国药集团
SINOPHARM

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

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

Stock Code: 01099

## Caring for LIFE
### Attending to HEALTH

# Annual Report 2017

* The Company is registered as a non-Hong Kong company under the Hong Kong Companies Ordinance under its Chinese name and the English name "Sinopharm Group Co. Ltd.".

# COMPANY PROFILE

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

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

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

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

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

**CORPORATE VISION**

Becoming a pharmaceutical and healthcare service provider with international competitiveness

**CORPORATE PHILOSOPHY**

Caring for life
Attending to health

**CORPORATE MISSION**

Contributing to human health and good life

**CORE VALUE**

Benevolence and responsibility

# Contents

# Corporate Information

*At the date of this report*

## Directors

Mr. Li Zhiming *(Executive Director and Chairman)*
Mr. Liu Yong *(Executive Director and President)*
Mr. Chen Qiyu *(Non-executive Director and Vice Chairman)*
Mr. She Lulin *(Non-executive Director)*
Mr. Wang Qunbin *(Non-executive Director)*
Mr. Ma Ping *(Non-executive Director)*
Mr. Deng Jindong *(Non-executive Director)*
Mr. Wen Deyong *(Non-executive Director)*
Ms. Rong Yan *(Non-executive Director)*
Mr. Wu Yijian *(Non-executive Director)*
Ms. Li Ling *(Independent Non-executive Director)*
Mr. Yu Tze Shan Hailson *(Independent Non-executive Director)*
Mr. Tan Wee Seng *(Independent Non-executive Director)*
Mr. Liu Zhengdong *(Independent Non-executive Director)*
Mr. Zhuo Fumin *(Independent Non-executive Director)*

## Supervisors

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

## Joint Company Secretaries

Mr. Liu Yong
Mr. Liu Wei

## Strategy and Investment Committee

Mr. Li Zhiming *(Chairman)*
Mr. Chen Qiyu
Mr. She Lulin
Mr. Wang Qunbin
Mr. Ma Ping
Mr. Deng Jindong
Mr. Liu Yong
Mr. Wu Yijian
Ms. Li Ling
Mr. Tan Wee Seng

## Audit Committee

Mr. Tan Wee Seng *(Chairman)*
Ms. Rong Yan
Mr. Wu Yijian
Mr. Liu Zhengdong
Mr. Zhuo Fumin

## Remuneration Committee

Mr. Liu Zhengdong *(Chairman)*
Mr. Yu Tze Shan Hailson
Mr. Wu Yijian

## Nomination Committee

Mr. Li Zhiming *(Chairman)*
Mr. She Lulin
Mr. Wang Qunbin
Ms. Li Ling
Mr. Yu Tze Shan Hailson
Mr. Liu Zhengdong
Mr. Zhuo Fumin

## Legal and Compliance Committee

Mr. Liu Zhengdong *(Chairman)*
Mr. Li Zhiming
Ms. Rong Yan

## Authorized Representatives

Mr. Li Zhiming
Mr. Liu Yong

## Legal Advisers

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

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

## Auditor

*International auditor:*
Ernst & Young

*Domestic auditor:*
Ernst & Young Hua Ming LLP

## Principal Place of Business in Hong Kong

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

## Principal Place of Business and Headquarter in the PRC

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

## Registered Office in the PRC

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

## Company's Website

www.sinopharmgroup.com.cn

## H Share Registrar

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

## Stock Code

01099

## Principal Banks

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

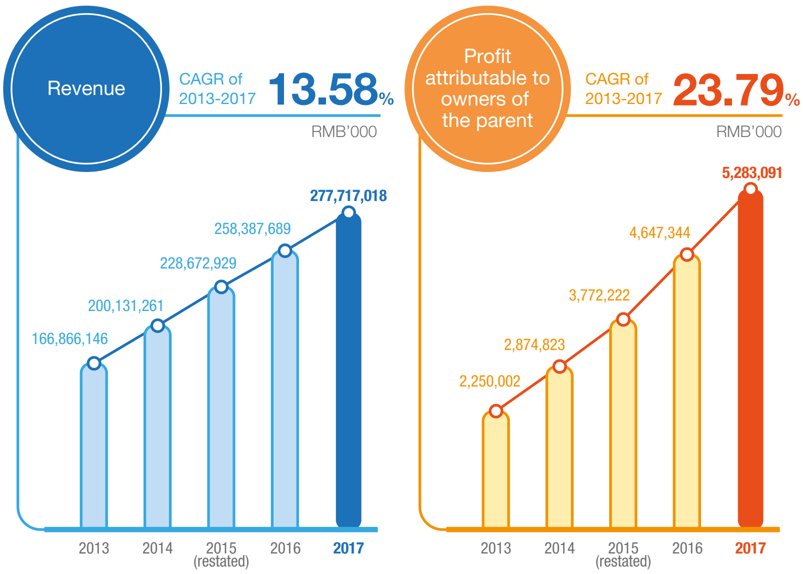
## Office of Board of Directors

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

# Financial Highlights

RMB'000

| | 2013-2017 | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 (restated) | 2016 | **2017** |
| **Operating results** | | | | | | |
| Revenue | 166,866,146 | 200,131,261 | 227,069,433 | 228,672,929 | 258,387,689 | **277,717,018** |
| Gross profit | 13,378,516 | 16,328,218 | 18,617,529 | 18,720,313 | 20,670,673 | **23,076,554** |
| Operating profit | 6,101,920 | 7,861,922 | 9,169,204 | 9,227,323 | 10,213,720 | **11,905,966** |
| Earnings before interest and tax | 6,280,874 | 8,063,294 | 9,396,713 | 9,456,979 | 10,856,642 | **12,706,623** |
| Profit attributable to owners of the parent | 2,250,002 | 2,874,823 | 3,760,649 | 3,772,222 | 4,647,344 | **5,283,091** |
| **Profitability** | | | | | | |
| Gross margin | 8.02% | 8.16% | 8.20% | 8.19% | 8.00% | **8.31%** |
| Operating margin | 3.66% | 3.93% | 4.04% | 4.04% | 3.95% | **4.29%** |
| Net profit margin | 2.15% | 2.27% | 2.51% | 2.51% | 2.67% | **2.83%** |
| **Asset status** | | | | | | |
| Total assets | 105,453,110 | 128,655,739 | 138,267,028 | 139,429,696 | 157,711,590 | **169,539,028** |
| Equity attributable to owners of the parent | 21,815,546 | 27,381,867 | 30,051,626 | 30,110,310 | 31,810,928 | **35,257,635** |
| Total liabilities | 76,841,760 | 92,366,110 | 97,611,323 | 98,551,019 | 113,179,154 | **118,269,374** |
| Cash and cash equivalents | 14,001,962 | 15,232,356 | 19,919,154 | 19,966,052 | 25,572,759 | **29,011,436** |
| **Gearing ratio** | 72.87% | 71.79% | 70.60% | 70.68% | 71.76% | **69.76%** |
| **Liquidity ratio** | | | | | | |
| Current ratio (times) | 1.27 | 1.28 | 1.23 | 1.23 | 1.33 | **1.31** |
| Inventory turnover ratio (days) | 36 | 36 | 37 | 37 | 37 | **37** |
| Trade receivables turnover ratio (days) | 98 | 107 | 105 | 104 | 95 | **95** |
| Trade payables turnover ratio (days) | 91 | 95 | 97 | 97 | 96 | **94** |
| **Data per share (RMB)** | | | | | | |
| Earnings per share – Basic | 0.89 | 1.11 | 1.36 | 1.36 | 1.68 | **1.91** |
| Earnings per share – Fully diluted | 0.89 | 1.11 | 1.36 | 1.36 | 1.68 | **1.91** |




Revenue over **RMB270 billion**
Year-on-year growth of
**7.48%**

Year-on-year growth in
**earnings per share of**
**13.69%**

Year-on-year growth in
**earnings before interest and tax of**
**17.04%**

**Year-on-year increase in profit attributable to owners of the parent of** **13.68%**
Significantly higher than the year-on-year growth rate of revenue

# CARING FOR LIFE
## ATTENDING TO HEALTH

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

# Chairman's Statement

**Li Zhiming**
*Chairman &*
*Executive Director*

**Dear shareholders,**

I would like to express my heartfelt gratitude to the shareholders and the community for your great support and encouragement to Sinopharm over time. 2017 was a year full of challenges for the Company, but the Board, the management and all the staff took "new thought, new structure, new momentum, new target" as strategic guidance, overcame various difficulties and attributed to the shareholders with sustained and stable growth in operation again for their support and caring for the growth of the Company.

## Stable Economy with Upward Trend and Industry Growth Faced with Challenges

In 2017, the Chinese economy moved forward with stability, moved upward with stability and was better than expected, the development of economy and society remained stable and healthy. It is expected that the Chinese economy would still be able to maintain medium-to-high-speed growth during the "13th Five-Year" period and continue to be an important driver to the growth of the world economy.

In 2017, the Chinese government continued to release various healthcare policies, continued to push forward the healthcare reform, continued to increase investments in the healthcare industry and continued to enhance healthcare quality, aiming to establish a "Healthy China" that can satisfy the basic healthcare needs of the masses. The pharmaceutical distribution industry's sales growth dropped slightly on a year-on-year basis, but was still better than GDP growth, the rigid demand continued to be seen, the industry concentration ratio continued to increase, the whole industry still faced challenges from policies, payment collection and working capital, etc.

## Sustained and Stable Growth in the Results

During the Reporting Period, the Group recorded a revenue of RMB277,717.02 million, representing an increase of RMB19,329.33 million or 7.48% as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded a net profit of RMB7,868.18 million, representing an increase of RMB976.58 million or 14.17% as compared with the corresponding period of last year. Profit attributable to owners of the parent amounted to RMB5,283.09 million, representing an increase of RMB635.75 million or 13.68% as compared with the corresponding period of last year.

During the Reporting Period, basic earnings per share of the Company amounted to RMB1.91, representing an increase of 13.69% as compared with the corresponding period of last year.

Compared to 2016, total assets of the Group increased from RMB157,711.59 million to RMB169,539.03 million, net assets increased from RMB44,532.44 million to RMB51,269.65 million, and gearing ratio decreased from 71.76% to 69.76%.

For the year of 2017, total capital expenditure of the Group amounted to RMB2,563.49 million, which was primarily used for the expansion and development of distribution channels, upgrading the logistic delivery system and improving the level of informatisation, so as to increase the Group's market share and improve delivery efficiency.

## Awards-winning and Highly Recognized in the Market

In 2017, the Company ranked 22nd in the list of Chinese listed companies by brand value, ranked 1st among pharmaceutical companies on the list, the brand value reached RMB23.342 billion. The Company ranked 22nd in the 2017 "Fortune" China's 500 list, and received "The Best Investor Relation Award" from "China Financial Market". These awards demonstrated the market's high recognition for the Company's brand and strength.

## Prospects

Looking to the future, the healthcare industry will maintain a stable growth which is attributable to factors such as the aging population, urbanization, increase in chronic diseases, increase in healthcare investments as well as the continuous deepening of healthcare reform, etc. The business opportunities brought by various innovative business models will also drive the future growth in the industry. The healthcare industry is still one of the industries with the highest growth potential. We believe that the healthcare reform being deepened continuously and various policies being released will accelerate the survival of the fittest in the industry and bring about further compliance and consolidation. The prospect of the industry will become better and better.

As the largest and most powerful pharmaceutical distributor and retailer, Sinopharm will continue to conform to the "New Normal" of the development of healthcare industry, seize the opportunities brought by supply-side structural reforms, further stimulate corporate vitality and creativity, and take "new thought, new structure, new momentum, new target" as strategic guidance to achieve a new leap-forward development with more adamant faith, broader views and more actionable endeavors.

