	**(402,398)**	(34,607)
Proceeds from bank borrowings		**4,819,503**	5,737,521
Proceeds from loans from parent company		**–**	1,850,000
Repayment of bank borrowings		**(3,657,563)**	(6,021,178)
Repayment of loans from parent company		**–**	(1,850,000)
Issue of shares	20	**–**	8,844,935
Payment of share issuance and listing expenses		**(25,661)**	(316,730)
Capital injections from non-controlling shareholders of subsidiaries		**143,070**	20,157
Dividends paid to shareholders		**(22,872)**	(1,074,075)
Dividends paid to non-controlling shareholders of subsidiaries		**(101,839)**	(133,344)
Interest paid		**(314,349)**	(228,331)
Distribution of subsidiary acquired under common control prior to acquisition		**(40,238)**	(6,696)
Capital injections from CNPGC to a subsidiary acquired under common control prior to acquisition		**–**	624,510
Proceeds of H1N1 medical reserve from government	24	**138,148**	286,436
Net cash generated from financing activities		**535,801**	7,698,598
Increase/(decrease) in cash and cash equivalents		**(93,141)**	5,504,111
Cash and cash equivalents at beginning of year	19	**7,567,839**	2,063,728
Cash and cash equivalents at end of year	19	**7,474,698**	7,567,839

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 and distribution of medical device.

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 2011.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

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.

During the year, the Group acquired the following subsidiaries and business from CNPGC: (1) 80% equity interest in China National Pharmaceutical Group Xinjiang Medicines Co., Ltd. ("Xinjiang Pharmaceutical"); (2) 100% equity interest in Hebei Traditional & Herbal Medicines Co., Ltd ("Hebei Traditional & Herbal Medicine") and Guangdong Dong Fang New & Special Medicines Co. ("Guangdong Dong Fang"); (3) 51% equity invest in Hubei Yibao International Pharmaceutical Co., Ltd. ("Hubei Yibao"); (4) 52.61% equity interest in Sinopharm Holding Shenzhen Chinese Herbal Co., Ltd. (國藥控股深圳中藥有限公司); (5) the medicine distribution business of two subsidiaries of 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 above subsidiaries and business acquired under common control, 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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

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

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. 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 are expensed.

The Group has applied HKFRS 3 (revised) to the acquisitions of Liaoning Guoda Accord Pharmacy Chain Store Co., Ltd., Sinopharm Holding Ningxia Co., Ltd. and China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd. in 2010. The Company remeasured the existing stake of above three entities before acquisition to fair value at the date of acquisition and recognised a gain of RMB29,341,000 in the income statement. Further details are described in Note 29.

- HKAS 27 (revised) 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 has applied HKAS 27 (revised) to the acquisitions of 1%, 1%, 36%, 35% and 50% equity interests in its subsidiaries — China National Pharmaceutical Group Guorui Medicine Co., Ltd (國藥集團國瑞藥業有限公司), Sinopharm Holding GuoDa Drug Store Co., Ltd. (國藥控股國大藥房有限公司), Xinjiang Province New & Special National Pharmaceutical Co., Ltd. (新疆新特藥民族藥業有限責任公司), Shanghai GuoDa Pharmacy Chain Store Co., Ltd. (上海國大藥房連鎖有限公司), Shanghai Guoda Dongsheng Drugstore Co., Ltd. (上海國大東盛大藥房有限公司), separately, in 2010. The effects of above transactions with non-controlling interests amounting to RMB144,949,000 were recorded in equity (Note 40). The Group also has applied HKAS 27 (revised) to the disposal of 55% equity interests in Xinjiang Pharmaceutical Co., Ltd. (新疆製藥廠), a former subsidiary of the Group, in 2010. The Group remeasured the retained interest of Xinjiang Pharmaceutical Co., Ltd. to fair value at the date of control lost and recognised a gain of RMB41,687,000 in the income statement (Note 29).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

(ii) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

- HKFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarificaties that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1.

- HK(IFRIC) 9, 'Reassessment of embedded derivatives and HKAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to HK(IFRIC) 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified as at fair value through profit or loss in its entirety.

- HK(IFRIC) 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of HKAS 39 that relate to a net investment hedge are satisfied. In particular, the group should clearly document its hedging strategy because of the possibility of different designations at different levels of the group. HKAS 38 (amendment), 'Intangible assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

(ii) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events) (continued)

- HK(IFRIC) 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

- HK(IFRIC) 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

- HKAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of HKFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

- HKAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

(ii) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events) (continued)

- HKFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective form 1 January 2010. In addition to incorporating HK(IFRIC) 8, 'Scope of HKFRS 2', and HK(IFRIC) 11, 'HKFRS 2 — Group and treasury share transactions', the amendments expand on the guidance in HK(IFRIC) 11 to address the classification of group arrangements that were not covered by that interpretation.

(iii) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted.

- HKFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace HKAS 39, 'Financial instruments: recognition and measurement'. HKFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption.

  The Group is yet to assess HKFRS 9's full impact. However, initial indications are that it may affect the Group's accounting for its debt available-for-sale financial assets, as HKFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

- HKAS 24 (Revised) 'Related party disclosures' supersedes HKAS 24 'Related party disclosures' issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The revised HKAS 24 is required to be applied from 1 January 2011. Earlier application, for either the entire standard or the government-related entity, is permitted. The Group will adopt the entire standard from 1 January 2011 except government-related entity exemption which had been early adopted from 1 January 2009. When the revised standard is applied, the Group and the Company will need to disclose any transactions between its subsidiaries and the subsidiaries of the entity which has significant influence over the Company. The Group is currently putting systems in place to capture the necessary information. It is, therefore, not possible at this stage to disclose the impact, if any, of the revised standard on the related party disclosures.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

(iv) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and not relevant to the Group.

- 'Classification of rights issues' (amendment to HKAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The Group will apply the amended standard from 1 January 2011. It is not expected to have any impact on the Group or the Company's financial statements.

- HK (IFRIC) — Int 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group will apply the interpretation from 1 January 2011. It is not expected to have any impact on the Group or the Company's financial statements.

- Prepayments of a minimum funding requirement' (amendments to HK (IFRIC) — Int 14). The amendments correct an unintended consequence of HK (IFRIC) — Int 14, 'HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when HK (IFRIC) — Int 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The Group will apply these amendments for the financial reporting period commencing on 1 January 2011. The Group will apply the interpretation from 1 January 2011. It is not expected to have any impact on the Group or the Company's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation

(i) Subsidiaries

Subsidiaries are all entities (including special purpose 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.

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

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation (continued)

(i) Subsidiaries (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

(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.

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.

(b) Consolidation (continued)

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

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) Transactions with non-controlling interests

The Group has changed the accounting policy in respect of transaction with non-controlling interests pursuant to the adoption of revised HKAS 27. See note 2(b)(v) for further detail.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(iv) 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(i) for the impairment of non-financial assets including goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation (continued)

(iv) Associates (continued)

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.

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.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

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.

(v) Changes in accounting policy

The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence from 1 January 2010 when revised HKAS 27, 'Consolidated and separate financial statements', became effective. The revision to HKAS 27 contained consequential amendments to HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures'.

Previously transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation (continued)

(v) Changes in accounting policy (continued)

Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The Group has applied the new policy prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

(c) 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.

(d) Foreign currency translation

(i) Functional and presentation currency

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) 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 other comprehensive income.

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 other comprehensive income.

(iii) Group company

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

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation (continued)

(iii) Group company (continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) 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

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment (continued)

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.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

(f) Investment property

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

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

(g) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) 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 to 20 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.

(v) Internally generated product development cost

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Intangible assets (continued)

(v) Internally generated product development cost (continued)

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

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

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

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

(i) 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.

(i) Impairment of investments in subsidiaries, associates and non-financial assets (continued)

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.

(j) 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, if expected to be settled within 12 months of the balance sheet date; otherwise, they are classified as non-current.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial assets (continued)

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.

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.

(j) Financial assets (continued)

Recognition and measurement (continued)

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 (l).

(k) 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.

(l) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Trade and other receivables (continued)

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.

(m) Cash and cash equivalents

In the consolidated statement of cash flows, 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.

(n) 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.

(o) 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.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(p) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) 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.

(r) 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Current and deferred income tax (continued)

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.

(s) 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Employee benefits (continued)

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.

(t) Provisions

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

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

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

(u) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Revenue recognition (continued)

(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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Revenue recognition (continued)

(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.

(v) 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.

(w) 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.

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

(i) Foreign currency risk

The Group mainly operates in the PRC with most of the Group's transactions denominated and settled in RMB. However, the Group has certain cash and cash equivalents 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 2010, 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 2010 would have been approximately RMB32,715,000 (2009: RMB31,245,000) 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 2010, if interest rates on bank deposits had been 15% higher/lower than the actual benchmark annual rate of 0.36% (2009: 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 2010 would have been RMB8,594,000 (2009: RMB2,912,000) 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.

3 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

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

As at 31 December 2010, if interest rates on bank borrowings had been 15% higher/lower than the actual benchmark annual rate of 5.8 % (2009: 5.3%) announced by PBOC with all other variables held constant, the post-tax profit for the year ended 31 December 2010 would have been RMB9,915,000 (2009: RMB13,706,000) lower/higher, mainly as a result of higher/lower interest expense on bank borrowings.

(iii) Credit risk

The carrying amounts of pledged bank deposits, cash and cash equivalents, short-term loan 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.

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 2010, most of the restricted 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 22.

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 1.43% to 9% per annum.

3 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(iv) Liquidity risk (continued)

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	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2010					
Borrowings	3,344,182	–	30,000	60,900	3,435,082
Interests payments on borrowings (Note)	60,849	5,336	12,296	6,772	85,253
Trade and other payables	22,163,714	–	–	–	22,163,714
	25,568,745	5,336	42,296	67,672	25,684,049
As at 31 December 2009 (Restated)					
Borrowings	1,667,765	30,977	–	20,000	1,718,742
Interests payments on borrowings (Note)	16,329	2,153	3,564	3,339	25,385
Trade and other payables	15,487,441	–	–	–	15,487,441
	17,171,535	33,130	3,564	23,339	17,231,568

Note: Interest is based on borrowings as at 31 December 2010 and 2009 and the interest rate as at 31 December 2010 and 2009.

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 2010, 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	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Total borrowings	**3,435,082**	1,718,742
Capital and reserves attributable to the Company's shareholders	**11,711,137**	11,866,879
Gearing ratio	**29%**	14%

3 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value estimation

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

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

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2010.

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale financial assets	48,493	8,073	—	56,566

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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(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 4% equity interests individually or less than 18% 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 3% equity interests individually or less than 16% 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.

(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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(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.

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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(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.

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(h) Post-employment benefit obligations (continued)

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

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 23.

(i) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2 (h). 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).

(j) Fair value of contingent consideration

The Group determines the fair value of contingent consideration of acquisition based on the forecast of future performance results of acquired entities or business and terms of acquisition agreement. Management will increase or decrease the fair value of contingent consideration where future performance results are different from previous forecast and as a result affect the Group's financial condition and results of operations.

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, production and sale of pharmaceutical products and distribution of medical device.

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, deferred tax income liabilities 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 2010 and 2009

	Pharmaceutical distribution RMB'000	Retail pharmacy operations RMB'000	Other business operations RMB'000	Elimination RMB'000	Group RMB'000
Year ended 31 December 2010					
Segment results					
External segment revenue	64,800,811	1,714,955	2,717,903	–	69,233,669
Inter-segment revenue	562,075	–	142,302	(704,377)	–
Revenue	65,362,886	1,714,955	2,860,205	(704,377)	69,233,669
Operating profit	2,131,194	41,462	237,612	(1,453)	2,408,815
Other gains	156,554	1,411	13,416	–	171,381
Share of results of associates	88,915	1,093	–	–	90,008
	2,376,663	43,966	251,028	(1,453)	2,670,204
Finance costs — net					(272,252)
Profit before income tax					2,397,952
Income tax expense					(567,595)
Profit for the year					1,830,357
Other segment items included in the income statement					
Provision for impairment of trade and other receivables, net	42,978	(162)	(306)	–	42,510
(Write-back of)/provision for impairment of inventories	(3,294)	251	11	–	(3,032)
Amortisation of land use rights	10,345	–	3,244	–	13,589
Depreciation of property, plant and equipment	143,738	19,077	51,747	–	214,562
Depreciation of investment properties	–	–	16,365	–	16,365
Amortisation of intangible assets	32,803	295	22,901	–	55,999
Capital expenditures	2,395,866	129,619	174,043	–	2,699,528

5 SEGMENT INFORMATION (continued)

(i) For the Year ended 31 December 2010 and 2009 (continued)

	Pharmaceutical distribution RMB'000	Retail pharmacy operations RMB'000	Other business operations RMB'000	Elimination RMB'000	Group RMB'000
Year ended 31 December 2009 (Restated)					
Segment results					
External segment revenue	49,291,835	1,386,290	1,990,039	–	52,668,164
Inter-segment revenue	260,987	–	97,058	(358,045)	–
Revenue	49,552,822	1,386,290	2,087,097	(358,045)	52,668,164
Operating profit	1,763,929	15,279	115,338	(2,582)	1,891,964
Other gains/(losses)	172,691	1,059	6,579	–	180,329
Share of results of associates	67,772	–	–	–	67,772
	2,004,392	16,338	121,917	(2,582)	2,140,065
Finance costs — net					(230,659)
Profit before income tax					1,909,406
Income tax expense					(465,314)
Profit for the year					1,444,092
Other segment items included in the income statement					
Provision for impairment of trade and other receivables, net	18,529	330	219	–	19,078
Provision for impairment of inventories	11,404	63	3,757	–	15,224
Provision for impairment of available-for-sale financial assets	18,503	–	–	–	18,503
Amortisation of land use rights	9,148	–	2,834	–	11,982
Depreciation of property, plant and equipment	123,559	5,268	38,731	–	167,558
Depreciation of investment properties	–	–	19,476	–	19,476
Amortisation of intangible assets	39,211	96	10,560	–	49,867
Capital expenditures	995,154	28,459	132,396	–	1,156,009

5 SEGMENT INFORMATION (continued)

(ii) As at 31 December 2010 and 2009

	Pharmaceutical distribution RMB'000	Retail pharmacy operations RMB'000	Other business operations RMB'000	Elimination RMB'000	Group RMB'000
As at 31 December 2010					
Segment assets and liabilities					
Segment assets	37,920,786	946,633	3,367,206	(454,229)	41,780,396
Segment assets include:					
Investments in associates	481,806	–	4,606	–	486,412
Unallocated assets — Deferred tax assets					234,084
Total assets					42,014,480
Segment liabilities	22,241,817	611,573	1,373,587	(632,310)	23,594,667
Unallocated liabilities — Deferred tax liabilities and borrowings					3,700,733
Total liabilities					27,295,400
As at 31 December 2009 (Restated)					
Segment assets and liabilities					
Segment assets	30,131,122	667,267	2,147,249	(492,481)	32,453,157
Segment assets include:					
Investments in associates	289,077	–	24,591	–	313,668
Unallocated assets — Deferred tax assets					193,410
Total assets					32,646,567
Segment liabilities	15,537,621	464,019	1,111,413	(317,835)	16,795,218
Unallocated liabilities — Deferred tax liabilities and borrowings					1,828,832
Total liabilities					18,624,050

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

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 amounts are analysed as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Cost	**747,574**	653,371
Accumulated amortisation	**(82,075)**	(69,287)
Net book amount	**665,499**	584,084
Opening net book amount	**584,084**	416,068
Additions	**86,515**	54,402
Acquisition of subsidiaries (Note 41)	**17,844**	98,074
Transfer from construction in-progress (Note 8)	**—**	27,522
Disposal of subsidiaries	**(9,355)**	—
Amortisation (Note 30)	**(13,589)**	(11,982)
Closing net book amount	**665,499**	584,084

Land use rights are located in Mainland China with tenure of 40 to 50 years (2009: 40 to 50 years).

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

As at 31 December 2010, no land use rights were pledged as collaterals for the Group's bank borrowings (2009: RMB8,121,000) (Note 22).

7 INVESTMENT PROPERTIES — GROUP

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Cost	**265,559**	247,875
Accumulated depreciation	**(116,014)**	(83,874)
Net book amount	**149,545**	164,001
Opening net book amount	**164,001**	72,709
Acquisition of subsidiaries	**—**	40,696
Transfer from property, plant and equipment (Note 8)	**28,925**	73,126
Transfer to property, plant and equipment (Note 8)	**(19,148)**	(3,054)
Disposal of subsidiaries	**(7,422)**	—
Disposal	**(446)**	—
Depreciation (Note 30)	**(16,365)**	(19,476)
Closing net book amount	**149,545**	164,001

Investment properties are located in Mainland China on land with land use rights of 40 to 50 years (2009: 40 to 50 years).

As at 31 December 2010, the fair value of the investment properties was estimated by the Company's directors to be approximately RMB203,790,000 (2009: RMB180,765,890). 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.

Rental income relating to leasing of investment properties has been included in the consolidated income statements as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Revenue (Note 27)	**53,347**	53,371

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
Year ended 31 December 2009 (Restated)						
Opening net book amount	748,683	200,326	120,883	87,044	141,477	1,298,413
Acquisition of subsidiaries	143,098	99,639	8,180	16,603	4,457	271,977
Additions	207,997	57,992	64,256	48,054	156,159	534,458
Transfers	93,483	32,542	8,267	—	(134,292)	—
Transfer from investment properties (Note 7)	3,054	—	—	—	—	3,054
Transfer to land use rights (Note 6)	—	—	—	—	(27,522)	(27,522)
Transfer to investment properties (Note 7)	(73,126)	—	—	—	—	(73,126)
Disposals	(17,561)	(11,032)	(11,393)	(5,658)	—	(45,644)
Depreciation (Note 30)	(55,573)	(43,873)	(43,424)	(24,688)	—	(167,558)
Closing net book amount	1,050,055	335,594	146,769	121,355	140,279	1,794,052
At 31 December 2009 (Restated)						
Cost	1,381,023	546,543	288,848	215,161	140,279	2,571,854
Accumulated depreciation and impairment	(330,968)	(210,949)	(142,079)	(93,806)	—	(777,802)
Net book amount	1,050,055	335,594	146,769	121,355	140,279	1,794,052

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
Year ended 31 December 2010						
Opening net book amount	1,050,055	335,594	146,769	121,355	140,279	1,794,052
Acquisition of subsidiaries (Note 41)	303,430	28,906	19,648	36,116	14,030	402,130
Additions	72,193	32,246	57,321	67,834	1,283,541	1,513,135
Transfers	848,752	85,345	13,872	–	(947,969)	–
Transfer from investment properties (Note 7)	19,148	–	–	–	–	19,148
Transfer to investment properties (Note 7)	(28,925)	–	–	–	–	(28,925)
Disposals	(28,490)	(1,358)	(3,890)	(8,361)	–	(42,099)
Disposals of subsidiaries	(59,719)	(46,973)	–	(4,821)	(616)	(112,129)
Depreciation (Note 30)	(79,180)	(50,023)	(52,119)	(33,240)	–	(214,562)
Closing net book amount	2,097,264	383,737	181,601	178,883	489,265	3,330,750
At 31 December 2010						
Cost	2,472,087	624,418	370,513	299,005	489,265	4,255,288
Accumulated depreciation and impairment	(374,823)	(240,681)	(188,912)	(120,122)	–	(924,538)
Net book amount	2,097,264	383,737	181,601	178,883	489,265	3,330,750

8 PROPERTY, PLANT AND EQUIPMENT (continued)

The Group (continued)

Depreciation expense was charged to the consolidated income statements as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Cost of sales	**97,312**	79,431
Distribution and selling expenses	**18,625**	15,838
General and administrative expenses	**98,625**	72,289
	214,562	167,558

As at 31 December 2010, property, plant and equipment with net book amount of approximately RMB12,847,000 (2009: RMB171,563,000) were pledged as collateral of the Group's bank borrowings (Note 22).

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

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Borrowing cost capitalised	**7,125**	3,067
Weighted average borrowing cost rate	**5.0%**	5.1%

8 PROPERTY, PLANT AND EQUIPMENT (continued)

The Company

	Buildings RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Construction in Progress RMB'000	Total RMB'000
Year ended 31 December 2009					
Opening net book amount	510	8,525	4,925	–	13,960
Additions	–	811	–	–	811
Disposals	–	(312)	–	–	(312)
Depreciation	–	(2,000)	(1,541)	–	(3,541)
Closing net book amount	510	7,024	3,384	–	10,918
At 31 December 2009					
Cost	768	15,249	10,234	–	26,251
Accumulated depreciation	(258)	(8,225)	(6,850)	–	(15,333)
Net book amount	510	7,024	3,384	–	10,918
Year ended 31 December 2010					
Opening net book amount	**510**	**7,024**	**3,384**	**–**	**10,918**
Additions	**–**	**2,889**	**7,241**	**8,935**	**19,065**
Transfers	**–**	**7,320**	**–**	**(7,320)**	**–**
Disposals	**–**	**(30)**	**(380)**	**–**	**(410)**
Depreciation	**–**	**(2,444)**	**(1,241)**	**–**	**(3,685)**
Closing net book amount	**510**	**14,759**	**9,004**	**1,615**	**25,888**
At 31 December 2010					
Cost	**768**	**25,304**	**16,269**	**1,615**	**43,956**
Accumulated depreciation	**(258)**	**(10,545)**	**(7,265)**	**–**	**(18,068)**
Net book amount	**510**	**14,759**	**9,004**	**1,615**	**25,888**

9 INTANGIBLE ASSETS — GROUP

	Goodwill	Sales network	Trademarks and patent	Software	Internally generated product development costs	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009 (Restated)						
Cost	30,593	208,505	63,107	30,856	–	333,061
Accumulated amortisation	–	(82,485)	(28,362)	(17,591)	–	(128,438)
Net book amount	30,593	126,020	34,745	13,265	–	204,623
Year ended 31 December 2009 (Restated)						
Opening net book amount	30,593	126,020	34,745	13,265	–	204,623
Acquisition of subsidiaries	77,446	99,701	45,634	780	–	223,561
Acquisition of Guangxi Accord Pharmacy Chain Store Co., Ltd. and Guangdong Accord Drugstore Co., Ltd. from Accord Pharma	34,062	–	–	–	–	34,062
Additions	–	–	–	10,287	–	10,287
Amortisation (Note 30)	–	(27,061)	(17,400)	(5,406)	–	(49,867)
Closing net book amount	142,101	198,660	62,979	18,926	–	422,666
At 31 December 2009						
Cost	142,101	308,206	114,235	41,923	–	606,465
Accumulated amortisation	–	(109,546)	(51,256)	(22,997)	–	(183,799)
Net book amount	142,101	198,660	62,979	18,926	–	422,666
Year ended of 31 December 2010						
Opening net book amount	**142,101**	**198,660**	**62,979**	**18,926**	**–**	**422,666**
Acquisition of subsidiaries (Note 41)	**545,458**	**592,978**	**56,238**	**15,752**	**–**	**1,210,426**
Disposal of subsidiaries	**–**	**–**	**(212)**	**(49)**	**–**	**(261)**
Disposal	**–**	**–**	**–**	**(180)**	**–**	**(180)**
Additions	**–**	**–**	**838**	**3,506**	**10,592**	**14,936**
Amortisation (Note 30)	**–**	**(28,130)**	**(21,457)**	**(6,412)**	**–**	**(55,999)**
Closing net book amount	**687,559**	**763,508**	**98,386**	**31,543**	**10,592**	**1,591,588**
At 31 December 2010						
Cost	**687,559**	**901,184**	**170,787**	**61,130**	**10,592**	**1,831,252**
Accumulated amortisation	**–**	**(137,676)**	**(72,401)**	**(29,587)**	**–**	**(239,664)**
Net book amount	**687,559**	**763,508**	**98,386**	**31,543**	**10,592**	**1,591,588**

9 INTANGIBLE ASSETS — GROUP (continued)

Amortisation expense was charged to the consolidated income statements as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Distribution and selling expenses	**30,610**	28,799
General and administrative expenses	**25,389**	21,068
	55,999	49,867

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	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Pharmaceutical distribution	**344,345**	37,473
Retail pharmacy operations	**120,739**	53,989
Other business operations	**222,475**	50,639
	687,559	142,101

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.

9 INTANGIBLE ASSETS — GROUP (continued)

The key assumptions used for value-in-use calculations in 2009 and 2010 are as follows:

	Pharmaceutical distribution	Retail pharmacy operations	Other business operations
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	
	2010	2009
	RMB'000	RMB'000
Investments, at cost		
— Listed shares (i)	**500,260**	500,260
— Unlisted shares	**8,236,140**	5,133,396
	8,736,400	5,633,656
Quoted market value of listed shares	**9,689,250**	8,448,924

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 43.

11 INVESTMENTS IN ASSOCIATES

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Share of net assets	**469,059**	296,315
Goodwill	**17,353**	17,353
End of the year	**486,412**	313,668
Beginning of the year	**313,668**	306,528
Acquisitions	**—**	49,523
Subsidiaries to associates (i)	**161,171**	—
Reclassification from available-for-sale financial assets (Note 13)	**—**	1,915
Share of post-tax profit	**90,008**	67,772
Associates to subsidiaries (ii)	**(26,561)**	(22,065)
Dividends declared by associates attributable to the Group	**(50,018)**	(49,922)
Disposals	**(1,856)**	(40,083)
End of the year	**486,412**	313,668

(i) In 2010, the Group's equity interests in Xinjiang Pharmaceutical Co., Ltd., a former subsidiary of the Group, was diluted to 45% by an independent third party. The Group remeasured the retained interest in to fair value at the date of control lost amounting to RMB161,171,000 and recognised in investment in associates.

(ii) In 2010, the Group acquired additional equity interests in certain entities, which were former associates and became the subsidiaries of the Group afterwards.

11 INVESTMENTS IN ASSOCIATES (continued)

The Group (continued)

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

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Assets	**661,074**	638,622
Liabilities	**192,015**	342,307
Revenues	**621,707**	1,541,602
Profit for the year	**90,008**	67,772

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

The Company

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Investments, at cost		
— Unlisted Shares	**13,829**	14,690

12 FINANCIAL INSTRUMENTS BY CATEGORY

The Group

At 31 December 2010	Loans and receivables RMB'000	Available-for-sale RMB'000	Total RMB'000
Assets as per balance sheet			
Available-for-sale financial assets	–	56,566	56,566
Trade receivables	17,751,877	–	17,751,877
Other receivables	346,832	–	346,832
Restricted bank deposits	732,098	–	732,098
Cash and cash equivalents	7,474,698	–	7,474,698
Total	26,305,505	56,566	26,362,071

	Other financial liabilities at amortised cost RMB'000	Total RMB'000
Liabilities as per balance sheet		
Bank borrowings	3,435,082	3,435,082
Trade payables	19,831,205	19,831,205
Accruals and other payables	2,332,509	2,332,509
Total	25,598,796	25,598,796

12 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The Group (continued)

At 31 December 2009 (Restated)	Loans and receivables RMB'000	Available-for-sale RMB'000	Total RMB'000
Assets as per balance sheet			
Available-for-sale financial assets	—	56,882	56,882
Trade receivables	11,979,788	—	11,979,788
Other receivables	455,779	—	455,779
Short-term loan receivable	2,905,584	—	2,905,584
Restricted bank deposits	329,700	—	329,700
Cash and cash equivalents	7,567,839	—	7,567,839
Total	23,238,690	56,882	23,295,572

	Other financial liabilities at amortised cost RMB'000	Total RMB'000
Liabilities as per balance sheet		
Bank borrowings	1,718,742	1,718,742
Trade payables	13,703,430	13,703,430
Accruals and other payables	1,885,554	1,885,554
Total	17,307,726	17,307,726

12 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The Company

	Loans and receivables As at 31 December	
	2010	2009
	RMB'000	RMB'000
Assets as per balance sheet		
Amounts due from subsidiaries	**2,971,852**	1,304,973
Trade receivables	**2,569,969**	2,036,465
Other receivables	**917,212**	2,042,892
Short-term loan receivable	**—**	2,905,584
Cash and cash equivalents	**2,856,923**	1,272,398
Total	**9,315,956**	9,562,312

	Financial liabilities at amortised cost As at 31 December	
	2010	2009
	RMB'000	RMB'000
Liabilities as per balance sheet		
Borrowings	**1,130,000**	43,531
Trade payables	**3,569,836**	2,261,561
Accruals and other payables	**3,903,768**	1,796,032
	8,603,604	4,101,124