Finally, I would like to express heartfelt gratitude once again to all the shareholders, directors, strategic partners, members of management of the Company and all my fellow colleagues. Let us continue to make great efforts hand in hand to advance the transformation of Sinopharm from distinction to excellence as well as from a traditional pharmaceutical distribution company to a smart healthcare service ecosystem.

**Li Zhiming**
*Chairman*

Shanghai, the People's Republic of China
23 March 2018

# MOST POWERFUL

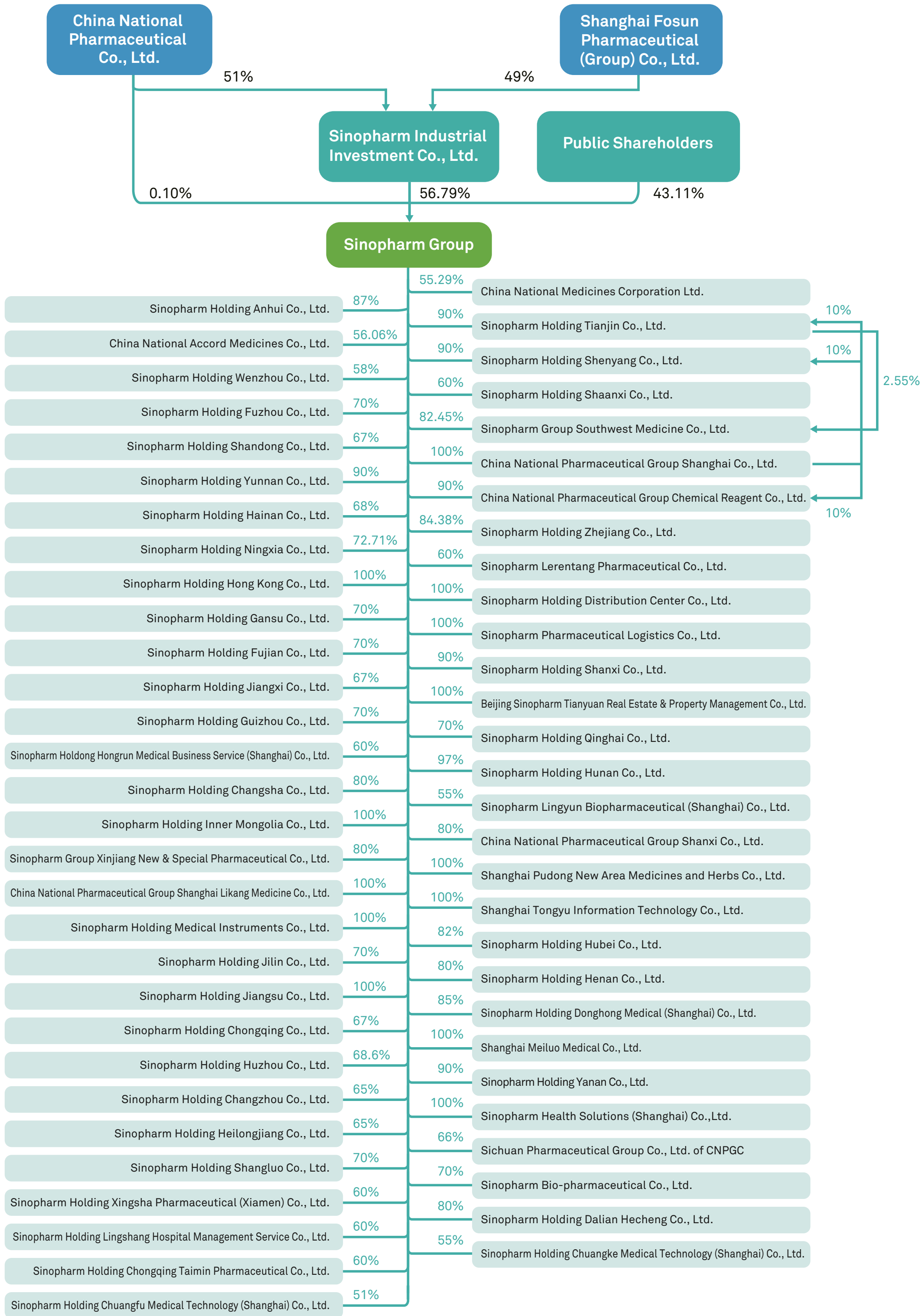
## BEST PARTNER  MOST RELIABLE

Deliver health, Benefit common people

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

# Shareholding Structure of the Group

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



# Management Discussion and Analysis

**Liu Yong**
*President &*
*Executive Director*

## Industry Overview

### Stable economy with upward trend

In 2017, China's GDP grew by 6.9% which was slightly faster than that of 2016. The macro economy was performing in a reasonable range, demonstrating a pattern of stability with upward trend.

### Growth of distribution industry slowed down

Due to influence of policies the growth of pharmaceutical distribution industry dropped slightly on a year-on-year basis, but still continued to exceed the growth of macroeconomy. The industry competition has become more intense, the pharmaceutical distribution and retail enterprises have accelerated the pace of merger, acquisition and expansion, highlighting the importance of scale advantage.

### Opportunities and challenges co-existed

"Two-invoice system", drug tender and rigorous regulation of pharmaceutical distribution have brought challenges to the industry, but contributed to facilitate the survival of the fittest and consolidation within the industry, enabling large-scale enterprises with superior control and management to get better development, the concentration ratio of the industry is bound to increase in the future. The separation of medical treatment and drug sale has impacted hospitals, but will bring along enormous opportunities for the drug retail business. The enterprises with strong retail network and good operation capability will win out. Pharmaceutical e-commerce has challenged traditional models, but also brought along new growth drivers. The enterprises with strong platforms and advantages of offline resources will have competitive edge.

In the long run, driven by the aging population, urbanization, increase in chronic diseases, rise in household income and the wider coverage of medical insurance, we believe China's healthcare industry will become a fast-growing industry filled with opportunities. We believe that enterprises like us, relying on our leading network advantages, normative operations and superior corporate governance, will become the beneficiaries.

## Business Review

Faced with unfavorable industry situation through 2017, the Group took "new thought, new structure, new momentum, new target" as strategic guidance, further integrated platform resources and gave play to the scale effect. The revenue continued to grow stably, profit growth continued to significantly exceed sales growth, which further consolidated the leading position and edges of the Group.

### Solid leading position in the distribution business

In the pharmaceutical distribution sector, the Group has built an integrated pharmaceutical supply chain, established an advanced supply chain management mode, achieved steady adjustments in product structures, continuously optimized customer structure, continuously expanded and integrated national distribution network. As at 31 December 2017, the distribution network covered 31 provinces, municipalities and autonomous regions across China. The Group's direct customers included 15,032 hospitals (only referring to ranked hospitals, including 2,301 largest class-III hospitals with the highest rankings), 128,326 small end-customers (including primary health services institutions and others) and 87,246 retail pharmacy.

The Group continued its endeavors to promote integrated operation. Meanwhile, the Group continued to strengthen the construction of national integrated logistics platform, the plan for distribution network's vertical layout was successfully accomplished: the national pharmaceutical distribution logistics network includes 4 logistic hubs, 42 logistic centers at provincial level, 236 logistics outlets at municipal level, 26 retail logistics outlets, with a total number of logistics outlets reaching 308.

### Leading position in the retail business

In respect of retail pharmacy, aiming to establish an integrated wholesale-retail pharmaceutical distribution model, the Group vigorously promoted the development of the retail business and strengthened its leading advantages. The Group has set up retail chain pharmacies that are either directly operated by the Group or through franchises in major cities throughout China. As at 31 December 2017, Sinopharm Holding Guoda Drug Store Co., Ltd., a subsidiary of the Group, has set up pharmacies covering 19 provinces, municipalities and autonomous regions across the country. The number of retail pharmacies was 3,834, among which 2,801 were directly operated by the Group and 1,033 were operated by franchisees. The sales amount grew rapidly on a year-on-year basis, and the scale continued to lead the industry.

### "Integrated wholesale-retail" core strategy starts to have initial effect

The revenue of retail pharmacy grew rapidly, the Group's retail network continued to expand, covering 29 provinces and 167 prefectures. Direct sales to retail pharmacy grew fast and the coverage rate increased significantly.

### Active promotion of innovative businesses

The Group vigorously promoted medical device distribution business with sales growth exceeding 30%, leading to the increase in the Group's revenue growth and gross profit margin. Based on alignment of pharmaceutical and medical device, the Group actively promoted hospital medical services such as cleaning, disinfecting and after-sale maintenance and its scale has grown rapidly. Financial services improved steadily, Sinopharm Holding (China) Financial Leasing Co., Ltd. ("**Sinopharm Financial Leasing**") successfully introduced strategic investors, its assets under management exceeded RMB10 billion and net profit grew significantly. Adapting to the "Internet +" trend, the Group grabbed the developing opportunities of pharmaceutical e-commerce and promoted the integration of traditional businesses and the Internet. Sinopharm Health Online Co., Ltd., completed series A financing, and its sales achieved substantial growth. Capitalizing on the policy opportunity to actively promote national integrated cold-chain logistics service system, implementation relating to information of integrated cold-chain was fully launched and third-party cold-chain logistics service capability was substantially improved.

### Further improvement in management and control

The Group strengthened its management and control of finance, human resources, diversified financing, operations management, informatization and procurement, etc., the gross profit margin was further increased, profitability was further improved, the operating efficiency was further optimized, the operating risks were further decreased, and the enterprise competitiveness was further enhanced.

## Future Plan

### Build smart service capability via technology innovation

Supported by technology innovation, the Group will build smart healthcare technology platform with "integrated wholesale-retail" as its core and advance the Group's transformation from traditional service-based enterprise to technology-based service enterprise, in order to achieve its goals of consolidated industry position, significant management advantage, comprehensive business system and leading innovation capability.

### Continue to consolidate leading position in distribution business

The distribution business will remain an important strategic sector of the Group. The Group will continue to promote the vertical layout of distribution network and optimization of network layout, thereby further utilizing scale and network advantages to continuously solidify industry leading position. The Group will actively grab the policy opportunity to rapidly increase the market share in direct sales to hospitals. The Group will further advance regional integration with the aim to build regional enterprise groups with integrated management and control, various services, synergy and versatility, and high operation efficiency, so as to lay a foundation for a national integration.

### Continue to promote rapid growth of retail business

The retail business still remains a strategic sector for the structural adjustment of the Group. The Group will actively learn from international advanced technology and experience, and will continue to expand its retail business to form an overall leading pharmaceutical terminal retail network with national layout, vertical development, reasonable structure, integration of wholesale and retail, various profit growth drivers, risk resistance capacity, and global perspective.

### Continue to advance and foster innovative businesses

Innovative businesses based on main business are critical for optimizing the Group's revenue structure and profitability. The Group will continue to vigorously promote medical device business. Relying on existing advantage of resources in respect of hospital, the Group will continue to vigorously develop services provided to hospital such as cleaning, disinfecting and post-sale maintenance, etc.. The Group will continue to actively promote the development of e-commerce project with the aim to facilitate the deep online/offline integration. The Group will continue to strengthen financial services to increase customer loyalty. The Group will continue to promote national integrated cold-chain logistics service system with the aim to build "smart logistics" + "cold-chain brand".

### Continue to control risk and maintain stable operation

The Group will continue to control risk and maintain stable operation through measures such as capital management and control, eliminating inefficient businesses, investment strategy adjustment and strengthening assessment, so as to achieve healthier sustainable development.