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Listed equity investments, at fair value	**48,493**	48,441
Unlisted equity investments, at fair value	**8,073**	8,441
	56,566	56,882
Less: Current portion	**(990)**	(548)
	55,576	56,334

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Beginning of the year	**56,882**	52,926
Additions	**6,406**	931
Net gain transferred to equity	**1,426**	27,304
Disposals	**(8,148)**	(3,861)
Reclassification to investments in associates (Note 11)	**–**	(1,915)
Provision for impairment (Note 30)	**–**	(18,503)
End of the year	**56,566**	56,882

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

The Company

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Unlisted equity investment, at fair value	**6,620**	6,760
Beginning of the year	**6,760**	20,394
Additions	**6,000**	—
Provision for impairment	**—**	(13,634)
Disposal	**(6,140)**	—
End of the year	**6,620**	6,760

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	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Deferred income tax assets		
— to be recovered after more than 12 months	**184,196**	174,852
— to be recovered within 12 months	**49,888**	18,558
	234,084	193,410
Deferred income tax liabilities		
— to be settled after more than 12 months	**(251,818)**	(100,677)
— to be settled within 12 months	**(13,833)**	(9,413)
	(265,651)	(110,090)
Deferred income tax (liability)/assets — net	**(31,567)**	83,320

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

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Beginning of the year	**83,320**	83,815
Acquisition of subsidiaries (Note 41(b))	**(160,287)**	(809)
Recognised in the consolidated income statements (Note 34(a))	**45,797**	7,140
Recognised in equity	**(397)**	(6,826)
End of the year	**(31,567)**	83,320

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	Impairment provision on assets	Tax losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2009 (Restated)	84,070	49,580	3,787	14,486	151,923
Acquisition of subsidiaries	33,999	7,784	–	–	41,783
Recognised in the consolidated income statements	(14,769)	17,958	(1,739)	(1,746)	(296)
At 31 December 2009 (Restated)	**103,300**	**75,322**	**2,048**	**12,740**	**193,410**
Acquisition of subsidiaries (Note 41)	**–**	**2,573**	**–**	**–**	**2,573**
Recognised in the consolidated income statements	**13,751**	**14,340**	**(508)**	**10,518**	**38,101**
At 31 December 2010	**117,051**	**92,235**	**1,540**	**23,258**	**234,084**

14 DEFERRED INCOME TAX (continued)

The Group (continued)

Deferred income tax liabilities

	Fair value adjustments on assets relating to business combinations	Fair value gains from available-for-sale financial assets	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2009 (Restated)	63,632	4,476	—	68,108
Acquisition of a subsidiaries	42,592	—	—	42,592
Recognised in the consolidated income statements	(7,436)	—	—	(7,436)
Recognised in equity	—	6,826	—	6,826
At 31 December 2009 (Restated)	**98,788**	**11,302**	**—**	**110,090**
Acquisition of subsidiaries (Note 41)	**162,860**	**—**	**—**	**162,860**
Recognised in the consolidated income statements	**(8,891)**	**—**	**1,195**	**(7,696)**
Recognised in equity	**—**	**397**	**—**	**397**
At 31 December 2010	**252,757**	**11,699**	**1,195**	**265,651**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately RMB5,711,000 (2009: RMB24,471,000) in respect of tax losses amounting to approximately RMB59,963,000 (2009: RMB97,885,000) that can be carried forward against future taxable income. As at 31 December 2010, these unrecognised tax losses amounting to RMB3,225,000, RMB2,255,000, RMB477,000, RMB10,436,000 and RMB43,570,000 will expire in 2010, 2011, 2012, 2013 and 2014, respectively.

14 DEFERRED INCOME TAX (continued)

The Company

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

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Beginning of year	**29,677**	27,999
Recognised in the income statements	**5,479**	1,678
End of year	**35,156**	29,677

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	**Impairment provision on assets**	**Others**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	13,200	9,545	5,254	27,999
Recognised in the income statements	(2,104)	2,974	808	1,678
At 31 December 2009	**11,096**	**12,519**	**6,062**	**29,677**
Recognised in the income statements	**(534)**	**(2,875)**	**8,888**	**5,479**
At 31 December 2010	**10,562**	**9,644**	**14,950**	**35,156**

15 OTHER NON-CURRENT ASSETS

The Group

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Partial payment for acquisition (i)	**616,151**	—
Others	**21,575**	11,544
	637,726	11,544

(i) The Group paid partial consideration of RMB616,151,000 for subsidiaries' acquisition, but relevant entities' control still not got by the Group as at 31 December 2010.

The Company

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Partial payment for acquisition	**598,658**	—
Others	**854**	902
	599,512	902

16 INVENTORIES

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Raw materials	**179,790**	120,392
Work in progress	**47,380**	29,097
Finished goods and trading merchandise	**7,327,213**	5,179,252
	7,554,383	5,328,741
Less: Provision for impairment	**(24,007)**	(27,589)
	7,530,376	5,301,152

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Provision for impairment		
At the beginning of year	**27,589**	21,251
Provision/(write-back of provision) for the year (Note 30)	**(3,032)**	15,224
Credited to cost of sales when inventories were sold	**(550)**	(8,886)
At the end of year	**24,007**	27,589

16 INVENTORIES (continued)

The Company

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Trading merchandise	**1,378,638**	814,772
Less: Provision for impairment	**(4,450)**	(5,428)
	1,374,188	809,344

	Year ended 31 December	
	2010	2009
Provision for impairment	**RMB'000**	RMB'000
At the beginning of year	**5,428**	324
Provision/(write-back of provision) for the year	**(978)**	5,104
At the end of year	**4,450**	5,428

17 TRADE RECEIVABLES

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Accounts receivable	**16,520,718**	11,319,836
Notes receivable	**1,511,315**	903,689
	18,032,033	12,223,525
Less: Provision for impairment	**(280,156)**	(243,737)
Trade receivables — net	**17,751,877**	11,979,788

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	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Below 3 months	**14,597,296**	9,533,001
3 to 6 months	**2,945,861**	2,168,112
6 months to 1 year	**399,612**	457,327
1 to 2 years	**47,303**	30,607
Over 2 years	**41,961**	34,478
	18,032,033	12,223,525

17 TRADE RECEIVABLES (continued)

The Group (continued)

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	
	2010	2009
	RMB'000	RMB'000
		(Restated)
3 to 6 months	**2,777,357**	2,022,354
6 months to 1 year	**355,305**	402,773
1 to 2 years	**19,846**	19,213
Over 2 years	**2,073**	2,447
	3,154,581	2,446,787

As of 31 December 2010, trade receivables of approximately RMB280,156,000 (2009: RMB243,737,000), 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	
	2010	2009
	RMB'000	RMB'000
		(Restated)
3 to 6 months	**168,504**	145,758
6 months to 1 year	**44,307**	54,554
1 to 2 years	**27,457**	11,394
Over 2 years	**39,888**	32,031
	280,156	243,737

17 TRADE RECEIVABLES (continued)

The Group (continued)

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

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
At the beginning of year	**243,737**	229,545
Provision for impairment (Note 30)	**39,111**	30,521
Receivables written off as uncollectible	**(2,692)**	(16,329)
At the end of year	**280,156**	243,737

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 2010, notes receivable of RMB110,276,000 (2009: RMB468,262,000) and accounts receivable of RMB615,446,000 (2009: RMB296,914,000) were pledged as collaterals of the Group's bank borrowings (Note 22).

As at 31 December 2010, outstanding accounts receivable of RMB3,283,765,000 (2009: RMB900,756,000) were derecognized under the accounts receivable factoring programs without recourse. The ageing of these derecognised accounts receivable was within one year. As at 31 December 2010, the collection of such accounts receivable on behalf of banks amounted to RMB277,264,000 (31 December 2009: RMB263,605,000) was recorded in other payables (Note 26).

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

17 TRADE RECEIVABLES (continued)

The Company

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Accounts receivable	**2,187,626**	1,887,464
Notes receivable	**401,638**	165,012
	2,589,264	2,052,476
Less: Provision for impairment	**(19,295)**	(16,011)
Trade receivables — net	**2,569,969**	2,036,465

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

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Below 3 months	**2,356,454**	2,047,727
3 to 6 months	**207,116**	832
6 months to 1 year	**11,281**	439
1 to 2 years	**12,198**	3,478
Over 2 years	**2,215**	—
	2,589,264	2,052,476

18 PREPAYMENTS AND OTHER RECEIVABLES

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Prepayments		
— purchase of inventories	**906,468**	353,879
— construction	**23,141**	42,030
— operating expenses	**32,721**	15,198
Value-added tax recoverable	**154,248**	117,930
Deposits	**19,726**	96,101
Staff advances	**38,568**	31,264
Amounts due from related parties	**3,155**	223,248
Prepayments to related parties	**60,944**	34,450
Other receivables	**184,710**	157,009
	1,423,681	1,071,109
Less: Provision for impairment	**(50,420)**	(48,912)
	1,373,261	1,022,197

The fair values of other receivables approximate their carrying amounts.

The other receivables are denominated in RMB.

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

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
At the beginning of year	**48,912**	60,372
Provision/(write-back of provision) for the year (Note 30)	**3,399**	(11,443)
Receivables written off as uncollectible	**(1,891)**	(17)
At the end of year	**50,420**	48,912

18 PREPAYMENTS AND OTHER RECEIVABLES (continued)

The Company

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Amounts due from subsidiaries	**3,096,034**	1,681,638
Prepayments		
— purchase of inventories	**253,717**	75,879
Dividend receivable	**153,058**	346,662
Value-added tax recoverable	**47,217**	—
Other receivables	**56,647**	29,594
	3,606,673	2,133,773
Less: Provision for impairment	**(14,833)**	(15,002)
	3,591,840	2,118,771

19 SHORT-TERM LOAN RECEIVABLE, RESTRICTED BANK DEPOSITS, CASH AND CASH EQUIVALENTS

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Short-term loan receivable	**—**	2,905,584

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. and Zhonghai Trust Co., Ltd., with expected return of 2.1% per annum, and the recovery of principal was guaranteed by China Everbright Bank. These loans were repaid in January and February 2010.

19 SHORT-TERM LOAN RECEIVABLE, RESTRICTED BANK DEPOSITS, CASH AND CASH EQUIVALENTS (continued)

The Group (continued)

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Restricted bank deposits		
Pledged bank deposits	**729,598**	329,700
Term deposits over 3 months	**2,500**	—
Total restricted bank deposits	**732,098**	329,700
Cash and cash equivalents		
— Cash at banks and on hand	**7,474,698**	7,567,839
Restricted bank deposits and Cash and cash equivalents		
Denominated in		
— RMB	**8,033,399**	7,897,539
— Others	**173,397**	—
	8,206,796	7,897,539

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

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

19 SHORT-TERM LOAN RECEIVABLE, RESTRICTED BANK DEPOSITS, CASH AND CASH EQUIVALENTS (continued)

The Group (continued)

The effective interest rates of bank deposits are as follows:

	As at 31 December	
	2010	2009 (Restated)
Weighted average effective interest rate (per annum)	**0.4%**	0.4%

The Company

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Short-term loan receivable	**—**	2,905,584
Cash and cash equivalents		
— Cash at banks and on hand	**2,856,923**	1,272,398
Denominated in		
— RMB	**2,713,020**	1,272,398
— Others	**143,903**	—
	2,856,923	1,272,398

20 SHARE CAPITAL

	Number of shares RMB'000	Domestic shares of RMB1 each RMB'000	H Shares of RMB1 each RMB'000	Total RMB'000
At 31 December 2008	**1,637,037**	**1,637,037**	**—**	**1,637,037**
Conversion of domestic shares to 62,753,102 H Shares	**—**	**(62,753)**	**62,753**	**—**
Issuance of new H Shares upon listing	**627,531**	**—**	**627,531**	**627,531**
At 31 December 2009 and 31 December 2010	**2,264,568**	**1,574,284**	**690,284**	**2,264,568**

21 RESERVES

The Group

	Note	Share premium RMB'000	Statutory reserves RMB'000	Capital reserves RMB'000	Revaluation of available-for-sale financial assets RMB'000	Retained Earnings (Note (c)) RMB'000	Total RMB'000
As at 1 January 2009 (Restated)		256,089	11,744	264,427	7,111	228,683	768,054
Profit for the period		–	–	–	–	967,165	967,165
Appropriation to statutory reserves			81,024	–	–	(81,024)	–
Issue of share, net		7,875,013	–	–	–	–	7,875,013
Dividends		–	–	–	–	(710,116)	(710,116)
Effect of business combination under common control		–	–	735,300	–	–	735,300
Distribution by subsidiaries acquired under common control prior to acquisition		–	–	–	–	(41,984)	(41,984)
Revaluation of available-for-sale financial assets							
— gross		–	–	–	11,883	–	11,883
— tax		–	–	–	(3,004)	–	(3,004)
As at 31 December 2009 (Restated)		8,131,102	92,768	999,727	15,990	362,724	9,602,311
Profit for the year		–	–	–	–	1,208,751	1,208,751
Appropriation to statutory reserves	(a)	–	38,084	–	–	(38,084)	–
Dividends	37	–	–	–	–	(22,872)	(22,872)
Transactions with non-controlling interests	40	–	–	(117,245)	–	–	(117,245)
Effect of business combination under common control	41(a)	–	–	(1,101,965)	–	(115,815)	(1,217,780)
Distribution by subsidiaries acquired under common control prior to acquisition		–	–	–	–	(5,849)	(5,849)
Capitalisation of retained earnings by an associate		–	–	8,607	–	(8,607)	–
Revaluation of available-for-sale financial assets							
— gross	13	–	–	–	628	–	628
— tax	14	–	–	–	(175)	–	(175)
Currency translation differences		–	–	(1,199)	–	–	(1,199)
As at 31 December 2010		8,131,102	130,852	(212,075)	16,443	1,380,248	9,446,570

21 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
As at 1 January 2009		244,914	11,744	–	75,588	332,246
Profit for the year		–	–	–	807,069	807,069
Appropriation to statutory reserves	(a)	–	81,024	–	(81,024)	–
Issue of share, net		7,875,013	–	–	–	7,875,013
Dividends		–	–	–	(710,116)	(710,116)
Effect of acquisition of Guangxi Accord Pharmacy Chain Store Co., Ltd. and Guangdong Accord Drugstore Co., Ltd. from Accord Pharma		–	–	(55,232)	–	(55,232)
As at 31 December 2009		8,119,927	92,768	(55,232)	91,517	8,248,980
Profit for the year		–	–	–	372,998	372,998
Appropriation to statutory reserves	(a)	–	38,084	–	(38,084)	–
Absorption of a subsidiary	(b)	–	–	–	20,904	20,904
Dividends	37	–	–	–	(22,872)	(22,872)
As at 31 December 2010		8,119,927	130,852	(55,232)	424,463	8,620,010

Notes:

(a) PRC laws and regulations require companies registered in the PRC to maintain certain statutory reserves, which are to be appropriated from the retained profit (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before distributing retained profit to their 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 discretional surplus reserve based on a resolution of the board of directors.

(b) In June 2010, Sinopharm Holding Shanghai Co., Ltd. (國藥控股上海有限公司), a subsidiary of the Company was absorbed by the Company and the relevant reserves of Sinopharm Holding Shanghai Co., Ltd. was combined into the Company's reserves.

(c) Retained earnings as at 31 December 2010 include proposed final dividend of RMB362,330,880 (2009: RMB22,879,250).

22 BANK BORROWINGS

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Secured	**908,009**	791,803
Unsecured	**2,527,073**	926,939
Total bank borrowings	**3,435,082**	1,718,742

The bank borrowings were denominated in RMB.

The Group's bank borrowings were repayable as follows:

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Within 1 year	**3,344,182**	1,667,765
Between 1 to 2 years	**—**	30,977
Between 2 to 5 years	**30,000**	—
Over 5 years	**60,900**	20,000
	3,435,082	1,718,742

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

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Weighted average effective interest rate (per annum)	**4.73%**	4.79%

22 BANK BORROWINGS (continued)

The Group (continued)

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

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

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Property, plant and equipment (Note 8)	**12,847**	171,563
Land use rights (Note 6)	**—**	8,121
Pledged bank deposits (Note 19)	**169,227**	—
Notes receivable (Note 17)	**110,276**	468,262
Accounts receivable (Note 17)	**615,446**	296,914
	907,796	944,860

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	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Carrying amount	**90,900**	50,977
Fair value	**89,472**	50,057

22 BANK BORROWINGS (continued)

The Company

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Secured	**–**	43,531
Unsecured	**1,130,000**	—
Total bank borrowings	**1,130,000**	43,531

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

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Within one year	**1,130,000**	43,531

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	
	2010	2009
	RMB'000	RMB'000
Bank borrowings	**4.8%**	4.4%

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

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Notes receivable	**–**	43,531

23 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	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Present value of unfunded post-employment benefit obligations	**372,711**	409,014
Unrecognised past service cost	**(3,999)**	(6,006)
Liability in the balance sheet	**368,712**	403,008

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

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Beginning of the year	**403,008**	307,933
Acquisition of subsidiaries	**—**	122,075
Curtailment of benefit (a)	**(30,462)**	—
Total expenses, included in staff costs as shown below	**31,862**	45
Benefits paid	**(35,696)**	(27,045)
End of the year	**368,712**	403,008

23 POST-EMPLOYMENT BENEFIT OBLIGATIONS — GROUP (continued)

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

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Current service cost	**4,332**	3,463
Past service cost	**3,875**	17,893
Interest cost	**15,477**	10,341
Actuarial (gain)/loss	**8,178**	(9,342)
Gain on curtailment	**—**	(22,310)
Total expenses, included in staff costs	**31,862**	45

Note

(a) Pursuant to the agreement with Xinjiang State-owned Assets Supervision and Administration Commission ("Xinjiang SASAC") relating to the acquisition of Xinjiang Pharmaceutical, any gain/surplus on the curtailment of post-employment benefit obligations of Xinjiang Pharmaceutical should be paid back to Xinjiang SASAC. In 2010, post-employment benefit obligations of Xinjiang Pharmaceutical amounting to RMB30,462,000 was curtailed and the related surplus was transferred to accrual and other payables, accordingly.

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	
	2010	2009
	RMB'000	RMB'000
Discount rate	**4.25%**	4.0%
Future pension increases	**0–4%**	0–2%
Future medical cost increases	**2–5%**	2–6%

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

24 OTHER NON-CURRENT LIABILITIES

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Medical reserve funds (i)		
— general	**297,983**	284,348
— for H1N1 vaccines	**424,584**	286,436
Office relocation funds (ii)	**30,262**	33,392
Government grants for construction of logistic centers (iii)	**14,058**	19,106
Others	**49,174**	18,649
	816,061	641,931

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 2010 was RMB26,000,000 (2009: RMB64,000,000). 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 2010, 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 2010, the directors expect that such constructions will not be completed within one year and therefore, the balance is recorded as other non-current liabilities.

24 OTHER NON-CURRENT LIABILITIES (continued)

The Company

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Medical reserve funds — general	**263,232**	174,673
Others	**—**	768
	263,232	175,441

25 TRADE PAYABLES

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Trade payables	**13,725,945**	9,647,621
Notes payable	**6,105,260**	4,055,809
	19,831,205	13,703,430

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

25 TRADE PAYABLES (continued)

The Group (continued)

The ageing analysis of trade payables is as follows:

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Below 3 months	**17,862,983**	11,677,197
3 to 6 months	**965,105**	526,166
6 months to 1 year	**569,968**	1,101,768
1 to 2 years	**174,166**	131,771
Over 2 years	**258,983**	266,528
	19,831,205	13,703,430

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

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
RMB	**19,211,979**	13,311,419
USD	**619,226**	392,011
	19,831,205	13,703,430

25 TRADE PAYABLES (continued)

The Company

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Trade payables	**1,936,189**	1,639,567
Notes payable	**1,633,647**	621,994
	3,569,836	2,261,561

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

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Below 3 months	**3,486,788**	2,247,085
3 to 6 months	**48,834**	11,260
6 months to 1 year	**27,694**	1,260
1 to 2 years	**3,087**	551
Over 2 years	**3,433**	1,405
	3,569,836	2,261,561

The Company's trade payables are denominated in RMB.

26 ACCRUALS AND OTHER PAYABLES

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Accrual of operating expenses	**291,321**	235,794
Collection of accounts receivables on behalf of banks under factoring programs (Note 18)	**277,264**	263,605
Salary and welfare payables	**307,670**	310,621
Advances from customers	**498,665**	191,513
Other deposits	**82,439**	40,626
Taxes payable	**104,315**	70,479
Amounts due to related parties	**101,209**	314,844
Payables arising from acquisition of subsidiaries (Note 41)	**172,636**	63,241
Payables of share issuance expenses and listing expenses	**—**	25,661
Other payables	**496,990**	369,170
	2,332,509	1,885,554

The Group's other payables are denominated in RMB.

26 ACCRUALS AND OTHER PAYABLES (continued)

The Company

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Amounts due to subsidiaries	**3,238,902**	1,491,536
Amounts due to other related parties	**3,080**	2,770
Salary and welfare payables	**39,963**	27,530
Accrual of operating expenses	**15,881**	17,025
Accounts receivables collection on behalf of banks for factoring business	**139,247**	164,422
Taxes payable other than income tax and value added tax	**2,684**	4,530
Advances from customers	**302,195**	4,412
Other deposits	**514**	434
Payables arising from acquisition of subsidiaries	**123,653**	51,043
Other payables	**37,649**	32,330
	3,903,768	1,796,032

The Company's other payables are denominated in RMB.

27 REVENUE

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Sales of goods	**69,053,448**	52,572,532
Rental income (Note 7)	**53,347**	53,371
Franchise fees from medicine chain stores	**40,593**	11,189
Consulting income	**42,758**	14,965
Import agency income	**43,523**	16,107
	69,233,669	52,668,164

28 OTHER INCOME

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Government grants (i)	**77,370**	54,105
Dividend income from available-for-sale financial assets	**—**	377
	77,370	54,482

Note:

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

29 OTHER GAINS — NET

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Write-back of certain liabilities (i)	**47,949**	52,925
Gain on fair value re-measurement of retained interest in connection with disposal of controlling interest in a subsidiary (ii)	**41,687**	—
Gain on disposal of subsidiaries	**3,879**	—
Gain on disposal of available-for-sale financial assets	**38,356**	—
Fair value gain of investment (iii)	**29,341**	—
Gain on disposal of plant and equipment	**24,124**	4,054
Donations	**(4,355)**	(6,086)
Foreign exchange loss — net	**(5,827)**	(3,817)
Loss on disposal of an associate	**(207)**	(3,858)
Gain on disposal of partial interests in two listed subsidiaries	**—**	101,548
Gain on disposal of partial interests in other subsidiaries	**—**	34,999
Others-net	**(3,566)**	564
	171,381	180,329

29 OTHER GAINS — NET (continued)

Note:

(i) In 2010, the Group reviewed all the trade and other payables with aging over 3 years and wrote-back these unpayable long aging liabilities of RMB47,949,000.

(ii) In 2010, the Group's 100% equity interests in Xinjiang Pharmaceutical Co., Ltd., a former subsidiary of the Group, was diluted to 45% by an independent third party. The Group remeasured the retained interest in Xinjiang Pharmaceutical Co., Ltd. to fair value at the date of control lost and recognised a gain of RMB41,687,000.

(iii) In 2010, the Group acquired additional equity interests in certain entities, which were former associates and became the subsidiaries of the Group afterwards. The Group remeasured the existing interests of these entities before acquisition to fair value at the date of acquisition and recognised a gain of RMB29,341,000.

30 EXPENSES BY NATURE

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000 (Restated)
Raw materials and trading merchandise consumed	**63,198,707**	47,916,923
Changes in inventories of finished goods and work in progress	**97,253**	190,025
Employee benefit expenses (Note 31)	**1,653,086**	1,288,888
Provision for impairment of trade receivables (Note 17)	**39,111**	30,521
Provision/(write-back of provision) for impairment of other receivables (Note 18)	**3,399**	(11,443)
Provision/(write-back of provision) for impairment of inventories (Note 16)	**(3,032)**	15,224
Provision for impairment of available-for-sale financial assets (Note 13)	**—**	18,503
Operating lease rental in respect of land and buildings	**195,484**	167,705
Depreciation of property, plant and equipment (Note 8)	**214,562**	167,558
Depreciation of investment properties (Note 7)	**16,365**	19,476
Amortisation of intangible assets (Note 9)	**55,999**	49,867
Amortisation of land use rights (Note 6)	**13,589**	11,982
Auditors' remuneration	**12,987**	10,872
Advisory and consulting fees	**28,128**	18,750
Transportation expenses	**279,951**	283,453
Travel expenses	**117,406**	84,181
Promotion and advertising expenses	**489,859**	274,525
Utilities	**38,631**	31,317
Others	**450,739**	262,355
Total cost of sales, distribution and selling expenses and general and administrative expenses	**66,902,224**	50,830,682

31 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Salaries, wages, allowances and bonuses	**1,252,121**	959,214
Contributions to pension plans (i)	**133,187**	106,527
Post-employment benefits (Note 23)	**31,862**	45
Housing benefits (ii)	**56,555**	40,782
Other benefits (iii)	**179,361**	182,320
	1,653,086	1,288,888

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.

32 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every Director for the year ended 31 December 2010 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
Executive director					
Mr. Wei Yulin	1,000	430	–	53	1,483
Ms. Fu Mingzhong	1,000	430	–	16	1,446
Non-executive directors					
Mr. She Lulin	–	–	–	–	–
Mr. Wang Qunbin	–	–	–	–	–
Mr. Fan Banghan	–	–	–	–	–
Mr. Liu Hailiang	–	–	–	–	–
Mr. Lian Wanyong	–	–	–	–	–
Mr. Deng Jindong	–	–	–	–	–
Mr. Chen Qiyu	–	–	–	–	–
Independent non-executive directors					
Mr. Wang Fanghua	200	–	–	–	200
Mr. Tao Wuping	200	–	–	–	200
Mr. Xie Rong	200	–	–	–	200
Mr. Zhou Bajun	200	–	–	–	200
Supervisor					
Ms. Zhang Jian	300	200	–	55	555
Mr. Qian Shunjiang	–	–	–	–	–
Mr. Xing Yonggang	–	–	–	–	–
	3,100	1,060	–	124	4,284

32 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

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
Executive director					
Ms. Fu Mingzhong	680	320	–	58	1,058
Mr. Wei Yulin	650	290	–	50	990
Non-executive directors					
Mr. She Lulin	–	–	–	–	–
Mr. Guo Guangchang	–	–	–	–	–
Mr. Wang Qunbin	–	–	–	–	–
Mr. Fan Banghan	–	–	–	–	–
Mr. Liu Hailiang	–	–	–	–	–
Mr. Lian Wanyong	–	–	–	–	–
Mr. Deng Jindong	–	–	–	–	–
Independent non-executive directors					
Mr. Wang Fanghua	187	–	–	–	187
Mr. Tao Wuping	187	–	–	–	187
Mr. Xie Rong	187	–	–	–	187
Mr. Zhou Bajun	93	–	–	–	93
Supervisor					
Mr. Chen Qiyu	–	–	–	–	–
Ms. Zhang Jian	250	200	–	50	500
Mr. Xing Yonggang	–	–	–	–	–
	2,234	810	–	158	3,202

32 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	
	2010	2009
	RMB'000	RMB'000
Salaries	**2,400**	1,680
Discretionary bonuses	**1,050**	720
Employer's contribution to pension scheme	**166**	167
Other benefits	**—**	—
	3,616	2,567

	Year ended 31 December	
	2010	2009
	Number	Number
In the band of:		
Nil–HK$500,000 (Nil–RMB440,945)	**—**	—
HK$500,001–HK$1,000,000 (RMB440,945–RMB881,890)	**5**	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.

33 FINANCE INCOME AND COSTS

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Interest expense:		
— Borrowings	**88,135**	121,832
— Discount of notes receivable	**167,305**	76,675
— Discount of accounts receivable	**63,494**	29,824
Gross interest expense	**318,934**	228,331
Bank charges	**36,831**	31,284
Less: capitalised interest expense	**(7,125)**	(3,067)
Finance costs	**348,640**	256,548
Finance income:		
— Interest income on bank deposits	**(76,388)**	(25,889)
Finance costs — net	**272,252**	230,659

34 TAXATION

(a) Income tax expense

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
PRC current income tax	**613,392**	472,454
Deferred income tax (Note 14)	**(45,797)**	(7,140)
	567,595	465,314

34 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	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Profit before income tax	**2,397,952**	1,909,406
Less: Share of results of associates	**(90,008)**	(67,772)
	2,307,944	1,841,634
Tax calculated at weighted average domestic tax rate applicable	**533,086**	442,830
Unrealised intra-group profit	**13,823**	5,228
Expenses not deductible for tax purposes	**14,975**	16,175
Tax losses for which no deferred income tax asset was recognised, net	**5,711**	1,303
Change of income tax rate	**—**	(222)
Income tax expense	**567,595**	465,314
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, 22% for 2010 and will be 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.