Looking forward, the industry is in a vastly volatile time with change and adjustment, bringing many challenges along with new opportunities. The Group will take advantage of the mixed ownership reform, take "new thought, new structure, new momentum, new target" as strategic guidance, advance the "integrated wholesale-retail" strategy, strengthen application of technology, promote transformation and innovation, with the aim to build a smart healthcare service ecosystem with international competitiveness.

## Financial Summary

The financial summary set out below is extracted from the audited financial statements of the Group for the Reporting Period which were prepared in accordance with the HKFRSs:

During the Reporting Period, the Group recorded a revenue of RMB277,717.02 million, representing an increase of RMB19,329.33 million or 7.48% as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded a net profit of RMB7,868.18 million, representing an increase of RMB976.58 million or 14.17% as compared with the corresponding period of last year. Profit attributable to owners of the parent amounted to RMB5,283.09 million, representing an increase of RMB635.75 million or 13.68% as compared with the corresponding period of last year.

During the Reporting Period, basic earnings per share of the Company amounted to RMB1.91, representing an increase of 13.69% as compared with the corresponding period of last year.

### Revenue

During the Reporting Period, the Group recorded a revenue of RMB277,717.02 million, representing an increase of 7.48% as compared with RMB258,387.69 million for the twelve months ended 31 December 2016, which was primarily due to the increase in revenue from the Group's pharmaceutical distribution and retail pharmacy business. The Group's revenue grew faster than the average level of development of pharmaceutical market in China.

- Pharmaceutical distribution segment: during the Reporting Period, the revenue from pharmaceutical distribution of the Group was RMB264,352.23 million, representing an increase of 7.26% as compared with RMB246,458.82 million for the twelve months ended 31 December 2016, which accounted for 94.17% of the total revenue of the Group. Such increase was primarily due to a remarkable development of the pharmaceutical distribution business and the further expansion of the pharmaceutical distribution network of the Group.

- Retail pharmacy segment: during the Reporting Period, the revenue from retail pharmacy of the Group was RMB12,392.21 million, representing an increase of 21.04% as compared with RMB10,238.51 million for the twelve months ended 31 December 2016. The increase was primarily due to the acquisition for expansion and business growth of the Group's existing pharmacies.

- Other business segments: during the Reporting Period, revenue from other business of the Group was RMB3,961.60 million, representing a decrease of 10.79% as compared with RMB4,440.88 million for the twelve months ended 31 December 2016.

### Cost of Sales

During the Reporting Period, the cost of sales of the Group was RMB254,640.46 million, representing an increase of 7.12% as compared with RMB237,717.02 million for the twelve months ended 31 December 2016. The increase was primarily due to the increase in the sales revenue of the Group.

### Gross Profit
As a result of the above-mentioned factors, the gross profit of the Group during the Reporting Period was RMB23,076.55 million, representing an increase of 11.64% as compared with RMB20,670.67 million for the twelve months ended 31 December 2016. The gross profit margin of the Group for the twelve months ended 31 December 2016 and 2017 were 8.00% and 8.31%, respectively.

### Other Income
During the Reporting Period, other income of the Group was RMB399.81 million, representing an increase of 46.83% as compared with RMB272.29 million for the twelve months ended 31 December 2016. The increase was primarily due to the increase in subsidies obtained by the Group from the central and local governments.

### Selling and Distribution Expenses
During the Reporting Period, the selling and distribution expenses of the Group were RMB7,383.26 million, representing an increase of 11.55% as compared with RMB6,618.86 million for the twelve months ended 31 December 2016. The increase in selling and distribution expenses was primarily attributable to the Group's enlarged operation scale, its business development and its expansion of distribution networks through new set-ups and acquisitions of companies and businesses, etc.

### Administrative Expenses
During the Reporting Period, the administrative expenses of the Group were RMB4,187.14 million, representing an increase of 1.87% as compared with RMB4,110.38 million for the twelve months ended 31 December 2016. The increase in administrative expenses was primarily attributable to the increase in administrative costs incurred by the expansion of network scale and business growth of the Group.

During the Reporting Period, the proportion of the Group's administrative expenses to the total revenue of the Group decreased to 1.51% from 1.59% for the twelve months ended 31 December 2016, which was due to the implementation of cost control measures and the economies of scale of the Group.

### Operating Profit
As a result of the above-mentioned factors, the operating profit of the Group during the Reporting Period was RMB11,905.97 million, representing an increase of 16.57% from RMB10,213.72 million for the twelve months ended 31 December 2016.

### Other Gains – Net
The other gains of the Group net of other losses decreased from RMB410.73 million for the twelve months ended 31 December 2016 to RMB359.23 million for the Reporting Period. The decrease was primarily due to the decrease in gains from disposal of fixed assets by the Group.

### Finance Costs – Net
During the Reporting Period, the finance costs of the Group was RMB2,533.62 million, representing an increase of 31.15% as compared with RMB1,931.82 million for the twelve months ended 31 December 2016. The increase was primarily due to the increase in financing costs of the Group.

### Share of Profits and Losses of Associates
During the Reporting Period, the Group's share of profits and losses of associates was RMB431.47 million, representing an increase of 85.83% as compared with RMB232.19 million for the twelve months ended 31 December 2016.

### Share of Profits and Losses of a Joint Venture
During the Reporting Period, the Group's share of profits and losses of a joint venture was RMB9.95 million, The Group had no share of profits and losses of a joint venture for the twelve months ended 31 December 2016.

### Income Tax Expenses
During the Reporting Period, the Group's income tax expenses were RMB2,304.83 million, representing an increase of RMB271.60 million as compared with RMB2,033.23 million for the twelve months ended 31 December 2016. The increase was primarily due to the increase in profits of the Group, which led to a corresponding increase in income tax expenses. The Group's actual income tax rate decreased to 22.66% during the Reporting Period from 22.78% for the twelve months ended 31 December 2016.

### Profit for the Year
As a result of the above-mentioned factors, the profit of the Group for the year of 2017 was RMB7,868.18 million, representing an increase of 14.17% as compared with RMB6,891.60 million for the twelve months ended 31 December 2016. The profit margin of the Group for the twelve months ended 31 December 2016 and 2017 were 2.67% and 2.83%, respectively.

### Profit Attributable to Owners of the Parent
During the Reporting Period, profit or net profit attributable to owners of the parent was RMB5,283.09 million, representing an increase of 13.68% or RMB635.75 million from RMB4,647.34 million for the twelve months ended 31 December 2016. The Group's net profit margin for the Reporting Period and the corresponding period of 2016 were 1.90% and 1.80%, respectively.

### Profit Attributable to Non-controlling Interests
Profit attributable to non-controlling interests for the Reporting Period was RMB2,585.09 million, representing an increase of RMB340.84 million from RMB2,244.25 million for the twelve months ended 31 December 2016.

## Liquidity and Capital Resources

### Working capital

During the Reporting Period, the Group had commercial banking facilities of RMB108,183.54 million, of which approximately RMB51,992.10 million were not yet utilized. Cash and cash equivalents of RMB29,011.44 million primarily comprise cash, bank savings and income from current operating activities.

### Cash flow

The cash of the Group was primarily used for financing working capital, repaying credit interest and principal due, financing acquisitions and providing funds for capital expenditures, growth and expansion of the Group's facilities and operations. The table below sets out the cash flow of the Group from operating, investing and financing activities for the year ended 31 December 2016 and 2017, respectively:

| | **2017**<br>**RMB million** | 2016<br>RMB million |
|---|---|---|
| Net cash generated from operating activities | **1,667.35** | 9,257.96 |
| Net cash used in investing activities | **(2,547.29)** | (1,606.45) |
| Net cash generated from/(used in) financing activities | **4,302.38** | (2,026.96) |
| Net increase in cash and cash equivalents | **3,422.44** | 5,624.55 |
| Cash and cash equivalents at the beginning of the year | **25,572.76** | 19,966.05 |
| Exchange differences | **16.24** | (17.84) |
| Cash and cash equivalents at the end of the year | **29,011.44** | 25,572.76 |

### Net cash generated from operating activities

The Group's cash inflow from operations primarily derives from collections from the sale of the products and services in its pharmaceutical distribution, retail pharmacy and other business segments. During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB1,667.35 million, representing a decrease of RMB7,590.61 million from RMB9,257.96 million for the twelve months ended 31 December 2016. The decrease was primarily attributed to the relatively large outflow of operating cash flow due to the expansion of financial leasing business of Sinopharm Financial Leasing, the Group's previous subsidiary and the slowdown in collecting trade receivables.

### Net cash used in investing activities

During the Reporting Period, the net cash used in investment activities of the Group was RMB2,547.29 million, representing an increase of RMB940.84 million as compared with RMB1,606.45 million for the twelve months ended 31 December 2016.

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

During the Reporting Period, the net cash generated from financing activities of the Group was RMB4,302.38 million, which was primarily attributable to the proceeds from borrowings from banks and others financial institutions. The net cash used in financing activities of the Group for the twelve months ended 31 December 2016 was RMB2,026.96 million.

### Capital Expenditure

The Group's capital expenditures were primarily utilized for the development and expansion of distribution channels, upgrading of its logistic delivery systems and the improving of the level of informatization. The Group's capital expenditures amounted to RMB1,464.49 million and RMB2,563.49 million for the year ended 31 December 2016 and 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 develop, it may incur additional capital expenditure. The Group's ability to obtain additional funding in future is subject to a variety of factors, including its future operational results, financial condition and cash flows, economic, political and other conditions in the mainland China and Hong Kong, and the PRC Government's policies relating to foreign currency borrowings, etc.

## Capital Structure

### Fiscal resources

During the Reporting Period, the Group made certain improvement and adjustments to its capital structure, so as to relieve fiscal risks and reduce finance costs. Through issuance of corporate bonds and super & short-term commercial papers, the Group obtained approximately RMB1,000 million and RMB3,000 million respectively for the purpose of replenishing working capital, facilitating the adjustment of the debt structure of the Group and reducing financing costs.

The Group's borrowings are mainly denominated in RMB.

As at 31 December 2017, the cash and cash equivalents of the Group were mainly denominated in RMB, with certain amount denominated in Hong Kong Dollars ("**HKD**") and small amount denominated in USD ("**USD**") and Euro ("**EUR**") and AUD ("**AUD**").

### Indebtedness

As at 31 December 2017, the Group had aggregated banking facilities of RMB108,183.54 million, of which RMB51,992.10 million were not utilized and are available to be drawn down at any time. Such banking facilities are primarily short-term loans for working capital. Among the Group's total borrowings as at 31 December 2017, RMB30,162.91 million will be due within one year and RMB5,441.49 million will be due after one year. During the Reporting Period, the Group did not experience any difficulties in renewing its bank loans with its lenders.

### Gearing ratio

As at 31 December 2017, the Group's gearing ratio was 69.76% (31 December 2016: 71.76%), which was calculated based on the net liabilities divided by the aggregate of its total equity and net liabilities as at 31 December 2017.

### Foreign Exchange Risks

The Group's operations are mainly located in the PRC and most of its transactions are denominated and settled in RMB. However, the Group is exposed to foreign exchange risks on certain cash and cash equivalents, prepayments and other receivables, trade payables and accruals and other payables denominated in foreign currencies, the majority of which are USD, HKD and EUR. During the Reporting Period, the Group has no corresponding hedging arrangements.

### Pledge of Assets

As at 31 December 2017, part of the Group's borrowings and notes payable were secured by bank deposits of RMB4,835.72 million, prepaid land lease payments with book value of RMB56.37 million, investment properties with book value of RMB0.07 million, properties, plant and equipment with book value of RMB113.46 million, and trade receivables with book value of RMB1,267.60 million.

## Major Acquisitions and Disposals

On 27 November 2017, the Company entered into the equity transfer agreement with CNPGC, the ultimate controlling shareholder of the Company, in respect of the acquisition of 100% equity interest in Shanghai Pudong New Area Medicines and Herbs Co., Ltd. (including its wholly-owned subsidiary Shanghai Yanghetang Pharmacy Chain Operation Co., Ltd.) at a cash consideration of RMB217,473,000. Upon completion of the acquisition, Shanghai Pudong New Area Medicines and Herbs Co., Ltd. became a wholly-owned subsidiary of the Company. For details, please refer to the announcement of the Company published on the websites of the Company and the Hong Kong Stock Exchange on 11 November 2017.

Save as disclosed above, during the Reporting Period, the Company had no major acquisitions and disposals with respect to subsidiaries, associated and jointly-owned companies.

## Major Investment

During the Reporting Period, the Group had no major investment.

## Going Concern

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

## Contingent Liabilities and Material Litigations

As at 31 December 2017, the Group neither had any material contingent liability, nor had any material litigation.

## Human Resources

As at 31 December 2017, the Group had a total of 61,694 employees. In order to meet the development needs and support and promote the realization of its strategic objectives, the Group has integrated existing human resources, made innovations in management model and optimized management mechanism in accordance with the requirements of specialized operation and integrated management, so as to actively advance the organizational reform and accelerate the cultivation and recruitment of talents. The Group has established a strict selection process for recruitment of employees and adopted a number of incentive mechanisms to enhance their efficiency. The Group conducted periodic performance reviews on its employees and adjusted their salaries and bonuses accordingly. In addition, the Group has provided training programs to employees with different functions.

## Compliance with Laws and Regulations

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

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

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

## Relationship with Employees, Suppliers and Customers

The Group endeavours to maintain sustainable development in the long term, continuously create value for its employees and customers, and foster good relationships with its suppliers. The Group understands that employees are its valuable assets, and the realisation and enhancement of employees' values will facilitate the achievement of the Group's overall goals. For the year ended 31 December 2017, the Group adhered to the talent-oriented corporate culture and played an active role in cultivating first-class talents. It also attached great importance to the exploration, management and development planning of human resources, striving to create a harmonious working environment as well as a remuneration and benefit system with market competitiveness for its employees, so as to ensure the Group's advantages in terms of human resources for future development. The Group also understands the importance of maintaining good relationships with its suppliers and customers to the overall development of the Group. The Group places emphasis on supplier selection and encourages fair and open competition to foster long-term relationships with quality suppliers on the basis of mutual trust. To maintain the competitiveness of the Group's brand and products, the Group abides by the principles of honesty and trustworthiness and commits itself to consistently provide quality products to establish a reliable service environment for its customers. For the year ended 31 December 2017, there was no significant and material dispute between the Group and its suppliers and/or customers.

## Subsequent Events

To satisfy the operation needs of the Company and lower the financial costs, on 12 January 2018, the Board resolved to propose the issue of the corporate bonds with an issue size of no more than RMB10 billion (inclusive) in the PRC ("**Proposed Issue of Corporate Bonds**"). The Proposed Issue of Corporate Bonds was duly passed at the extraordinary general meeting of the Company held on 9 March 2018 as a special resolution. For details, please refer to the announcements of the Company published on the websites of the Company and the Hong Kong Stock Exchange on 12 January 2018 and 9 March 2018.

On 23 March 2018, the Company entered into the factoring services framework agreement with Sinopharm Puxin Commercial Factoring Company Limited ("**Factoring Company**"), a subsidiary of the ultimate controlling shareholder, pursuant to which the Factoring Company has agreed to provide commercial factoring services to the Group. The annual caps of the interests/fees paid by the Group for commercial factoring services provided by the Factoring Company for the nine months ending 31 December 2018 and the two years ending 31 December 2020 shall be RMB75 million, RMB100 million and RMB100 million respectively. For details, please refer to the announcement of the Company published on the websites of the Company and the Hong Kong Stock Exchange on 23 March 2018.

On 23 March 2018, the Board resolved to propose to make certain amendments to the articles of association and the Rules of Procedure of the Board of Directors of the Company. The proposed amendments to the articles of association and the Rules of Procedure of the Board of Directors of the Company are subject to the approval by the shareholders at the general meeting of the Company. On the same day, the Board also resolved to establish a legal and compliance committee under the Board and has elected Mr. Liu Zhengdong, Mr. Li Zhiming and Ms. Rong Yan as the committee members. For details, please refer to the announcement of the Company published on the websites of the Company and the Hong Kong Stock Exchange on 23 March 2018.

# Corporate Governance Report

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

## Composition of the Board

As at the date of this report, the board of the directors of the Company (the "**Board**") consists of 15 directors (the "**Director(s)**"), including two executive Directors, Mr. Li Zhiming and Mr. Liu Yong; eight non-executive Directors, namely Mr. Chen Qiyu, Mr. She Lulin, Mr. Wang Qunbin, Mr. Ma Ping, Mr. Deng Jindong, Mr. Wen Deyong, Ms. Rong Yan and Mr. Wu Yijian; and five independent non-executive Directors, namely Ms. Li Ling, Mr. Yu Tze Shan Hailson, Mr. Tan Wee Seng, Mr. Liu Zhengdong and Mr. Zhuo Fumin. To the knowledge of the Company, there is no financial, business and family relationships or material/relevant relationships among members of the Board or between the Chairman and the President.

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

## Major Responsibilities of the Board

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

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

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

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

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

## Changes of Directors, Supervisors and Senior Management

(1) Mr. Li Zhiming was appointed as chairman by the 14th Board meeting of the third session of the Board held on 24 March 2017. Mr. Wei Yulin resigned from the positions of Director and special committee members.

(2) As considered and approved by the 2017 first extraordinary general meeting of the Company held on 20 September 2017, re-election of the third session of the Board was completed, members of the fourth session of the Board were generated. Mr. Li Zhiming was elected as an executive Director of the fourth session of the Board, Mr. Chen Qiyu, Mr. She Lulin, Mr. Wang Qunbin, Mr. Ma Ping, Mr. Deng Jindong, Mr. Li Dongjiu, Mr. Lian Wanyong and Mr. Wen Deyong were elected as non-executive Directors of the fourth session of the Board, Ms. Li Ling, Mr. Yu Tze Shan Hailson, Mr. Tan Wee Seng, Mr. Liu Zhengdong and Mr. Zhuo Fumin were elected as independent non-executive Directors of the fourth session of the Board. Among which, former Director of the third session of the Board, Mr. Wu Yijian, ceased to be a Director and was replaced by Mr. Wen Deyong.

(3) As considered and approved by the 2017 first extraordinary general meeting of the Company held on 20 September 2017, re-election of the third session of the Supervisory Committee was completed, members of the fourth session of the the Supervisory Committee were generated. Mr. Yao Fang and Mr. Tao Wuping were elected as independent supervisors of the fourth session of the Supervisory Committee.

(4) On 20 September 2017, the resolutions regarding the election of the members and chairman of each of the special committees under the fourth session of the Board were considered and approved at the first Board meeting of the fourth session of the Board. Their composition is as follows:

| Board Committee | Chairman | Members |
|---|---|---|
| Strategy and Investment Committee | Mr. Li Zhiming | Mr. Chen Qiyu, Mr. She Lulin, Mr. Wang Qunbin, Mr. Ma Ping, Mr. Deng Jindong, Mr. Li Dongjiu, Ms. Li Ling and Mr. Tan Wee Seng |
| Audit Committee | Mr. Tan Wee Seng | Mr. Li Dongjiu, Mr. Liu Zhengdong, Mr. Zhuo Fumin and Mr. Lian Wanyong |
| Remuneration Committee | Mr. Liu Zhengdong | Mr. Li Dongjiu and Mr. Yu Tze Shan Hailson |
| Nomination Committee | Mr. Li Zhiming | Mr. She Lulin, Mr. Wang Qunbin, Ms. Li Ling, Mr. Yu Tze Shan Hailson, Mr. Liu Zhengdong and Mr. Zhuo Fumin |

(5) Due to change in responsibilities, Mr. Li Zhiming, the executive Director, proposed to cease to serve as the president of the Company on 21 November 2017, which took effect immediately upon the approval of the Board. On the same date, the Board resolved to appoint Mr. Liu Yong as the president of the Company, Mr. Liu ceased to serve as vice president and secretary to the Board of the Company on the same date.

(6) As considered and approved by the 2017 first extraordinary Board meeting of the fourth session of the Board held on 21 November 2017, Mr. Liu Yong was proposed to be appointed as an executive Director and member of Strategy and Investment Committee of the fourth session of the Board, it became effective after the general meeting of the Company approved his appointment on 18 December 2017.

(7) As considered and approved by the 2017 second extraordinary general meeting of the Company held on 18 December 2017, Mr. Liu Yong was elected as an executive Director.

(8) As considered and approved by the third Board meeting of the fourth session of the Board held on 12 January 2018, Ms. Rong Yan was proposed to be appointed as a non-executive Director and a member of Audit Committee of the fourth session of the Board, Mr. Wu Yijian was proposed to be appointed as a non-executive Director and a member of Strategy and Investment Committee of the fourth session of the Board, a member of Audit Committee of the fourth session of the Board and a member of Remuneration Committee of the fourth session of the Board, it became effective after the general meeting of the Company approved their appointments on 9 March 2018.

(9) Mr. Zhang Hongyu was elected as an employee representative Supervisor of the fourth session of the Supervisory Committee at the meeting of the employee representatives of the Company with immediate effect on 12 January 2018.

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

## Board Meetings and General Meetings

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

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

| Directors | Attendance/No. of meetings held |
|---|---|
| **Executive Directors** | |
| Mr. Wei Yulin (resigned) | 2/2 |
| Mr. Li Zhiming | 11/11 |
| Mr. Liu Yong | 1/1 |
| **Non-executive Directors** | |
| Mr. Chen Qiyu | 11/11 |
| Mr. She Lulin(1) | 10/11 |
| Mr. Wang Qunbin(2) | 7/11 |
| Mr. Ma Ping(3) | 10/11 |
| Mr. Deng Jindong | 11/11 |
| Mr. Li Dongjiu (resigned) | 11/11 |
| Mr. Lian Wanyong(4) (resigned) | 10/11 |
| Mr. Wu Yijian | 7/7 |
| Mr. Wen Deyong | 4/4 |
| **Independent non-executive Directors** | |
| Ms. Li Ling | 11/11 |
| Mr. Yu Tze Shan Hailson | 11/11 |
| Mr. Tan Wee Seng | 11/11 |
| Mr. Liu Zhengdong(5) | 10/11 |
| Mr. Zhuo Fumin(6) | 7/11 |

Notes:

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

(2) Mr. Wang Qunbin attended four meetings not in person but by his proxy, which were not included in the attendance.

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

(4) Mr. Lian Wanyong attended one meeting not in person but by his proxy, which was not included in the attendance;

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

(6) Mr. Zhuo Fumin attended four meetings not in person but by his proxy, which were not included in the attendance.