34 TAXATION (continued)

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

Certain of the Group's revenues (including rental income, consulting income, franchise fees and other 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 of goods) 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.

35 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company for the year ended 31 December 2010 is dealt with in the financial statements of the Company to the extent of RMB380,836,000 (2009: RMB807,069,000).

36 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.

	Year ended 31 December	
	2010	2009 (Restated)
Profit attributable to shareholders of the Company (RMB'000)	**1,208,751**	967,165
Weighted average number of ordinary shares in issue ('000)	**2,264,568**	1,808,964
Basic earnings per share (RMB per share)	**0.53**	0.53

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

37 DIVIDENDS

The directors recommend the payment of a final dividend of RMB0.16 per ordinary share, amounting to RMB362,330,956. Such dividend is to be approved by the shareholders of the Company at the upcoming Annual General Meeting. These financial statements have not reflected the payable of this dividend.

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Interim dividend declared	**–**	604,417
Proposed final dividend	**362,331**	22,879
	362,331	627,296

38 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Profit before income tax	**2,397,952**	1,909,406
Adjustments for:		
— Share of profit from associates (Note 11)	**(90,008)**	(67,772)
— Asset impairment	**39,478**	52,805
— Depreciation	**230,927**	187,034
— Amortisation	**69,588**	61,849
— Gain on disposal of plant and equipment (Note 29)	**24,124**	4,054
— Gain on disposal of partial interests in subsidiaries (Note 29)	**—**	(136,547)
— Write-back of certain liabilities (Note 29)	**(47,949)**	(52,925)
— Gain on disposal of available-for-sale financial assets	**(38,356)**	—
— Dividend income on available-for-sale financial assets (Note 28)	**—**	(377)
— Finance income (Note 33)	**(76,388)**	(25,889)
— Finance cost	**311,809**	225,264
— Gain on fair value re-measurement of existing stake in connection with acquisitions (Note 29)	**(29,341)**	—
— Gain on disposal of subsidiaries (Note 29)	**(3,879)**	—
— Gain on fair value re-measurement of retained interest in connection with disposal of controlling interest in a subsidiary (Note 29)	**(41,687)**	—
	2,746,270	2,156,902
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation)		
— Inventories	**(1,562,188)**	(939,950)
— Trade receivables	**(3,483,600)**	(2,087,820)
— Prepayments and other receivables	**(362,426)**	(103,330)
— Trade payables	**3,917,207**	2,427,947
— Accruals and other payables	**454,068**	95,715
Cash generated from operations	**1,709,331**	1,549,464

38 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	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Net book amount (Note 8)	**42,099**	45,644
Gain on disposal	**24,124**	4,054
Proceeds from disposal in the years	**66,223**	49,698

39 COMMITMENTS

(a) Capital commitments

Capital expenditures at balance sheet date are as follows:

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Property, plant and equipment:		
— contracted but not provided for	**293,516**	291,216
— authorised but not contracted for	**868,825**	322,000
Acquisition of equity interests		
— contracted but not provided for	**451,275**	—
— authorised but not contracted for	**1,400**	494,257
	1,615,016	1,107,473

39 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	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Within 1 year	**328,949**	143,925
Later than 1 year and not later than 5 years	**327,184**	178,769
Later than 5 years	**74,401**	—
	730,534	322,694

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 investment properties under non-cancellable operating lease agreements. The further aggregate minimum rental receivable under these leases is as follows:

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Within 1 year	**34,610**	17,537
Later than 1 year and not later than 5 years	**90,670**	41,780
Later than 5 years	**30,267**	9,300
	155,547	68,617

40 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

(a) Acquisition of additional interest in a subsidiary

During the year, the Group acquired following additional interests in subsidiaries from non-controlling interests:

Subsidiaries	Acquired interests Acquired	Consideration
	%	RMB'000
Xinjiang Province New & Special National Pharmaceutical Co., Ltd.	36%	409,140
Shanghai GuoDa Pharmacy Chain Store Co., Ltd.	35%	14,665
Shanghai Guoda Dongsheng Drugstore Co., Ltd.	50%	4,800
Sinopharm Holding GuoDa Drug Store Co., Ltd.	1%	2,152
China National Pharmaceutical Group Guorui Medicine Co., Ltd.	1%	2,036
		432,793

The effect of changes in the ownership interest of the Group during the year is summarised as follows:

	RMB'000
Carrying amount of non-controlling interests acquired	287,844
Consideration paid to non-controlling interests	(432,793)
Excess of consideration paid	(144,949)

41 BUSINESS COMBINATIONS

(a) Business combination under common control

In March 2009, CNPGC acquired 80% equity interests in Xinjiang Pharmaceutical from Xinjiang State-owned Assets Supervision and Administration Commission. In June 2010, the Group acquired the 80% equity interests in Xinjiang Pharmaceutical from CNPGC.

In May and June 2010, the Group acquired 100% equity interests in Guangdong Dong Fang and Hebei Traditional & Herbal Medicine from a subsidiary of CNPGC.

In June 2010, the Group acquired 51% equity interests in Hubei Yi Bao from a subsidiary of CNPGC.

In November 2010, the Group acquired an additional 52.61% equity interests in Sinopharm Holding Shenzhen Chinese Herbal Co., Ltd., a then 47.39% owned associate from CNPGC. After the acquisition, the Group holds 100% equity interests in Sinopharm Holding Shenzhen Chinese Herbal Co., Ltd., which has been reclassified from investment in associate to investment in subsidiaries.

In December 2010, the Group acquired the medicine distribution business from two subsidiaries of CNPGC.

The following is a reconciliation of the effect arising from the common control combination in respect of the acquisition of above subsidiaries and business on the consolidated balance sheets.

41 BUSINESS COMBINATIONS (continued)

(a) Business combination under common control (continued)

The consolidated balance sheet as at 31 December 2009:

	The Group, excluding above subsidiaries and business acquired under common control RMB'000	Above subsidiaries and business acquired under common control RMB'000	Adjustments RMB'000	Consolidated RMB'000
Investment in above subsidiaries and business acquired under common control	—	—	—	—
Other assets/(liabilities) — Net	12,504,457	1,495,412	22,648	14,022,517
Net assets	12,504,457	1,495,412	22,648	14,022,517
Share capital	2,264,568	998,352	(998,352)	2,264,568
Share premium	8,131,102	—	—	8,131,102
Statutory reserves	92,768	4,445	(4,445)	92,768
Available-for-sale financial assets change	15,990	—	—	15,990
Capital reserves	(11,673)	183,935	827,465	999,727
Retained earnings	418,103	(6,843)	(48,536)	362,724
Non-controlling interests	1,593,599	315,523	246,516	2,155,638
	12,504,457	1,495,412	22,648	14,022,517

41 BUSINESS COMBINATIONS (continued)

(a) Business combination under common control (continued)

The consolidated balance sheet as at 31 December 2010:

	The Group, excluding above subsidiaries and business acquired under common control RMB'000	Above subsidiaries and business acquired under common control RMB'000	Adjustments RMB'000	Consolidated RMB'000
Investment in above subsidiaries and business acquired under common control	1,365,096	–	(1,365,096)	–
Other assets/(liabilities) — net	13,295,998	1,412,347	10,735	14,719,080
Net assets	14,661,094	1,412,347	(1,354,361)	14,719,080
Share capital	2,264,568	1,073,352	(1,073,352)	2,264,568
Share premium	8,131,102	–	–	8,131,102
Statutory reserves	130,852	5,280	(5,280)	130,852
Available-for-sale financial assets change	16,443	–	–	16,443
Capital reserves	(11,673)	54,392	(254,794)	(212,075)
Retained earnings	1,344,954	170,653	(135,359)	1,380,248
Non-controlling interests	2,784,848	108,670	114,424	3,007,942
	14,661,094	1,412,347	(1,354,361)	14,719,080

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.

41 BUSINESS COMBINATIONS (continued)

(b) Business combinations not under common control

Other than the acquisition of above subsidiaries and business from CNPGC, which was accounted for under merger accounting, the Group acquired equity interests in certain entities, which became the subsidiaries of the Group afterwards, as follows:

Subsidiaries acquired	Acquired interests %
Sinopharm Holding Jiangxi Co., Ltd.	67%
Shenzhen Yanfeng Medicine Co., Ltd	51%
Shanghai Santa Medical & Science Co., Ltd	100%
Beijing Tianxingpuxin Bio-Med Co., Ltd	51%
Sinopharm Holding Jilin Co., Ltd	70%
Xiamen Guanghua Medical Science& Technology Co., Ltd.	70%
Sinopharm Holding Merro (Dalian) Co., Ltd.	70%
Sinopharm Holding Meizhou Co., Ltd.	100%
Nanjing Guosheng Chain Drugstore Co., Ltd.	60%
Shanghai HuYong Pharmaceutical Co,.LTD	100%
Sinopharm Group A-Think Pharmaceutical Co., Ltd.	75%
Sinopharm Holding Nanjing Co., Ltd	100%
Dalian Guoda-Accord Meiluo Chain Drugstore Co., Ltd.	100%
Shandong Guoda Renhetang Pharmacy Chain Store Co., Ltd.	55%
Sinopharm Holding Jinan Co., Ltd	70%
Sinopharm Holding Linyi Co., Ltd	65%
Fujian Guoda Pharmacy Chain Store Co., Ltd	100%
Sinopharm Holding Anqing Co., Ltd	70%
Sinopharm Holding Zhoushan Co., Ltd	80%
Sinopharm Holding Huizhou Co., Ltd	100%
Wenzhou Biomedicin-Appliances Supplies Co., Ltd.	58%

The Group also acquired additional equity interests in certain entities, which became the subsidiaries of the Group afterwards, during the year, as follows:

In January 2010, the Group acquired an additional 21% equity interests in Liaoning Guoda Accord Pharmacy Chain Store Co., Ltd. ("Liaoning Guoda Accord"), a then 30% owned associate, from an independent third party. After the acquisition, the Group holds 51 % equity interests in Liaoning Guoda Accord, which has been reclassified from investment in associate to investment in subsidiaries (Note 11).

41 BUSINESS COMBINATIONS (continued)

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

In April 2010, the Group acquired an additional 17.7% equity interests in Sinopharm Holding Ningxia Co., Ltd. ("Sinopharm Ningxia"), a then 49% owned associate, from an independent third party. After the acquisition, the Group holds 66.7% equity interests in Sinopharm Ningxia, which has been reclassified from investment in associate to investment in subsidiaries (Note 11).

In May 2010, the Group acquired an additional 42% equity interests in China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd. ("Shanghai Likang"), a then 30% owned associate, from an independent third party. After the acquisition, the Group holds 72% equity interests in Shanghai Likang, which has been reclassified from investment in associate to investment in subsidiaries (Note 11).

The effect of the above acquisitions is summarised as follows:

	2010 RMB'000
Purchase consideration	
— Cash paid	1,201,257
— Consideration payable	61,968
— Contingent consideration (Note (i))	110,668
Total purchase consideration	1,373,893
Fair value of previous stake at the dates of acquisitions	60,592
	1,434,485

41 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	308,614	308,614
Property, plant and equipment	402,130	391,313
Intangible assets		
— sales network	592,978	—
— trademarks and patent	56,238	—
— software	15,752	15,752
Land use rights	17,844	12,170
Deferred income tax assets	2,573	2,573
Inventories	681,370	681,370
Other non-current assets	11,505	11,505
Trade and other receivables	2,539,480	2,539,480
Trade and other payables	(2,477,657)	(2,477,657)
Deferred income tax liabilities	(162,860)	—
Other non-current liabilities	(10,128)	(10,128)
Borrowings	(646,750)	(646,750)
Net assets	1,331,089	828,242
Non-controlling interests (Note (ii))	(442,062)	
	889,027	
Goodwill (Note 9)	545,458	
	1,434,485	
Purchase consideration settled in cash	1,201,257	
Cash and cash equivalents in subsidiaries acquired	(308,614)	
Cash outflow on acquisition	892,643	

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

The goodwill is attributable to the acquired human resources and economies of scale expected from combining the operations of the Group and above subsidiaries acquired not under common control combination.

(i) Contingent consideration

Based on certain condition stipulated by the agreement, the contingent consideration agreement required the Group to pay the maximum undiscounted amount of RMB110,668,000.

- If the acquiree's actual net profit for the 12 months period after the acquisition date("actual net profit") achieve the maximum profit target set in the acquisition agreement:

  The contingent consideration arrangement = The maximum remain consideration

- If the acquiree's actual net profit does not achieve the maximum profit target but achieve the minimum profit target set in the acquisition agreement:

  The contingent consideration arrangement = The maximum remain consideration* (the actual net profit/the maximum profit target)

- If the actual net profit does not achieve the minimum profit target, the contingent consideration arrangement is nil.

As the forecasted net profit for the 12 months period after the acquisition date of the above three entities are all above the maximum profit target, the fair value of the contingent consideration arrangement was estimated to be the maximum remain consideration. As at 31 December 2010, there was no adjustment to the contingent consideration arrangement.

(ii) Non-controlling interest

The Group has chosen to recognise non-controlling interest measured at the non-controlling interest in the acquiree's net assets excluding goodwill.

41 BUSINESS COMBINATIONS (continued)

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

(iii) The revenue, net profit and cash flow of these newly acquired subsidiaries from the respective acquisition dates to 31 December 2010 are summarised as follows:

	From acquisition date to 31 December 2010 RMB'000
Revenue	4,463,797
Net profit	126,079
Cash outflows from operating activities:	152,612
Net cash outflow	223,100

42 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, restricted bank deposits, short-term loan receivable, cash and cash equivalents.