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

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

| Directors | Attendance/No. of meetings held |
|---|---|
| **Executive Director** | |
| Mr. Li Zhiming | 3/3 |
| **Non-executive Directors** | |
| Mr. Chen Qiyu | 3/3 |
| Mr. She Lulin | 0/3 |
| Mr. Wang Qunbin | 0/3 |
| Mr. Ma Ping | 2/3 |
| Mr. Deng Jindong (resigned) | 2/3 |
| Mr. Li Dongjiu (resigned) | 3/3 |
| Mr. Lian Wanyong | 3/3 |
| Mr. Wu Yijian | 2/2 |
| Mr. Wen Deyong | 2/2 |
| **Independent non-executive Directors** | |
| Ms. Li Ling | 3/3 |
| Mr. Yu Tze Shan Hailson | 3/3 |
| Mr. Tan Wee Seng | 3/3 |
| Mr. Liu Zhengdong | 3/3 |
| Mr. Zhuo Fumin | 2/3 |

## Training for Directors

On 27 October 2017 and 18 December 2017, Mr. Wen Deyong and Mr. Liu Yong attended the training of Hong Kong-listed company director responsibility and the Company's newly-appointed Directors provided by the Company's Hong Kong legal adviser DLA Piper UK LLP. During each month of 2017, all the Directors attended the training of the updates on the change of capital markets and pharmaceutical industry policies.

## Audit Committee

At the date of this report, the audit committee of the Company comprises five Directors, including three independent non-executive Directors, being Mr. Tan Wee Seng, Mr. Liu Zhengdong and Mr. Zhuo Fumin and two non-executive Directors, being Ms. Rong Yan and Mr. Wu Yijian. Mr. Tan Wee Seng 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;
- formulating and implementing policies on the engagement of an external auditor to supply non-audit services; and
- monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in the statements and reports.

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

| **Directors** | **Attendance/ No. of meetings held** |
|---|---|
| Mr. Tan Wee Seng | 6/6 |
| Mr. Deng Jindong | 4/4 |
| Mr. Li Dongjiu (resigned) | 6/6 |
| Mr. Liu Zhengdong(1) | 5/6 |
| Mr. Zhuo Fumin(2) | 5/5 |
| Mr. Lian Wanyong (resigned) | 2/2 |

Notes:

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

(2) Mr. Zhuo Fumin attended one meeting not in person but by his proxy, which was not included in the attendance.

The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2017. The audit committee believes that the Company has complied with all applicable accounting standards and regulations and made sufficient disclosures. The audit committee has reviewed all material internal control rules, including the financial and operational and compliance controls, as well as risk management in 2017. The audit committee was satisfied with the effectiveness and sufficiency of the internal control mechanism in its operations. In addition, the audit committee has also reviewed the adequacy of resources, qualification and experiences of employees in relation to the accounting and financial reporting function of the Company and the adequacy of training courses taken by the employees and the relevant budgets.

The audit committee has reviewed the remuneration of the auditors for 2017 and recommended the Board to re-appoint Ernst & Young as the auditors of the Company for 2018, subject to the approval of shareholders at the forthcoming annual general meeting.

## Nomination Committee

At the date of this report, the nomination committee of the Company comprises seven Directors, including four independent non-executive Directors, being Ms. Li Ling, Mr. Yu Tze Shan Hailson, Mr. Liu Zhengdong and Mr. Zhuo Fumin; two non-executive Directors being Mr. She Lulin and Mr. Wang Qunbin; and one executive Director Mr. Li Zhiming. Mr. Li Zhiming 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;
- making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors, and the succession plans for Directors (in particular the Chairman and the President); and
- formulating, implementing and reviewing from time to time the policy concerning diversity of Board members.

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

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

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

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

| **Directors** | **Attendance/ No. of meetings held** |
|---|---|
| Mr. Wei Yulin (resigned) | 1/1 |
| Mr. Li Zhiming | 2/2 |
| Mr. She Lulin | 3/3 |
| Mr. Wang Qunbin | 3/3 |
| Ms. Li Ling | 3/3 |
| Mr. Yu Tze Shan Hailson | 3/3 |
| Mr. Liu Zhengdong | 3/3 |
| Mr. Zhuo Fumin | 3/3 |

## Remuneration Committee

At the date of this report, the remuneration committee of the Company comprises three Directors, including two independent non-executive Directors, being Mr. Liu Zhengdong and Mr. Yu Tze Shan Hailson, and one non-executive Director, being Mr. Wu Yijian. Mr. Liu Zhengdong currently serves as the chairman of the remuneration committee. The primary responsibilities of the Company's remuneration committee are to formulate and review the remuneration policies and schemes for the Directors and senior management of the Company. These responsibilities include, among others:

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

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

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

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

| Directors | Attendance/ No. of meetings held |
|---|---|
| Mr. Liu Zhengdong | 7/7 |
| Mr. Yu Tze Shan Hailson | 7/7 |
| Mr. Zhuo Fumin(1) | 2/4 |
| Mr. Li Dongjiu (resigned) | 3/3 |
| Mr. Lian Wanyong (resigned)(2) | 3/4 |
| Mr. Wu Yijian | 4/4 |

Notes:

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

(2) Mr. Lian Wanyong attended one meeting not in person but by his proxy, which was not included in the attendance.

## Strategy and Investment Committee

As at the date of this report, the strategy and investment committee of the Company comprises ten Directors, including two executive Directors, namely Mr. Li Zhiming and Mr. Liu Yong, six non-executive Directors, namely Mr. Chen Qiyu, Mr. She Lulin, Mr. Wang Qunbin, Mr. Ma Ping, Ms. Rong Yan and Mr. Wu Yijian, and two independent non-executive Directors, namely Ms. Li Ling and Mr. Tan Wee Seng. Mr. Li Zhiming currently serves as the chairman of the strategy and investment committee.

The strategy 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.

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

| Directors | Attendance/ No. of meetings held |
|---|---|
| Mr. Wei Yulin (resigned) | 2/2 |
| Mr. Li Zhiming(1) | 8/9 |
| Mr. Chen Qiyu | 9/9 |
| Mr. She Lulin(2) | 8/9 |
| Mr. Wang Qunbin(3) | 5/9 |
| Mr. Ma Ping(4) | 7/9 |
| Mr. Li Dongjiu (resigned) | 9/9 |
| Ms. Li Ling(5) | 8/9 |
| Mr. Tan Wee Seng(6) | 8/9 |
| Mr. Lian Wanyong (resigned)(7) | 6/7 |

Notes:

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

(2) Mr. She Lulin attended one meeting not in person but by his proxy, which was not included in the attendance;

(3) Mr. Wang Qunbin attended four meetings not in person but by his proxy, which were not included in the attendance;

(4) Mr. Ma Ping attended two meetings not in person but by his proxy, which were not included in the attendance;

(5) Ms. Li Ling attended one meeting not in person but by her proxy, which was not included in the attendance;

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

(7) Mr. Lian Wanyong attended one meeting not in person but by his proxy.

## Legal and Compliance Committee

In March 2018, the Board resolved to establish a legal and compliance committee under the Board which will be mainly responsible for promoting the rule of law of the Company and guide the Company's compliance management works. As at the date of this report, the legal and compliance committee comprises three Directors, including one executive Director, Mr. Li Zhiming, one non-executive Director, Ms. Rong Yan, and one independent non-executive Director Mr. Liu Zhengdong. Mr. Liu Zhengdong currently serves as the chairman of the legal and compliance committee.

Since the committee was established after the Reporting Period, no meetings were held during the Reporting Period.

## Term of Office of the Non-Executive Directors

| Name | Position | Commencement Date | Expiry Date |
|---|---|---|---|
| Chen Qiyu | non-executive Director | 21 September 2017 | 20 September 2020 |
| She Lulin | non-executive Director | 21 September 2017 | 20 September 2020 |
| Wang Qunbin | non-executive Director | 21 September 2017 | 20 September 2020 |
| Ma Ping | non-executive Director | 21 September 2017 | 20 September 2020 |
| Deng Jindong | non-executive Director | 21 September 2017 | 20 September 2020 |
| Wen Deyong | non-executive Director | 21 September 2017 | 20 September 2020 |
| Rong Yan | non-executive Director | 9 March 2018 | 20 September 2020 |
| Wu Yijian | non-executive Director | 9 March 2018 | 20 September 2020 |
| Li Ling | independent non-executive Director | 21 September 2017 | 29 December 2018 |
| Yu Tze Shan Hailson | independent non-executive Director | 21 September 2017 | 20 September 2020 |
| Tan Wee Seng | independent non-executive Director | 21 September 2017 | 20 September 2020 |
| Liu Zhengdong | independent non-executive Director | 21 September 2017 | 20 September 2020 |
| Zhuo Fumin | independent non-executive Director | 21 September 2017 | 20 September 2020 |

## Compliance with the Corporate Governance Code

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

## Securities Transactions by Directors and Supervisors

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

## Remuneration of Auditors

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

| **Services provided** | **Fee paid and payable** |
|---|---|
| Statutory audit service provided for 2017 | RMB22,879,784 |
| Non-statutory audit service provided for 2017 | RMB773,700 |
| Non-audit service – Other consultancy services | RMB1,600,000 |

## Confirmation by the Directors and Auditors

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

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

The Directors are not aware of any material uncertainties relating to events or conditions that may cast 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.

## Shareholders' Rights

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

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

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

## Amendments to the Articles of Association

During the Reporting Period, there was no amendment to the the Articles of Association.

On 23 March 2018, the Board resolved to propose to make certain amendments to the articles of association and the Rules of Procedure of the Board of Directors of the Company. For details, please refer to the section headed "Subsequent Events" in this report.

## Effective Communications with Investors

The Group had made remarkable improvements in investor relations in 2017 under the leadership and support of the Board and management. The Group has participated in a number of investment forums and successfully communicated with many fund management companies through various means. The Group organized on-site visits to its logistics centers, distribution centers and retail drug stores for a number of fund management companies to facilitate investors' direct understanding of and contact with the Company. The Company and its subsidiaries also received various fund investors for on-site visits. In the future, the Company will maintain effective communications with investors through road shows after the issuance of annual reports and interim reports as well as through general meetings.

## Implementation of Non-Competition Agreement

The independent non-executive Directors have reviewed the compliance by CNPGC of the "Non-Competition Agreement" and confirmed that CNPGC has complied with the terms of such agreement during the year ended 31 December 2017. At the same time, CNPGC also confirms to the Company that it has complied with the terms of the Non-Competition Agreement.

The independent non-executive Directors are not aware of any breach of the terms of the "Non-Competition Agreement" by CNPGC and therefore, no remedy action was taken by the Company during the year ended 31 December 2017.

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

Save as disclosed above, during the Reporting Period, Directors (including independent non-executive Directors) did not make any decisions in relation to whether to exercise or terminate an option or a right of first refusal and take up or waive any Business Opportunity.

## Risk Management and Internal Control

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

### Characteristics of the Risk Management and Internal Control Organisation System

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

**Implementation of Risk Management and Internal Control**

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

After the risk assessment, the number of major risks in 2017 of the Company is 3. It is set as follows in the order of importance: compliance risk, capital risk and risk of insufficiency of key talents.

As for compliance, frequent release of industry policies (two-invoice system, zero mark-up, etc) lead to slowdown of industry growth, profit margin was squeezed, business challenges increased and the window for innovation and transformation was narrowed.

As for capital, China's money supply (M2) growth showed a trend of continuous decline in 2017, and monetary policy was tightened. Since 2017, even though China's benchmark interest rate for saving and loan didn't increase, open market operation, supply of base currency from The People's Bank of China and window guidance and continuous financial regulation for financial institutions by The People's Bank of China led to the increase of the whole capital market's interest rate, which led to the increase of capital cost for the Company.

As for insufficiency of key talents, the Company headquarter's capability and organizational structure still could not completely match its strategy in terms of talent, mentality and mechanism etc., the professional manager system was not perfect, and the Company's talent cultivation could not completely match its fast growth, so it was imperative to enhance the cultivation of key talents.

In 2017, the Group formulated practical and feasible management proposals based on its actual situation and carried out effective risk management in various approaches.