42 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
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 Tianliang Pharmaceutical Co., Ltd. (廣東天量醫藥有限公司)	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
Sinopharm Chuankang Pharmaceutical Co., Ltd. (國藥集團川抗製藥有限公司)	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
Shanghai Traditional & Herbal Co., Ltd. (上海國藥藥材有限公司)	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
Union China National Medical Equipment Corporation (國藥集團聯合醫藥器械有限公司)	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

42 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

Name of related party	Nature of relationship
China National Pharmaceutical Group Shanghai Medical Equipment Co., Ltd. (國藥集團上海醫療器械有限公司)	Controlled by CNPGC
Urumqi Medical Equipment Co., Ltd. (烏魯木齊市醫療器械公司)	Controlled by CNPGC
Shifang Rongsheng Plasmapheresis Co., Ltd. (什邡蓉生單採血漿有限公司)	Controlled by CNPGC
Yichun Shangsheng Plasmapheresis Co., Ltd. (宜春市上生單採血漿有限公司)	Controlled by CNPGC
China National Baida Pharmaceutical Co., Ltd. (國藥集團百達製藥有限公司)	Controlled by CNPGC
Chengdu Rongsheng Pharmaceutical Co., Ltd. (成都蓉生藥業有限責任公司)	Controlled by CNPGC
Beijing Tiantan Biological Products Co., Ltd. (北京天壇生物製品股份有限公司)	Controlled by CNPGC
Changchun Institute of Biological Products (長春生物製品研究所)	Controlled by CNPGC
Chinese Journal of New Drugs Co., Ltd. (《中國新藥雜誌》有限公司)	Controlled by CNPGC
Sichuan Jiangyou Zhongba Aconite Scientific and Technological Development Co., Ltd. (四川江油中壩附子科技發展有限公司)	Controlled by CNPGC
Sinopharm United Engineering Corporation (中國醫藥集團聯合工程有限公司)	Controlled by CNPGC
Sichuan Traditional & Herbal Co., Ltd. (四川國藥藥材有限公司)	Controlled by CNPGC
Guangzhou Traditional & Herbal Qingping Co., Ltd. (廣州國藥藥材清平醫藥有限公司)	Controlled by CNPGC
Wuhan Institute of Biological Products (武漢生物製品研究所)	Controlled by CNPGC
Chengdu Institute of Biological Products (成都生物製品研究所)	Controlled by CNPGC
Huayi Pharmaceutical Corporation (華頤藥業有限公司)	Controlled by CNPGC
China National Medical Equipment and Supplies Import & Export Shenzhen Corporation (中國醫療衛生器材進出口深圳公司)	Controlled by CNPGC
Qinghai Pharmaceutical Co., Ltd. (青海製藥廠有限公司)	Subsidiary of associate
Sino-Swed Pharmaceutical Corporation Ltd. (華瑞製藥有限公司)	Associate of CNPGC
Sinopharm Prospect Dentech (Beijing) Co., Ltd (國藥前景口腔技術(北京)有限公司)	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

42 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	
	2010	2009
	RMB'000	RMB'000
Sales of goods		
Shanghai Donghong Pharmaceutical Co., Ltd.	**169,824**	172,782
Shanghai Beiyi Guoda Traditional & Herbal pharmaceutical Co. Ltd	**55,770**	—
China National Pharmaceutical Foreign Trade Corporation	**6,290**	1,177
China National Group Corporation of Traditional & Herbal Medicine	**5,423**	1,314
Beijing Huamiao Traditional Chinese Medicine Technology and Project Development Centre	**4,855**	—
Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd.	**4,572**	4,201
China National Group Corporation of Traditional & Herbal Medicine Chengde Co., Ltd.	**1,095**	—
China National Pharmaceutical Industry Corporation	**548**	9,065
Urumqi Medical Equipment Co., Ltd.	**514**	—
Shanghai Traditional & Herbal Co., Ltd.	**178**	1,476
Union China National Medical Equipment Corporation	**175**	—
Shifang Rongsheng Plasmapheresis Co., Ltd.	**137**	—
China National Pharmaceutical Group Shanghai Medical Equipment Co., Ltd.	**75**	—
Yichun Shangsheng Plasmapheresis Co., Ltd.	**64**	—
China National Pharmaceutical Industry Co., Ltd.	**31**	—
China National Baida Pharmaceutical Co., Ltd.	**24**	731
Guangdong Tianliang Pharmaceutical Co., Ltd.	**—**	12,972
Sichuan Industrial Institute of Antibiotic Co., Ltd.	**—**	1,076
Yichang Humanwell Pharmaceutical Co., Ltd.	**—**	534

42 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	
	2010	2009
	RMB'000	RMB'000
Provision of logistic service		
China National Pharmaceutical Industry Corporation	977	—
China National Pharmaceutical Foreign Trade Corporation	80	—
China National Group Corporation of Traditional & Herbal Medicine	77	3,581
Reed Sinopharm Exhibitions Co., Ltd.	—	2,802

42 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	
	2010	2009
	RMB'000	RMB'000
Purchases of goods		
Yichang Humanwell Pharmaceutical Co., Ltd.	**500,553**	403,529
Sino-Swed Pharmaceutical Corporation Ltd.	**368,185**	—
China National Pharmaceutical Foreign Trade Corporation	**124,580**	123,495
Shenzhen Main Luck Pharmaceutical Co., Ltd.	**112,767**	59,539
Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd.	**41,580**	86,740
Shanghai Donghong Pharmaceutical Co., Ltd.	**20,353**	23,216
Chengdu Rongsheng Pharmaceutical Co., Ltd.	**20,150**	—
China National Group Corporation of Traditional & Herbal Medicine	**18,370**	34,004
China National Pharmaceutical Industry Corporation	**16,250**	440
Shanghai Institute of Bio-products	**15,569**	—
Qinghai Pharmaceutical Co., Ltd.	**11,082**	15,134
Lanzhou Bio-technology development Co., Ltd.	**8,153**	4,318
Beijing Tiantan Biological Products Co., Ltd.	**7,473**	—
Shanghai Traditional & Herbal Co., Ltd.	**3,230**	—
Sinopharm Prospect Dentech (Beijing) Co., Ltd	**2,558**	18
Union China National Medical Equipment Corporation	**2,041**	17,058
China National Pharmaceutical Industry Co., Ltd.	**1,500**	2,767
Changchun Institute of Biological Products	**1,179**	—
China National Baida Pharmaceutical Co., Ltd.	**749**	—
Chinese Journal of New Drugs Co., Ltd.	**695**	—
China National Pharmaceutical Group Shanghai Medical Equipment Co., Ltd.	**530**	—
Sichuan Jiangyou Zhongba Aconite Scientific and Technological Development Co., Ltd.	**514**	109
Sinopharm United Engineering Corporation	**199**	—
Wuhan Institute of Biological Products	**12**	—
Guangdong Tianliang Pharmaceutical Co., Ltd.	**6**	1,273
Sichuan Traditional & Herbal Co., Ltd.	**—**	1,869
Guangzhou Traditional & Herbal Qingping Co., Ltd.	**—**	47

42 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	
	2010	2009
	RMB'000	RMB'000
Interest expenses		
CNPGC	**–**	23,230
China National Group Corporation of Traditional & Herbal Medicine	**–**	197

(ii) Key management compensation

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**14,475**	8,016
Termination benefits	**–**	—
Post-employment benefits	**–**	—
Other long-term benefits	**–**	—
	14,475	8,016

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.

42 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	
	2010	2009
	RMB'000	RMB'000
Trade receivables due from		
Shanghai Beiyi Guoda Traditional & Herbal pharmaceutical Co. Ltd	**10,810**	—
Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd.	**1,352**	391
China National Group Corporation of Traditional & Herbal Medicine	**683**	1,167
China National Pharmaceutical Foreign Trade Corporation	**201**	151
Shanghai Donghong Pharmaceutical Co., Ltd.	**181**	29,142
China National Pharmaceutical Group Beijing Medical Equipment Co., Ltd.	**108**	40
China National Group Corporation of Traditional & Herbal Medicine Chengde Co., Ltd.	**163**	—
Sichuan Industrial Institute of Antibiotic Co., Ltd.	**162**	8
Chengdu Institute of Biological Products	**129**	—
Shifang Rongsheng Plasmapheresis Co., Ltd.	**47**	—
China National Pharmaceutical Industry Corporation	**6**	—
Sinopharm Prospect Dentech (Beijing) Co., Ltd	**5**	—
China National Baida Pharmaceutical Co., Ltd.	**4**	—
China National Pharmaceutical Group Shanghai Medical Equipment Co., Ltd.	**2**	500
Guangdong Tianliang Pharmaceutical Co., Ltd.	**—**	1,483
Shanghai Traditional & Herbal Co., Ltd.	**—**	1,411
	13,853	34,293

42 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	
	2010	2009
	RMB'000	RMB'000
Other receivables due from		
China National Pharmaceutical Foreign Trade Corporation	**3,153**	208,230
CNPGC	**2**	—
ZK Medical Equipment Corporation Ltd.	**—**	15,018
	3,155	223,248

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Prepayments due from		
China National Pharmaceutical Foreign Trade Corporation	**51,597**	—
Sinopharm Prospect Dentech (Beijing) Co., Ltd	**3,679**	—
Union China National Medical Equipment Corporation	**2,686**	157
Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd.	**2,617**	18,628
Lanzhou Bio-technology development Co., Ltd.	**305**	—
Zk Medical Equipment Corporation Ltd.	**38**	—
Sinopharm Chuankang Pharmaceutical Co., Ltd.	**22**	—
Qinghai Pharmaceutical Co., Ltd	**—**	13,037
Sichuan Industrial Institute of Antibiotic Co., Ltd.	**—**	2,400
China National Pharmaceutical Industry Co., Ltd.	**—**	208
China National Group Corporation of Traditional & Herbal Medicine	**—**	20
	60,944	34,450

42 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	
	2010	2009
	RMB'000	RMB'000
Trade payables due to		
Yichang Humanwell Pharmaceutical Co., Ltd.	**93,496**	102,176
Shanghai Institute of Bio-products	**16,509**	940
China National Group Corporation of Traditional & Herbal Medicine	**14,334**	153
Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd.	**10,316**	6,242
Beijing Tiantan Biological Products Co., Ltd.	**7,470**	—
Shenzhen Main Luck Pharmaceutical Co., Ltd.	**6,483**	9,395
Qinghai Pharmaceutical Co., Ltd.	**5,935**	8,698
China National Pharmaceutical Industry Corporation	**2,166**	1,308
Lanzhou Bio-technology development Co., Ltd.	**1,863**	—
Changchun Institute of Biological Products	**1,179**	—
Union China National Medical Equipment Corporation	**964**	7,624
Chengdu Rongsheng Pharmaceutical Co., Ltd.	**677**	—
Sichuan Jiangyou Zhongba Aconite Scientific and Technological Development Co., Ltd.	**341**	10
China National Pharmaceutical Group Shanghai Medical Equipment Co., Ltd.	**147**	20
Heilongjiang Traditional & Herbal Corporation	**100**	—
China National Pharmaceutical Foreign Trade Corporation	**99**	31,730
Beijing Huamiao Traditional Chinese Medicine Technology and Project Development Centre	**98**	—
Shanghai Traditional & Herbal Co., Ltd.	**74**	—
China National Pharmaceutical Group Beijing Medical Equipment Co., Ltd.	**9**	5,302
Guangdong Tianliang Pharmaceutical Co., Ltd.	**7**	1,727
Wuhan Institute of Biological Products	**3**	—
CNPGC	**—**	8,327
Shanghai Donghong Pharmaceutical Co., Ltd.	**—**	2,590
China National Pharmaceutical Industry Co., Ltd.	**—**	18
Huayi Pharmaceutical Corporation	**—**	151
Heilongjiang Traditional & Herbal Corporation	**—**	1
Sino-Swed Pharmaceutical Corporation Ltd.	**—**	11
China National Medical Equipment and Supplies Import & Export Shenzhen Corporation	**—**	42
	162,270	186,465

42 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	
	2010	2009
	RMB'000	RMB'000
Other payables due to		
China National Pharmaceutical Foreign Trade Corporation	**69,827**	192,992
China National Pharmaceutical Industry Corporation	**14,523**	88,442
Qinghai Pharmaceutical Co., Ltd.	**8,000**	5,000
CNPGC	**6,804**	2,350
Sinopharm Chuankang Pharmaceutical Co., Ltd.	**1,300**	—
Shanghai Beiyi Guoda Traditional & Herbal pharmaceutical Co. Ltd	**707**	—
Sinopharm Prospect Dentech (Beijing) Co., Ltd	**41**	—
Sichuan Industrial Institute of Antibiotic Co., Ltd.	**7**	—
Zk Medical Equipment Corporation Ltd.	**—**	570
China National Group Corporation of Traditional & Herbal Medicine	**—**	25,490
	101,209	314,844

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES

As at 31 December 2010, the Company has direct and indirect interests in the following subsidiaries:

Principal subsidiaries:

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
Sinopharm Holding 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 Distribution Center Co., Ltd. (國藥控股分銷中心有限公司)	PRC, 30 January 2002	2,000,000	100	–	Distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Holding 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 Group Xinjiang Pharmaceutical Co., Ltd. (國藥集團新疆藥業有限公司)	PRC, 31 March 2009	780,637	80	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Beijing Co., Ltd. (國藥控股北京有限公司)	PRC, 28 October 2003	550,000	96	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group		Principal activities and place of operations
		RMB'000	Direct %	Indirect %	
Sinopharm Holding 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	–	Distribution of pharmaceutical products and laboratory supplies in the PRC
China National Pharmaceutical Group Chemical Reagent Co., Ltd. (國藥集團化學試劑有限公司)	PRC, 24 October 2003	450,000	90	10	Distribution of chemical reagents in the PRC
Sinopharm Holding GuoDa Drug Store Co., Ltd. (國藥控股國大藥房有限公司)	PRC, 23 March 2004	400,000	100	–	Distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Holding Guangzhou Co., Ltd. (國藥控股廣州有限公司)	PRC, 1 September 2003	400,000	–	100	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
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