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

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

The Group strived to further improve its risk and internal control management system, establish sound system and procedures and implement its supervision work effectively. It also sought to carry out the risk control thoroughly by means of prevention in advance, supervision during the process and following up afterwards. To this end, the risk and operation management department instructed other functional departments to sort out and make amendments to the management system of the Group and release the modified management system.

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

**Formation of the Long-term Risk Management and Internal Control Mechanism**

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

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

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

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

In the Board meeting held on 23 March 2018, the Board reviewed the risk management and internal control during the reporting period and concluded that there had been no deficiency in material risk control and they had not been aware of any weakness in material risk control based on the outcome of the risk management and internal control work implemented by the Group during the period from 1 January 2017 to the date of this Report. The Board was of the opinion that the risk management and internal control system of the Group is effective and sufficient.

# Biographies of Directors, Supervisors and Senior Management

## Directors

**Mr. Li Zhiming**, aged 56, executive Director, Chairman (Legal Representative), Secretary of Party Committee. Mr. Li joined the Company in May 2010 as the vice President, and has served as the President from November 2013 to November 2017, and has served as executive Director since January 2014 and the Chairman and the secretary of Party Committee since March 2017. Mr. Li was the chief legal advisor, the secretary of disciplinary committee, chairman of labor union and the deputy secretary of the Party Committee of the Company from October 2012 to March 2017. He has more than 36 years of working experience, over 32 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Li graduated from the Xinjiang Commerce College with associate degree and a major in finance and accounting in July 1981, and graduated from the economic management discipline of the Urumqi Branch of Xi'an Military Academy with associate degree in July 1997. Mr. Li was qualified as a senior economist and a chief pharmacist. Mr. Li was the deputy director of finance department of Xinjiang New & Special Ethnic Drug Store, deputy general manager and chief accountant of Xinjiang Pharmaceutical Industry and Trade Company, deputy general manager and chief accountant of Xinjiang New & Special Ethnic Drug Corporation, and deputy director of the office of the preparatory and leading group of Xinjiang Pharmaceutical Administration Bureau steering the construction of the group entity from July 1985 to July 1996. Mr. Li was general manager, chairman of the board of directors, secretary of the Party Committee of Xinjiang New & Special Ethnic Drug Corporation, and the director, general manager, vice chairman, chairman, and secretary of the Party Committee of Xinjiang Pharmaceutical Group Company (currently known as Sinopharm Group Xinjiang New & Special Pharmaceutical Co., Ltd.) from July 1996 to February 2016. Mr. Li is currently the director of Sinopharm Industrial Investment Co., Ltd., China National Accord Medicines Co., Ltd., China National Medicines Corporation Ltd., Sinopharm Holding Guoda Drugstores Co., Ltd. and Sinopharm Group Xinjiang New & Special Pharmaceutical Co., Ltd., vice chairman of Shanghai Shyndec Pharmaceutical Co., Ltd. and general manager of Sinopharm Industrial Investment Co., Ltd., and chairman of Sinopharm Holding Hong Kong Co., Ltd., Sinopharm Holding (China) Finance Leasing Co., Ltd., Sinopharm-CICC (Shanghai) Medical & Healthcare Investment Management Co., Ltd. and Sinopharm Holding Medical Investment Management Co., Ltd.

**Mr. Liu Yong**, aged 49, executive Director, president. Mr. Liu joined the Group in January 2003, he has served as the Group's president since November 2017 and executive director since December 2017. Mr. Liu has over 26 years of working experience, over 23 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Liu obtained a bachelor's degree in science, majoring in business administration of pharmaceutical enterprises, from China Pharmaceutical University in July 1992, a master's degree in business administration from Fudan University in January 2000 and a doctoral degree in social and administrative pharmacy from China Pharmaceutical University in June 2016. Mr. Liu is a chief pharmacist and a practicing pharmacist. Mr. Liu was employed at Shanghai Pharmaceutical Station from July 1992 to July 1999, and served as the deputy general manager at the marketing department of China National Pharmaceutical Group Shanghai Corporation and the deputy general manager of Shanghai Guoda Drug Chain Store Co., Ltd. from July 1999 to April 2003. Mr. Liu was the general manager and secretary of Party Committee of Sinopharm Holding Shenyang Co., Ltd. from April 2003 to November 2009. He served as vice president of the Company from January 2009 to November 2017, secretary to the Board of the Company from October 2016 to November 2017, and has served as chief legal advisor of the Company from January 2014 to December 2017. Mr. Liu is currently the director of Sinopharm Industrial Investment Co., Ltd. and Sinopharm Holding Guoda Drugstores Co., Ltd., and chairman of Sinopharm Lerentang Pharmaceutical Co., Ltd. and China National Accord Medicines Co., Ltd.

**Mr. Chen Qiyu**, aged 46, non-executive Director and vice Chairman, joined the Company on 16 January 2003, and had served as the chief Supervisor until 31 May 2010. He has served as a non-executive Director since 31 May 2010 and has been the vice Chairman since November 2013. He has over 25 years of working experience. He obtained a bachelor's degree in genetics from Fudan University in July 1993 and a master's degree of business administration from China Europe International Business School in September 2005. Mr. Chen was previously the chief financial officer, the board secretary, general manager, president and vice chairman of the board of directors of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. from July 1998 to May 2010, and has been its director and chairman since May 2005 and June 2010, respectively. He has served as the vice president and co-president of Fosun International Limited since August 2010, and has served as its executive director since July 2015. He has served as the vice president and co-president of Shanghai Fosun High Technology (Group) Co., Ltd. since January 2011, and has served as its director since July 2015 and has served as its Chairman since November 2017. Mr. Chen has been a director of Tianjin Pharmaceuticals Group Co., Ltd., Zhejiang DIAN Diagnostics Co., Ltd., and Beijing Sanyuan Food Co., Ltd. since February 2009, May 2010 and September 2015, respectively. Mr. Chen served as the supervisor, director as well as the director and general manager of Sinopharm Industrial Investment Co., Ltd from July 2008 to March 2014 successively, and has served as the vice chairman of the same since March 2014 till now. Mr. Chen is currently also the member of Shanghai 12th Committee of the Chinese People's Political Consultative Conference, the chairman of China Medical Pharmaceutical Material Association and Shanghai Biopharmaceutics Industry Association, the vice chairman of China Pharmaceutical industry Research and Development Association, the vice chairman of China Pharmaceutical Industry Association, the vice-chief commissioner of China Medicinal Biotech Association and the vice-chief of Shanghai Society of Genetics etc..

**Mr. She Lulin**, aged 62, non-executive Director, joined the Group as a non-executive Director on 16 January 2003. He was the vice Chairman and has served as the Chairman of from August 2007 to November 2013. He has around 34 years of working experience, over 31 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. She obtained a bachelor's degree in science, majoring in Pharmacy, from Nanjing Pharmaceutical Institution (currently known as China Pharmaceutical University) in July 1982 and a master's degree in business administration for executives from Tsinghua University in July 2005. Mr. She was previously the deputy head of the office, assistant to the general manager, deputy general manager and general manager of China National Pharmaceutical Group Guangzhou Corporation from August 1982 to August 1996. Mr. She was also the vice chairman of the board of directors and general manager of CNPGC from December 1998 to October 2004. Mr. She was a director, general manager and the secretary of Party Committee of CNPGC from October 2004 to October 2009. He was the vice chairman of the board of directors, general manager and deputy secretary of Party Committee of CNPGC since October 2009. Mr. She has been the chairman of the board of directors and legal representative of Sinopharm Industrial Investment Co., Ltd. from July 2008 to November 2013. Mr. She was the chairman of the board of directors of China National Medicines Corporation Ltd. from December 1998 to January 2001.

**Mr. Wang Qunbin**, aged 49, non-executive Director, joined the Group on 16 January 2003, and has been a non-executive Director since then. He has around 26 years of working experience, over 23 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 a director and the general manager of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. from 1995 to October 2007 and a director of Tianjin Pharmaceutical Holdings Ltd. from March 2001 to February 2009. Mr. Wang has served as a director of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. since October 2007, and was its chairman of the board of directors from October 2007 to June 2010. Mr. Wang was a director of Shanghai Fosun High Technology (Group) Co., Ltd. from November 1994 to November 2017. He has been an executive director of Fosun International Limited (a company listed on the Hong Kong Stock Exchange) since August 2005, he served as the president of Fosun International Limited from January 2009 to March 2017 and served as the Chief Executive Officer of the same since March 2017. Mr. Wang has been a director of Henan Lingrui Pharmaceutical Company Ltd. (a company listed on the Shanghai Stock Exchange) from May 2002 to June 2017, and was also a director of Sinopharm Industrial Investment Co., Ltd. from July 2008 to March 2014.

**Mr. Ma Ping**, aged 62, non-executive Director. Mr. Ma joined the Group and has served as the non-executive Director of the Company since October 2016. Mr. Ma has over 35 years of working experience. Mr. Ma received a bachelor degree from chemistry department of Fudan University in 1982. Mr. Ma served as principal clerk, engineer, vice director and director of Ministry of Labor and Personnel, National Pharmaceutical Administration, State Planning Commission, respectively from February 1982 to March 1992. He served as department manager, project manager, general manager of London Export Corporation, Hoechst (China), Lotus Healthcare, respectively from March 1992 to April 1994. He co-founded and served as managing director of BMP from April 1994 to October 1996. He served as investment director, business development director of Sinogen International Ltd. from October 1996 to May 1998. He served as vice president, COO, China general manager of United Medical Industrial Group from May 1998 to March 2000. He served as director, vice general manager of Tonghua Golden-horse Group (a Shenzhen Stock Exchange-listed company, stock code: 000766) from March 2000 to September 2001. He served as director, general manager of BMP (a Nasdaq-listed company, stock code: BJGP) from September 2001 to December 2005. He served as director, general manager of BioPro Pharmaceutical Inc. from December 2005 to December 2011. He has been serving as director of BioPro Pharmaceutical Inc. and project consultant of Principle Capital since December 2011, and has been serving as an external director of CNPGC since May 2016.

**Mr. Deng Jindong**, aged 54, non-executive Director, joined the Group on 30 August 2007, and has been a non-executive Director since then. He has over 30 years of working experience, over 25 years of which is financial management experience. Mr. Deng obtained a bachelor's degree in economics from Hangzhou Electronics Industry Institution (currently known as Hangzhou Dianzi University) in July 1986 and a master's degree in economics from Central Institute of Finance and Economics (currently known as Central University of Finance & Economics) in January 1991. He is a non-practicing PRC certified public accountant. Mr. Deng was previously the chief financial officer of Economic Information Network Data Co., Ltd., senior audit manager of Taikang Life Insurance Co., Ltd. and the head of the accounting department of CNPGC from April 2000 to October 2001, from October 2001 to October 2002 and from October 2002 to October 2004, respectively. Mr. Deng has been the chief accountant of CNPGC from October 2004 to May 2017, and has served as its vice general manager since May 2017. Mr. Deng was a director and chief financial officer, and a director of Sinopharm Industrial Investment Co., Ltd. from July 2008 to August 2015 and from August 2015 to January 2016, respectively, he has also been its chairman since January 2016.

**Mr. Wen Deyong**, aged 47, non-executive Director. Mr. Wen joined the Group and has served as the non-executive Director of the Company since September 2017. Mr. Wen graduated from Donghua University and received a master degree in business administration. Mr. Wen is currently the executive vice president of Shanghai Fosun Pharmaceutical Industry Development Co., Ltd. and vice president of Shanghai Fosun Pharmaceutical (Group) Co., Ltd.. During the period from September 1995 to May 2016, Mr. Wen has served as the technician in water needle shop of Chongqing Pharmaceutical Co., Ltd. 6th Factory, the sales outworker in sales department, the sales director in sales company, the general manager in 2nd marketing department of Chongqing Yaoyou Pharmaceutical Co., Ltd., the general manager of northern unit of Chongqing Haisiman Company, the vice president and president of Chongqing Yaoyou Pharmaceutical Co., Ltd.