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
Accord Pharma (深圳一致藥業股份有限公司)	PRC, 18 June 2001	288,149	38	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Fujian Co., Ltd. (國藥控股福建有限公司)	PRC, 20 January 2010	284,000	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	200,000	–	100	Medicine manufacture, research and inspection of pharmaceutical products 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	190,000	–	100	Provision of pharmaceutical logistics services in the PRC
Sinopharm Holding A-Think Pharmaceutical Co., Ltd. (國藥一心製藥有限公司)	PRC, 10 December 1997	100,000	75	–	Medicine manufacture, research and inspection of pharmaceutical products in the PRC
Xinjiang Province New & Special National Pharmaceutical Co., Ltd. (新疆新特藥民族藥業有限責任公司)	PRC, 30 June 2003	100,000	–	86	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Effective interests held by the Group Indirect %	Principal activities and place of operations
Sinopharm Holding Hubei Co., Ltd. (國藥控股湖北有限公司)	PRC, 1 December 2003	100,000	70	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Nanning Co., Ltd. (國藥控股南寧有限公司)	PRC, 15 March 2004	100,000	–	100	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
China National Pharmaceutical Logistics Co., Ltd. (國藥物流有限公司)	PRC, 8 November 2002	90,620	–	51	Provision of pharmaceutical logistics services 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
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 Ningxia Co., Ltd. (國藥控股寧夏有限公司)	PRC, 28 December 2008	80,000	67	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Effective interests held by the Group Indirect %	Principal activities and place of operations
GuoDa Ningxia Pharmacy Chain Store Co., Ltd. (寧夏國大藥房連鎖有限公司)	PRC, 17 November 2008	70,000	–	70	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Holding Hunan Co., Ltd. (國藥控股湖南有限公司)	PRC, 21 June 2001	70,000	80	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents 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	2	98	Medicine manufacture and trading in the PRC
Sinopharm Holding Shanxi Co., Ltd. (國藥控股山西有限公司)	PRC, 17 January 2004	60,000	60	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Henan Co., Ltd. (國藥控股河南股份有限公司)	PRC, 11 December 2006	57,765	51	–	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Hebei Pharmaceutical Co., Ltd. (國藥控股河北醫藥有限公司)	PRC, 4 June 2010	51,461	100	–	Distribution of pharmaceutical products and chemical reagents in the PRC

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	**Country and date of incorporation**	**Issued and paid up capital/ registered capital** RMB'000	**Effective interests held by the Group** Direct %	Indirect %	**Principal activities and place of operations**
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
Shanghai Wokai biotechnology Co., Ltd. (上海沃凱生物技術有限公司)	PRC, 19 September 2005	50,000	–	100	Research of bio-technology and consulting service in the PRC
Beijing Tianxinpuxin Bio-Medicine Co., Ltd. (北京天星普信生物醫藥有限公司)	PRC, 1 April 2010	50,000	51	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Neimenggu Co., Ltd. (國藥控股內蒙古有限公司)	PRC, 14 May 2010	50,000	100	–	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Medical Instruments Co., Ltd. (上海盛泰醫療科技有限公司)	PRC, 27 July 2006	50,000	100	–	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Nanjing Co., Ltd. (國藥控股南京有限公司)	PRC, 12 October 2001	50,000	100	–	Distribution of pharmaceutical products and chemical reagents in the PRC

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
Sinopharm Holding Jilin Co., Ltd. (國藥控股吉林有限公司)	PRC, 6 March 2008	50,000	70	—	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Shenzhen Chinese Herbal Co., Ltd. (國藥控股深圳中藥有限公司)	PRC, 28 May 1987	50,000	—	100	Medicine manufacture, research and inspection of pharmaceutical products in the PRC
Sinopharm Holding Merro (Dalian) Co., Ltd. (國藥控股美羅(大連)有限公司)	PRC, 9 April 2010	50,000	—	70	Distribution of pharmaceutical products and chemical reagents in the PRC
Guangdong Oriental New & Special Medicines Co., Ltd. Tongren Drugstore (廣東東方新特藥有限公司國仁堂藥店)	PRC, 25 December 1993	50,000	—	100	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC
Wenzhou Biomedicin-Appliances Supplies Co., Ltd. (溫州生物藥械供應有限公司)	PRC, 31 March 1995	50,000	58	—	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
Sinopharm Holding 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	50,000	51	–	Distribution of pharmaceutical products and laboratory supplies in the PRC
Sinopharm Holding Anhui Co., Ltd. (國藥控股安徽有限公司)	PRC, 5 January 2007	50,000	67	–	Distribution of pharmaceutical products in the PRC
Guangdong Dong Fang New & Special Drugs Corporation (廣東東方新特藥有限公司)	PRC, 25 December 1993	50,000	100	–	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
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 Fuzhou Co., Ltd. (國藥控股福州有限公司)	PRC, 15 September 1998	40,000	70	–	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
Sinopharm Holding 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

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group		Principal activities and place of operations
		RMB'000	Direct %	Indirect %	
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
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	–	100	Medicine chain store; distribution 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

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group		Principal activities and place of operations
		RMB'000	Direct %	Indirect %	
Sinopharm Holding Linyi Co., Ltd. (國藥控股臨沂有限公司)	PRC, 29 April 2007	30,000	–	65	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Jiangxi Co., Ltd. (國藥控股江西有限公司)	PRC, 13 October 2009	30,000	67	–	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Gansu Co., Ltd. (國藥控股甘肅有限公司)	PRC, 14 January 2010	30,000	70	–	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Chongqing Co., Ltd. (國藥控股重慶有限公司)	PRC, 8 May 2010	30,000	67	–	Distribution of pharmaceutical products and chemical reagents in the PRC
Shenzhen Yanfeng Medicines Co., Ltd. (深圳市延風醫藥有限公司)	PRC, 6 April 2010	30,000	–	51	Distribution of pharmaceutical products and chemical reagents in the PRC
Guangdong Yuexing Pharmaceutical Co., Ltd. (廣東粵興醫藥有限公司)	PRC, 1 December 1993	30,000	–	100	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
Sinopharm Holding Suzhou Co., Ltd. (國藥控股蘇州有限公司)	PRC, 3 January 1993	30,000	70	–	Distribution of pharmaceutical products and laboratory supplies in the PRC

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
Shandong Guoda Renhetang Pharmacy Chain Store Co., Ltd. (山東國大仁和堂藥房連鎖有限公司)	PRC, 3 January 2001	29,000	–	55	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC
Tianjin Orient Bookcom Pharmaceutical Trade Co., Ltd. (國藥控股(天津)東方博康醫藥有限公司)	PRC, 6 January 1994	25,000	–	51	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
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
Sinopharm Holding Guangdong Xinlong Co., Ltd. (廣東一致恒興醫藥有限公司)	PRC, 1 December 2004	20,000	–	100	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group		Principal activities and place of operations
		RMB'000	Direct %	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
Sinopharm Holding Anqing Co., Ltd. (國藥控股安慶有限公司)	PRC, 25 February 2010	18,000	–	70	Distribution of pharmaceutical products and chemical reagents 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
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 Wuhan Co., Ltd. (國藥控股武漢有限公司)	PRC, 30 September 2010	15,000	–	100	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Guizhou Co., Ltd. (國藥控股貴州有限公司)	PRC, 1 April 2010	15,000	70	–	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Tongliao Co., Ltd. (國藥控股通遼有限公司)	PRC, 27 October 2010	15,000	–	100	Distribution of pharmaceutical products and chemical reagents in the PRC

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
Fujian Guoda Pharmacy Chain Store Co., Ltd. (福建國大藥房連鎖有限公司)	PRC, 28 November 2002	15,000	–	100	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Holding Hubei Yibao Co., Ltd. (國藥控股湖北怡保有限公司)	PRC, 6 August 2010	15,000	–	100	Distribution of pharmaceutical, healthcare products and 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	15,000	–	100	Distribution of chemical reagents and healthcare products 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
Sinopharm Holding Meizhou Co., Ltd. (國藥控股梅州有限公司)	PRC, 30 June2010	12,000	–	100	Distribution of pharmaceutical products and chemical reagents in the PRC
Kashi New & Special Drugs Co., Ltd. (喀什新特藥業有限責任公司)	PRC, 12 July 2007	11,797	–	100	Distribution of pharmaceutical products and chemical reagents in the PRC

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Effective interests held by the Group Indirect %	Principal activities and place of operations
Shenzhen Accord Pharmacy Chain Store Co., Ltd. (深圳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	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Holding Xinjiang Korla Pharmaceutical Co., Ltd. (國藥新疆庫爾勒醫藥有限責任公司)	PRC, 13 June 2002	10,156	–	100	Distribution of pharmaceutical products, laboratory supplies and chemical reagents 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
Sinopharm Holding Shaanxi Co., Ltd. (國藥控股陝西有限公司)	PRC, 30 May 2001	10,000	60	–	Distribution of pharmaceutical and healthcare products, logistics services in the PRC

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
Guoda Shenyang Tianyitang Pharmacy Chain Store Co., Ltd. (瀋陽天益堂藥房連鎖有限公司)	PRC, 2 August 2002	10,000	–	70	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC
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 Shijiazhuang Co., Ltd. (國藥控股石家莊有限公司)	PRC, 5 January 1997	10,000	–	80	Distribution of pharmaceutical 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
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
Sinopharm Holding Tianjin Binhai Pharmaceutical Co., Ltd. (國藥控股天津濱海醫藥有限公司)	PRC, 1 April 2010	10,000	–	100	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Kaifeng Co., Ltd. (國藥控股開封有限公司)	PRC, 21 May 2010	10,000	–	70	Distribution of pharmaceutical products and chemical reagents in the PRC

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
Sinopharm Holding Jinan Co., Ltd. (國藥控股濟南有限公司)	PRC, 7 August 2000	10,000	–	70	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Puyang Co., Ltd. (國藥控股濮陽有限公司)	PRC, 11 August 2010	10,000	–	70	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Jiaozuo Co., Ltd. (國藥控股焦作有限公司)	PRC, 13 September 2010	10,000	–	80	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Bengbu Co., Ltd. (國藥控股蚌埠有限公司)	PRC, 29 September 2010	10,000	–	70	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Chenzhou Co., Ltd. (國藥控股郴州有限公司)	PRC, 1 September 2010	10,000	–	80	Distribution of pharmaceutical products and chemical reagents in the PRC
China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd. (國藥集團上海立康股份有限公司)	PRC, 27 July 1994	10,000	72	–	Distribution of pharmaceutical products and chemical reagents in the PRC
Anhui Guoda Pharmacy Chain Store Co., Ltd. (安徽國大藥房有限公司)	PRC, 8 September 2010	10,000	–	60	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
Xinjiang Province New & Special West Pharmaceutical Co., Ltd. (新疆新特西部藥業有限責任公司)	PRC, 20 May 1993	10,000	–	100	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Taicang Hushi Chemical Reagent Co., Ltd. (太倉滬試試劑有限公司)	PRC, 24 June 2002	10,000	–	60	Chemical reagents manufacture and trading 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
Xin Jiang Pharmaceutical Co., Ltd. (新疆醫藥公司)	PRC, 15 July 1972	8,716	–	100	Distribution of pharmaceutical and healthcare products in the PRC
Kelamayi Province New & Special Pharmaceutical Co., Ltd. (克拉瑪依新特藥業有限責任公司)	PRC, 20 August 1972	8,000	–	100	Distribution of pharmaceutical and healthcare products in the PRC

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group		Principal activities and place of operations
		RMB'000	Direct %	Indirect %	
Nanjing Guosheng Chain Drugstore Co., Ltd. (南京國盛連鎖藥店有限公司)	PRC, 27 September 2002	8,000	–	60	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC
Liaoning Guoda Pharmacy Chain Store Co., Ltd. (遼寧國大一致藥店連鎖有限公司)	PRC, 19 September 2000	8,000	–	51	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC
Guangxi Pharmaceutical Logistics Co., Ltd. (廣西國藥物流有限公司)	PRC, 22 August 1990	7,100	–	100	Investment in logistics and transportations, property rental and provide medical consulting service in the PRC
Sinopharm Holding Huizhou Co., Ltd. (國藥控股惠州有限公司)	PRC, 9 May 2004	7,000	–	100	Distribution of pharmaceutical products and chemical reagents 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
Sinopharm Holding Yichang Co., Ltd. (國藥控股宜昌有限公司)	PRC, 24 May 2010	6,000	–	100	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Qujing Co., Ltd. (國藥控股曲靖有限公司)	PRC, 1 September 2010	6,000	–	100	Distribution of pharmaceutical products and chemical reagents in the PRC

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group		Principal activities and place of operations
		RMB'000	Direct %	Indirect %	
Sinopharm Holding Zhoushan Co., Ltd. (國藥控股舟山有限公司)	PRC, 5 January 2006	6,000	–	80	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Xiangfan Co., Ltd. (國藥控股襄樊有限公司)	PRC, 11 October 2010	6,000	–	70	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Huangshi Co., Ltd. (國藥控股黃石有限公司)	PRC, 26 July 2010	6,000	–	70	Distribution of pharmaceutical products and chemical reagents in the PRC
Xinjiang Uygur Autonomous Region Traditional & Ethnic Medicines Research Institute (新疆維吾爾自治區中藥民族藥研究所)	PRC, 2 May 1986	5,280	–	100	Research of pharmaceutical products 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
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

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
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
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
Guangdong Huixin Investment Co., Ltd. (廣東惠信投資有限公司)	PRC, 6 May 1985	5,000	–	100	Medicine trading; property rental in the PRC
Sinopharm Holding (Tianjin) Medical Instruments Co., Ltd. (國藥控股(天津)醫療器械有限公司)	PRC, 25 May 2010	5,000	–	70	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Shiyan Co., Ltd. (國藥控股十堰有限公司)	PRC, 17 August 2010	5,000	–	75	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Shanxi Lvliang Co., Ltd. (國藥控股山西呂梁有限公司)	PRC, 26 October 2010	5,000	–	70	Distribution of pharmaceutical products and chemical reagents in the PRC

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Effective interests held by the Group Indirect %	Principal activities and place of operations
Sinopharm Holding Yueyang Co., Ltd. (國藥控股岳陽有限公司)	PRC, 25 August 2010	5,000	–	80	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Yantai Co., Ltd. (國藥控股煙台有限公司)	PRC, 23 April 2010	5,000	–	100	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Jingzhou Co., Ltd. (國藥控股荊州有限公司)	PRC, 24 August 2010	5,000	–	70	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Shanxi Changzhi Co., Ltd. (國藥控股山西長治有限公司)	PRC, 24 December 2010	5,000	–	70	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Beijing Airport International Trading Co., Ltd. (國藥空港(北京)國際貿易有限公司)	PRC, December 2010	5,000	–	100	Provision of pharmaceutical logistics services in the PRC
Guangdong Hengchang Logistics Co., Ltd. (廣東恒暢物流有限公司)	PRC, 14 August 1993	5,000	–	100	Provision of pharmaceutical logistics services in the PRC
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