**Ms. Rong Yan**, aged 49, non-executive Director, has served as the non-executive Director of the Company since March 2018, having over 26 years' working experience. Ms. Rong obtained a bachelor degree in accounting from Liaoning University in July 1991 and a master degree in international finance and investment from Derby Business School at University of Derby in the United Kingdom in October 2000. Ms. Rong served as senior staff member of the Institute of Intelligence of China National Petroleum Corporation from August 1991 to May 1993, and the financial manager of China Zhenhua Import and Export Corporation from May 1993 to October 2001. Ms. Rong served successively as manager of Finance Department, deputy chief accountant and manager of Finance Department, and chief financial officer of China Pharmaceutical Foreign Trade Corporation from October 2001 to February 2008. Ms. Rong served successively as director of Finance Department and director of Financial Management Department of CNPGC from February 2008 to June 2011. Ms. Rong has been serving as director of Finance Department of CNPGC since June 2011. She has also been serving as chief financial officer of Sinopharm Investment Co., Ltd. since July 2015, director of China National of & Herbal Medicine Co., Ltd. since April 2016 and chairman of Sinopharm Group Finance Co., Ltd. since August 2017.

**Mr. Wu Yijian**, aged 48, non-executive Director. Mr. Wu has served as the non-executive Director of the Company from June 2016 to September 2017, and has served as the non-executive Director of the Company since March 2018. Mr. Wu is currently the president assistant and the director of the commercial pharmaceutical management committee of Shanghai Fosun Pharmaceutical Group Co., Ltd., and the chairman of the supervisory committee of China National Accord Medicines Corporation Ltd. Mr. Wu obtained a bachelor's degree in medicine from Shanghai Medical University in July 1993, a master's degree in business administration from Tsinghua university in July 2003 and a master's degree in accounting for senior accountant from the Chinese University of Hong Kong in November 2014, and completed the courses for the general manager in the China Europe International Business School of Management in July 2007. Mr. Wu has been with San-jiu Group since July 1993 and successively served as sales director of San-jiu Pharmaceutical Trade Co., Ltd, the chief operating officer of San-jiu Pharmaceutical Chain Co., Ltd. and the deputy general manager of Shanghai San-jiu Pharmaceutical Technology Development Co., Ltd. Mr. Wu has been with Fosun Pharmaceutical Group since June 2004 and successively served as the general manager of Shanghai Fosun Pharmaceutical Investment Co., Ltd., Shanghai Fosun Pharmaceutical Co., Ltd. and Shanghai Fumei Pharmacy Co., Ltd. Mr. Wu served as the vice president of Shanghai Yuyuan Tourist Mart Co., Ltd from 2014 to the end of 2015. Mr. Wu is also the director of Sinopharm Industrial Investment Co., Ltd currently.

**Ms. Li Ling**, aged 57, independent not-executive Director, joined the Group on 29 December 2012, and has been an independent not-executive Director since then. Ms. Li has around 35 years of working experience. She obtained a bachelor's degree in physics in August 1982 and a master's degree in economics in February 1987 from Wuhan University, and obtained a master's degree and a doctorate degree in economics from University of Pittsburgh in U.S.A in September 1990 and May 1994, respectively. Ms. Li worked at the Department of Economics of Towson University in Maryland, U.S.A as an associate professor with tenure from August 2000 to August 2003, and also taught at the Department of Economics of University of Pittsburgh in U.S.A and the Department of Management and Marketing of The Hong Kong Polytechnic University. Ms. Li has been an economics professor and Ph.D. supervisor at Research Institute of National Development, a director of Research Center of China Healthy Development of Peking University since June 2008, and is an expert who enjoys the special allowance of the State Council and is one of the "Top Ten Teachers" of Peking University. Ms. Li has served as an independent director of PICC Health Insurance Company Limited since 2009. Ms. Li currently also serves as the vice chairman of China Health Economics Association, a member of the State Council Health Reform Advisory Commission, a member of National Health and Family Planning Commission on public policy, an evaluation expert in the Pilot Project of Urban Resident Basic Medical Insurance implemented by the State Council, an advisor to the Beijing Municipal Government, an advisor to the pharmaceutical and healthcare reform of Guangdong Province and the vice chairman of Gerontological Society of China.

**Mr. Yu Tze Shan Hailson**, aged 62, independent non-executive Director, has served as a non-executive Director since 21 September 2014 and has more than 39 years of working experience. Mr. Yu graduated from the University of Calgary with a bachelor degree in Electrical Engineering in 1979, graduated from the University of Hong Kong with a master degree in Electrical Engineering in 1987, graduated from City University of Hong Kong with a master degree of law in Arbitration and Dispute Resolution in 1995 and completed the postgraduate diploma in Investment Management and post-graduate certificates in Hong Kong Laws and Traditional Chinese Medicine courses. Mr. Yu served as equipment maintenance and testing engineer, equipment maintenance and testing laboratory manager, computer engineering and system engineering manager of Ampex Ferrotec Limited (Hong Kong) successively from June 1979 to September 1987. Mr. Yu joined China International Trust and Investment Corporation Hong Kong (Holdings) Limited and served as the general manager of engineering research and development department, and consultant for Petroleum Development and LPG Tank Terminal Port successively from October 1987 to January 1998. Mr. Yu has been serving as the deputy managing director of Versitech Limited and deputy director of Technology Transfer Office of the University of Hong Kong since February 1998 till now. Mr Yu has been serving as an independent non-executive director of China Traditional Chinese Medicine Co., Ltd. (formerly known as Winteam Pharmaceutical Group Limited, a company listed on the Hong Kong Stock Exchange) since November 2013. He has served as an independent non-executive director of China NT Pharma Group Company Limited since June 2017 till now. Mr. Yu currently is a Charted Engineer, fellow of each of the Institute of Electrical Engineers, Hong Kong Institution of Engineers, the Chartered Institute of Arbitrators and Hong Kong Institute of Arbitrators.

**Mr. Tan Wee Seng**, aged 63, independent non-executive Director, has served as a non-executive Director since 21 September 2014 and has more than 40 years of working experience. Mr. Tan is a Chartered Global Management Accountant, Fellow member of the Chartered Institute of Management Accountants in United Kingdom, and the Hong Kong Institute of Directors. Mr. Tan has been with Reuters Group from April 1984 to June 2002. Mr. Tan served as executive director, chief finance officer and company secretary of Li Ning Company Limited (a company listed on the Hong Kong Stock Exchange), from January 2003 to November 2008. Mr Tan was an independent director and chairman of the audit committee of 7 Days Holdings Limited (whose shares were listed on the New York Stock Exchange between November 2009 to July 2013) until it was privatized. He was the Chairman of the Special Committee for Privatization of 7 Days Holdings Limited from October 2012 to July 2013. Mr. Tan currently also serves as independent non-executive director of each of Biostime International Holdings Limited (a company listed on the Hong Kong Stock Exchange), Sa Sa International Holdings Limited (a company listed on the Hong Kong Stock Exchange), CIFI Holdings (Group) Company Limited (a company listed on the Hong Kong Stock Exchange), Xtep International Holdings Limited (a company listed on the Hong Kong Stock Exchange), he is also an independent director of ReneSola Ltd. (a company listed on the New York Stock Exchange) and a director and chairman of finance and operation committee of Beijing City International School.

**Mr. Liu Zhengdong**, aged 48, independent non-executive Director, has been an independent non-executive Director of the Company since 21 September 2014. He is a lawyer who has more than 24 years of working experience as a practicing lawyer. Mr. Liu graduated from East China University of Political Science and Law (formerly known as East China School of Political Science and Law) with a bachelor's degree in Law in 1991, and juris master's degree in 2002. He served as an assistant prosecutor in Railway Transportation branch of Shanghai People's Procuratorate from July 1991 to June 1994. From June 1994 to October 1998, Mr. Liu worked at Shanghai Hongqiao Law Firm as a lawyer. From October 1998, Mr. Liu co-founded Shanghai Junyue Law Firm with others as a senior partner and has been serving as head of the firm and a lawyer. Mr. Liu served as president of the Eighth Session of Shanghai Bar Association and was also honored as National Excellent Lawyer, Shanghai Excellent Non-litigation Lawyer and Shanghai Leading Talent. Currently, Mr. Liu currently serves as deputy to the Shanghai 15th People's Congress, standing director of the National Lawyers Association, vice chairman of Shanghai Youth Federation, vice president of Shanghai General Chamber of Commerce, standing member of Shanghai Association of Industry and Commerce, etc. Mr. Liu also serves as arbitrators of China International Economic and Trade Arbitration Commission (CIETA), Shanghai International economic and Trade Arbitration Commission (SHIAC) and Shanghai Arbitration Commission (SAC), adjunct professor of East China University of Political Science and Law, parttime master tutor of the School of Law of Shanghai Jiao Tong University, visiting professor of each of Shanghai University of Political Science and Law and Lawyer School of Renmin University of China.

**Mr. Zhuo Fumin**, aged 67, independent non-executive Director, Mr. Zhuo has been an independent nonexecutive Director since March 2016. Mr. Zhuo has more than 42 years of experience in the field of enterprise management and capital markets. Mr. Zhuo graduated from Shanghai Jiaotong University of Engineering Science in 1983. He subsequently obtained a master's degree in economics from Fudan University in 1997. Mr. Zhuo currently serves as chairman and managing partner of V Star Capital. Between 1987 and 1995, Mr. Zhuo served senior positions including an office head and an officer assistant of the Shanghai Economic System Reform Committee. Between 1995 and 2002, Mr. Zhuo held in turn various senior positions at Shanghai Industrial Investment (Holdings) Co., Ltd., including the managing director and chief executive officer of Shanghai Industrial Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 363) and the chairman of SIIC Medical Science and Technology (Group) Limited. Mr. Zhuo has served as the chairman and the chief executive officer of Vertex China Investment Co., Ltd. (a wholly owned subsidiary of Vertex Management Group, a global venture capital management company), founder and chairman of Shanghai Kexing Investment Co., Ltd. and managing partner of GGV Capital, a venture capital fund since 2002. Mr. Zhuo is also an independent director of China Enterprise Company Limited (a company listed on the Shanghai Stock Exchange, stock code: 600675), Arcplus Group Plc (a company listed on the Shanghai Stock Exchange, stock code: 600629) and Daqo New Energy Corp. (a company listed on the New York Stock Exchange, stock code: DQ), Focus Media (a company listed on the Shenzhen Stock Exchange, stock code: 002027) and Shanghai Shine-Link International Logistics Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 603648), a non-executive Director of Besunyen Holdings Company Limited (a company listed on the Hong Kong Stock Exchange, stock code: 926), and an independent nonexecutive director of Shenyin Wanguo (H.K.) Limited (a company listed on the Hong Kong Stock Exchange, stock code: 218) and SRE Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1207).