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group		Principal activities and place of operations
		RMB'000	Direct %	Indirect %	
Xinjiang Hotan Regional Medical & Herbal Medicines Co., Ltd. (新疆和田地區醫藥藥材公司)	PRC, 29 May 1989	4,089	–	100	Distribution of pharmaceutical and healthcare products in the PRC
Xiamen Guanghua Medical Science & Technology Co., Ltd. (廈門光華醫藥科技有限公司)	PRC, 7 November 2005	4,000	–	100	Distribution of pharmaceutical and healthcare products in the PRC
Aksu Region Qiuci Medicines Co., Ltd. (阿克蘇地區龜茲藥業公司)	PRC, 10 April 1986	3,600	–	100	Distribution of pharmaceutical products in the PRC
Guangxi Wuzhou Huawu Traditional & Herbal pharmaceutical Co., Ltd. (廣西梧州華梧藥材有限公司)	PRC, 13 June 2000	3,300	–	99.7	Distribution of pharmaceutical products in the PRC
Ili Tongde Medicines Co., Ltd. 伊犁同德藥業有限公司	PRC, 21 September 1998	3,291	–	100	Distribution of pharmaceutical products in the PRC
Xinjiang Kuitun Medical & Herbal Medicines Co., Ltd. (新疆奎屯市醫藥藥材公司)	PRC, 14 May 1982	3,202	–	100	Distribution of pharmaceutical products in the PRC

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
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
Xinjiang Chemical Reagent & Glassware Instruments Co., Ltd. (新疆化玻醫療器械有限責任公司)	PRC, 2 April 2004	3,000	–	97	Distribution of pharmaceutical products and chemical reagents in the PRC
Xinjiang Hami Region Medical & Herbal Medicines Co., Ltd. (新疆哈密地區醫藥藥材公司)	PRC, 11 July 1956	3,000	–	100	Distribution of pharmaceutical and healthcare products in the PRC
Xinjiang New & Special Medicines Chain Co., Ltd. (新疆新特藥業連鎖有限責任公司)	PRC, 4 November 2003	3,000	–	100	Medicine chain store; distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Xinjiang Medicines Holding West Tianshan Traditional & Herbal Co., Ltd. (新疆藥業集團西天山藥材有限責任公司)	PRC, 10 December 2003	3,000	–	80	Distribution of pharmaceutical and healthcare products in the PRC

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group		Principal activities and place of operations
		RMB'000	Direct %	Indirect %	
Xinjiang Altay Region Medical & Herbal Medicines Co., Ltd. (新疆阿勒泰地區醫藥藥材公司)	PRC, 22 December 1981	3,000	–	100	Distribution of pharmaceutical and healthcare products 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
Boertala Mongol Autonomous Prefecture Traditional & Herbal Medicines Co., Ltd. (博爾塔拉蒙古自治州藥材公司)	PRC, 26 April 1989	2,509	–	100	Distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Holding Tongchuan Co., Ltd. (國藥控股銅川有限公司)	PRC, 20 September 2010	2,400	–	70	Distribution of pharmaceutical and healthcare products in the PRC
Xinjiang Pharmaceutical Affiliated Company (新疆醫藥聯營公司)	PRC, 1 May 1988	2,212	–	100	Distribution of pharmaceutical products in the PRC
Urumqi Chinese Medicine Material Processing Plant (烏魯木齊市中藥飲片廠)	PRC, 30 January 1985	2,149	–	100	Distribution of pharmaceutical products in the PRC

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group		Principal activities and place of operations
		RMB'000	Direct %	Indirect %	
Xinjiang Pharmaceutical Holding Shache Medicines Co., Ltd. (新疆藥業集團莎車醫藥有限責任公司)	PRC, 29 November 2001	2,111	–	69	Distribution of pharmaceutical products in the PRC
Xinjiang Pharmaceutical Holding Tianlu Co., Ltd. (新疆藥業集團天鹿有限責任公司)	PRC, 17 April 2003	2,080	–	77	Distribution of pharmaceutical products in the PRC
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

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
Hotan Region Ankang chain Drugstore Co., Ltd. (和田地區安康醫藥零售連鎖有限責任公司)	PRC, 23 December 2004	2,000	–	100	Medicine chain store; distribution of pharmaceutical and healthcare products 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	2,000	–	100	Medicine chain store; distribution of pharmaceutical, healthcare products and chemical reagents; property rental 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
Shenzhen Pharmaceutical Trading Co., Ltd. (深圳市醫藥貿易公司)	PRC, 10 February 1988	1,880	–	100	Distribution of pharmaceutical, healthcare products and fabric in the PRC
Dalian Guoda-Accord Meiluo Chain Drugstore Co., Ltd. (大連國大一致美羅大药房連鎖有限公司)	PRC, 12 August 1999	1,740	–	100	Medicine chain store; distribution of pharmaceutical and healthcare products 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

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
Sinopharm Holding Chemical Reagent Shaanxi Co., Ltd. (國藥控股化學試劑陝西有限公司)	PRC, 15 August 2000	1,500	–	100	Distribution of chemical reagents, etc. in the PRC
Xinjiang Tacheng Pharmaceutical Co., Ltd. (新疆塔城地區醫藥公司)	PRC, 9 March 1955	1,276	–	100	Distribution of pharmaceutical products in the PRC
Urumqi Pharmaceutical Holding Co., Ltd. (烏魯木齊市醫藥總公司)	PRC, 8 May 1991	1,274	–	100	Distribution of pharmaceutical products in the PRC
Shanghai HuYong Pharmaceutical Co,. LTD. (上海滬甬醫藥有限公司)	PRC, 23 September 1993	1,150	100	–	Distribution of pharmaceutical products in the PRC
Xinjiang Chemical Reagent & Glassware Co., Ltd. (新疆化學試劑玻璃儀器公司)	PRC, 15 April 1982	1,145	–	100	Distribution of chemical reagents, etc. 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

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
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
Shanghai Guoda Pharmaceutical Co., Ltd. (寧夏國大藥品有限公司)	PRC, 9 April 2004	1,000	–	70	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
Shanghai Tongyu Information Technology Co., Ltd. (上海統禦信息科技有限公司)	PRC, 27 December 2005	1,000	100	–	Information technology development and medicine consulting in the PRC
Shaanxi Guoyi Drugstore Co., Ltd. (陝西國誼大藥房有限公司)	PRC, 19 April 2010	1,000	–	100	Medicine chain store; distribution of pharmaceutical and healthcare products in the PRC

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
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
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
Xinjiang Pharmaceutical Holding Beitun Medicine Co., Ltd. (新疆藥業集團北屯藥業有限責任公司)	PRC, 31 December 2002	848	–	57	Distribution of pharmaceutical and healthcare products in the PRC
Cele County Pharmaceutical Co., Ltd. (策勒縣醫藥公司)	PRC, 24 March 1958	827	–	100	Distribution of pharmaceutical and healthcare products in the PRC
Moyu County Pharmaceutical Co., Ltd. 墨玉縣醫藥公司	PRC, 8 July 1958	667	–	100	Distribution of pharmaceutical and healthcare products in the PRC
Shaanxi Pharmaceutical Corporation. (陝西省醫藥公司)	PRC, 29 March 1994	628	–	100	Distribution of pharmaceutical and healthcare products in the PRC

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Effective interests held by the Group Indirect %	Principal activities and place of operations
China National Pharmaceutical Group Shaanxi 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
Shaanxi 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
Sinopharm Holding Zhanjiang Co., Ltd. (國藥控股湛江有限公司)	PRC, 8 February 1985	600	–	100	Distribution of pharmaceutical products and chemical reagents in the PRC
Yutian County Medical & Herbal Medicine Co., Ltd. (於田縣醫藥藥材公司)	PRC, 6 June 1958	598	–	100	Distribution of pharmaceutical and healthcare products 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	–	100	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
Zhejiang Intlmedicine Drug Store 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

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal subsidiaries: (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
Urumqi Pharmaceutical Building (烏魯木齊醫藥大廈)	PRC, 20 March 1998	500	–	100	Property rental in the PRC
Xin Jiang Baitong Property Management Co., Ltd. (新疆百通物業管理有限責任公司)	PRC, 30 May 2006	500	–	100	Property rental 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
Xin Jiang Traditional & Herbal Medicines Co., Ltd. (新疆藥材公司)	PRC, 8 May 1964	71	–	100	Distribution of pharmaceutical and healthcare products in the PRC
Guangdong Accord Pharmaceutical Skill 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

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal associates:

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	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. (宜昌人福藥業有限責任公司)	PRC, 1 August 2001	60,000	20	Medicine manufacture and trading in the PRC
Shenzhen Main Luck Pharmaceutical Co., Ltd. (深圳萬樂藥業有限公司)	PRC, 4 July 1990	USD5 million	35	Research and inspection of pharmaceutical products in the PRC
Shanghai Beiyi Guoda Traditional & Herbal pharmaceutical Co. Ltd. (上海北翼國大醫藥藥材有限公司)	PRC, 26 July 1994	12,000	26	Distribution of pharmaceutical products and chemical reagents in the PRC
Shanghai Donghong Pharmaceutical Co., Ltd. (上海東虹醫藥有限公司)	PRC, 2000	6,000	35	Distribution of pharmaceutical and healthcare products 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. (上海東氏醫藥信息有限公司)	PRC, 22 October 1999	1,000	46	Corporate management services in the PRC

43 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Principal associates: (continued)

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 Skill 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.

44 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 31 December 2010, the Company acquired 12 subsidiaries and total considerations for these acquisitions amounted to RMB958,233,800.

Definitions

"Accord Pharma"	Shenzhen Accord Pharmaceutical Co., Ltd. (深圳一致藥業股份有限公司), a limited liability company incorporated in the PRC, the A shares and B shares of which 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;
"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 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;
"Guangdong Dong Fang"	Guangdong Dong Fang Uptodate & Special Medicines Co. (廣東東方新特藥公司), an enterprise owned by the whole people established in the PRC;
"Hebei Company"	Hebei Traditional & Herbal Medicine Company (河北省醫藥藥材公司), an enterprise owned by the whole people established in the PRC;
"HKFRS"	Hong Kong Financial Reporting Standards;
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the People's Republic of China;
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Hubei Yibao"	Hubei Yibao International Pharmaceutical Co., Ltd. (湖北怡保國際醫藥有限公司), a limited liability company incorporated in the PRC;
"Industry Company"	China National Pharmaceutical Industry Corporation Limited (中國醫藥工業有限公司), a limited liability company established in the PRC;
"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 limited liability company incorporated in the PRC, and its A shares were 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;
"Prospectus"	the prospectus of the Company dated 10 September 2009;
"Qianxitang Pharmaceutical"	Henan Qianxitang Pharmaceutical Co., Ltd. (河南仟禧堂藥業有限公司), a limited liability company incorporated in the PRC, is a Connected Person of the Company;
"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 2010;
"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;
"Sinopharm Changzhou"	Sinopharm Holding Changzhou Co., Ltd. (國藥控股常州有限公司), a limited liability company incorporated in the PRC;
"Sinopharm Chongqing"	Sinopharm Holding Chongqing Co., Ltd. (國藥控股重慶有限公司), a limited liability company incorporated in the PRC;
"Sinopharm Distribution"	Sinopharm Holding Distribution Co., Ltd. (國藥控股分銷中心有限公司), a limited liability company incorporated in the PRC;

"Sinopharm Gansu"	Sinopharm Holding Gansu Co., Ltd. (國藥控股甘肅有限公司), a limited liability company incorporated in the PRC;
"Sinopharm Guizhou"	Sinopharm Holding Guizhou Co., Ltd. (國藥控股貴州有限公司), a limited liability company incorporated in the PRC;
"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 Hongkong"	Sinopharm Holding Hongkong Co., Limited (國藥控股股份香港有限公司), a limited company incorporated in China;
"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 Jiangxi"	Sinopharm Holding Jiangxi Co., Ltd. (國藥控股江西有限公司), a limited liability company incorporated in the PRC;
"Sinopharm Jilin"	Sinopharm Holding Jilin Co., Ltd. (國藥控股吉林有限公司), a limited liability company incorporated in the PRC;
"Sinopharm Lingyun"	Sinopharm Holding Lingyun Biological (Shanghai) Co., Ltd. (國藥控股淩雲生物醫藥(上海)有限公司), a limited liability company incorporated in the PRC;
"Sinopharm Nanjing"	Sinopharm Holding Nanjing Co., Ltd. (國藥控股南京有限公司), 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 Suzhou"	Sinopharm Holding Suzhou Co., Ltd. (國藥控股蘇州有限公司), 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;

Definitions

"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 PRC;
"Sinopharm Wuxi"	Sinopharm Holding Wuxi Co., Ltd. (國藥控股無錫有限公司), a limited liability company incorporated in the PRC;
"Sinopharm Zhejiang"	Sinopharm Holding Zhejiang Co., Ltd. (國藥控股浙江有限公司), a limited liability company incorporated in the PRC;
"South Trade"	Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd. (廣東南方醫藥對外貿易有限公司), a limited liability company established in the PRC;
"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;
"Tianjin Company"	China National Pharmaceutical Industrial Tianjin Co., Ltd. (中國醫藥工業公司天津聯營公司), an enterprise owned by the whole people established in the PRC;
"Trading Company"	China National Pharmaceutical Foreign Trade Corporation (中國醫藥對外貿易公司), an enterprise owned by the whole people established in the PRC;
"Traditional & Herbal Medicine Company"	China National Group Corp. of Traditional & Herbal Medicine (中國藥材集團公司), an enterprise owned by the whole people established in the PRC, which is a wholly-owned subsidiary of CNPGC;
"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;
"Xinjiang New & Special Company"	Xinjiang New & Special National Pharmaceutical Co., Ltd. (新疆新特藥民族藥業有限公司), a limited liability company established in the PRC;
"Yujia Medical"	Yujia Medical Service Co., Ltd. (御佳醫療服務有限公司), a limited liability company incorporated in the PRC;
"Zhejiang Intmedic"	Zhejiang Intmedic Co., Ltd. (浙江英特藥業有限責任公司), a limited liability company established in the PRC, is a Connected Person of the Company;
"Zhong Zhu Holding"	Zhong Zhu Holding Co., Ltd. (中珠控股股份有限公司), a joint stock limited company established in the PRC, whose A shares are listed on the Shanghai Stock Exchange; and
"Zhuhai Zhong Zhu"	Zhuhai Zhong Zhu Co., Ltd. (珠海中珠股份有限公司), a joint stock limited company established in the PRC.

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