## Supervisors

**Mr. Yao Fang**, aged 49, the chief Supervisor, has served as the Supervisor of the Company since 7 January 2011. Mr. Yao 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 December 1993. Between 1993 and 2009, Mr. Yao served as assistant general manager of the international business department of Shanghai Wanguo Securities Co., Ltd. (currently known as Shenwan Hongyuan Group Co., Ltd.), general manager of Shanghai Shang Shi Assets Operation and Management Co., Ltd. and Shang Shi Management (Shanghai) Co., Ltd., managing director of Shanghai Industrial Pharmaceutical Investment Co., Ltd. (delisted on 12 February 2010), the chairman of Shanghai Overseas Co., Ltd., non-executive director of Lianhua Supermarket Holdings Co., Ltd. (stock code 0980), and executive director of Shanghai Industrial Holding Limited (stock code: 0363) listed on the Hong Kong Stock Exchange. Mr. Yao has served as a non-executive director of Biosino Bio-Technology and Science Incorporation (stock code: 8247) listed on the Hong Kong Stock Exchange from 24 January 2011 to 13 March 2014. Mr. Yao joined Shanghai Fosun Pharmaceutical (Group) Co., Ltd. since April 2010. He currently serves as the executive director and co-president of Shanghai Fosun Pharmaceutical (Group) Co., Ltd..

**Mr. Tao Wuping**, aged 63, Supervisor, has been a Supervisor since June 2015, was an independent non-executive Director from 22 September 2008 to 20 September 2014, and Mr. Tao is a lawyer and has over 34 years of working experience as practicing lawyer. Mr. Tao obtained a master's degree in law, majoring in international economic law, from Fudan University in June 1997. Mr. Tao has been the director of Guantao Zhongmao (Shanghai) Law Firm since August 2016. He was the director of Shanghai Shen Da Law Firm from August 1994 to August 2016. Mr. Tao has been a visiting law professor of Shanghai Institute of Foreign Trade, a part-time professor at the Law and Politics College of East China Normal University, and the honorary dean, a part-time professor at the Law and Politics College of Shanghai Normal University and a visiting professor of East China University of Political Science and Law since March 2002, June 2003, September 2003 and June 2012, respectively. Mr. Tao has been the independent director of Shangying Co., Ltd. since May 2013 and has been the independent director of Tianzhi Fund Management Co., Ltd. since August 2014. Mr. Tao was awarded the title of "National Outstanding Attorney at Law" by All China Lawyers Association and the first session of "Eastern Attorney at Law" by Shanghai Bar Association.

**Mr. Zhang Hongyu**, aged 56, employee representative Supervisor, served as the employee representative Supervisor of the Company since January 2018 having over 32 years of working experience, has been serving as the secretary of Discipline Inspection Commission, deputy chairman of Labour Union and head of Party Affairs Department of the Company since January 2018. Mr. Zhang obtained a bachelor degree in economics from East China Normal University in July 1985 and a master degree in EMBA from Shanghai Jiao Tong University in December 2007. Mr. Zhang served successively as a staff member and engineer of Human Resource Department of the Shanghai Branch of Chinese Academy of Sciences from July 1985 to September 1992. Mr. Zhang served as the manager of Human Resources Department of Shanghai Keyuan Real Estate Development Co., Ltd. from September 1992 to September 1994 and the manager of Shanghai Huihuang Architectural Decoration Co., Ltd. from October 1994 to August 1996. Mr. Zhang worked at the Shanghai Branch of Chinese Academy of Sciences from September 1996 to October 1999 and finally served as a section-chief researcher and deputy chief researcher at the Human Resource Department. Mr. Zhang successively served as deputy general manager of Human Resources Department of China Worldbest Group (International) Co., Ltd., head of Human Resources Department of China Worldbest Life Industry Co., Ltd., assistant to president and head of Human Resources Department of China Worldbest Life Industry Co., Ltd. from December 1999 to December 2006. Mr. Zhang served as deputy party secretary and head of Human Resources Department of Sinopharm Logistics Co., Ltd. from March 2007 to June 2009, head of Human Resources Department of Distribution Business Department of the Company and deputy head of Human Resources Department of the Company from July 2009 to September 2010, head of the Party Affairs Department of the Company since September 2010, and head of the Party Affairs Department, deputy secretary of Discipline Inspection Commission and deputy chairman of Labour Union of the Company from December 2012 to January 2018.

**Ms. Li Xiaojuan**, aged 42, Supervisor. Ms. Li has over 16 years of working experience. Ms. Li obtained a bachelor's degree in real estate operation and management from investment economics department of Dongbei University of Finance & Economics in July 1998 and a master's degree in national economics (investment economics) with specialty in securities investment from investment economics department of Dongbei University of Finance & Economics in April 2001. Ms. Li is a qualified economist, a non-practicing certified public accountant, and an asset valuer. Ms. Li served as the project manager of Beijing Tianhua Accounting Firm from April 2001 to April 2003 and the vice director of strategic cooperation department of TopSun Group from April 2003 to February 2005. Ms. Li served as the manager of finance department of China National Pharmaceutical Industry Corporation from February 2005 to April 2006 and the director of auditing and supervision office and the manager of auditing department of China National Pharmaceutical Industry Corporation from April 2006 to August 2010. Ms. Li also served as the vice director of investment management department of CNPGC from August 2010 to April 2014. Ms. Li currently is the director of auditing department of CNPGC.

**Ms. Jin Yi**, aged 43, employee representative Supervisor, joined the Group on 25 December 2007, successively served as the senior project manager and the vice director of the investment management department, and has been the investment project supervisor of the investment management department since January 2015, and has been the employee representative Supervisor since June 2015. Ms. Jin has approximately 18 years of working experience. Ms. Jin obtained a bachelor's degree in economics, majoring in investment economics, from Nanjing University in July 1997, and a master's degree in business administration from The Chinese University of Hong Kong in December 2005. Ms. Jin was qualified as an intermediate economist. Ms. Jin served as the floor trader of Zhengzhou Commodity Exchange in China from July 1997 to May 1998, the project manager of information consulting department of Shanghai Information Center from May 1999 to July 2003, and the senior analyst of ALC Advisors (Shanghai) Company Limited from April 2005 to November 2007.

## Company Secretaries

**Mr. Liu Yong**, one of the joint company secretaries, is also an executive Director and the president of the Company. Please refer to the section headed "Directors" for Mr. Liu's biography.

**Dr. Liu Wei**, is currently the managing partner of China Group and the managing partner of Beijing Office of DLA Piper. Dr. Liu has PRC lawyer qualification and is a solicitor qualified to practice law in Hong Kong, England and Wales. Dr. Liu graduated from the Northwest University of China, the Chinese University of Political Science and Law, the University of Cambridge, with a bachelor in Chinese literature, a master degree in law, a PhD in Law in 1982, 1986 and 1996 respectively. He also completed his Postgraduate Certificate in Laws (PCLL) of the University of Hong Kong in 2000. Dr. Liu was the first student from the mainland of the PRC to obtain a PhD in law from the University of Cambridge after 1949. Dr. Liu worked for several local and state PRC governmental authorities. He is currently a member of the Shaanxi CPPCC. Dr. Liu is currently the managing partner of China Group of DLA Piper and the partner in charge of the PRC affairs and practice. In 1988, Dr. Liu, as one of the lawyers working in Hong Kong in the early stage, participated in related work of the Hong Kong Basic Law, and then he was retained by the Securities and Futures Commission of Hong Kong as a PRC affairs officer responsible for the policies and supervision of law of red chip shares, H-shares and B-shares, and was responsible for coordination with the China Securities Regulatory Commission, the Shenzhen Stock Exchange and the Shanghai Stock Exchange.

## Senior Management

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

**Mr. Lu Jun**, aged 60, joined the Group in January 2003, and has been a vice president of the Company since 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. Mr. Lu has over 43 years of working experience, over 20 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Lu obtained an executive master's degree in business administration in Antai College of Economics and Management of Shanghai Jiao Tong University in December 2009. Mr. Lu was qualified as a senior economist. Mr. Lu taught at the Second Military Medical University from March 1980 to August 1998, and was previously the general manager of Sinopharm Group Shanghai Likang Medicine Co., Ltd. and Sinopharm Holding Guoda Drug Stores Co., Ltd. from August 1998 to June 2008. Mr. Lu is currently the director of Sinopharm Group Shanxi Co., Ltd. and Sinopharm-CICC (Shanghai) Medical & Healthcare Investment Management Co., Ltd., and chairman of Sichuan Pharmaceutical Group Co., Ltd. of CNPGC, Sinopharm Holding Jiangsu Co., Ltd., Sinopharm Holding Wuxi Co., Ltd., Sinopharm Holding Anhui Co., Ltd., Sinopharm Holding Changzhou Co., Ltd., Sinopharm Holding Zhejiang Co., Ltd., Sinopharm Holding Wenzhou Co., Ltd., Sinopharm Group Chemical Reagent Co., Ltd., Sinopharm Lingyun Biopharmaceutical (Shanghai) Co., Ltd. and Sinopharm Holding Hutchison Whampoa Pharmaceutical (Shanghai) Co., Ltd.

**Mr. Jiang Xiuchang**, aged 54, joined the Company in May 2010 as the chief financial officer, and has been the vice president of the Company since July 2013. He has over 31 years of working experience, over 20 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Jiang obtained a bachelor's degree in financial accounting from Zhongnan University of Economics and Law in July 1986, and graduated from the class for advanced studies of postgraduate courses in corporate management from the School of International Business Management of University of International Business and Economics in January 2005. Mr. Jiang was qualified as a senior economist and senior accountant. Mr. Jiang served at China National Pharmaceutical Group Co., Ltd. from July 1986 to March 2002, and was the deputy head of the department of information, reform office, finance department and deputy manager of the department of pharmacy. He was deputy head, head and chief financial officer of the finance department of China National Medicines Corporation Ltd. from March 2002 to May 2010. Mr. Jiang is currently the chairman of Sinopharm Holding Jiangxi Co., Ltd., Sinopharm Holding Shanxi Co., Ltd., Sinopharm Holding Inner Mongolia Co., Ltd., Sinopharm Holding Tianjin Co., Ltd. and Sinopharm Group Shanxi Co., Ltd. and China National Medicines Corporation Ltd., and the director of China National Accord Medicines Co., Ltd., Sinopharm Group Finance Co., Ltd., and the director and general manager of Sinopharm Holding Hong Kong Co., Ltd., and the executive director of Beijing Sinopharm Tianyuan Real Estate & Property Management Co., Ltd.

**Mr. Lian Wanyong**, aged 48, joined the Group as vice president in January 2018. Mr. Lian has over 21 years of working experience, all of which is management experience. Mr. Lian obtained a bachelor's degree in medicine, majoring in clinical medicine, from Hunan University of Medicine (currently known as Central South University Xiangya School of Medicine) in July 1993, a master's degree in medicine, majoring in pharmacology, from Zhongshan Medicine University (currently known as Zhongshan School of Medicine, Sun Yat-Sen University) in July 1996 and a master's degree in business administration from the University of Miami in May 2002, respectively. Mr. Lian was previously the manager of the operation and audit department of China National Group Corp. of Traditional & Herbal Medicine from January 2004 to June 2005, and a deputy head of the financial assets management department of CNPGC from June 2005 to February 2008, respectively, and the head of the investment management department of CNPGC from February 2008 to January 2018. Mr. Lian was a director of Sinopharm Industrial Investment Co., Ltd. from December 2008 to March 2014. Mr. Lian was a non-executive Director of the Company from December 2008 to January 2011 and from January 2016 to January 2018. He served as a Supervisor of the Company from January 2011 to December 2015. Mr. Lian is also the director of Sinopharm Holding Chuangke Medical Technology (Shanghai) Co., Ltd., Sinopharm Holding Chuangfu Medical Technology (Shanghai) Co., Ltd., Sinopharm Jienuo Medical Service Co., Ltd., and the chairman of Sinopharm Holding Medical Instruments Co., Ltd. and Sinopharm Holding Lingshang Hospital Management Services (Shanghai) Co., Ltd.

**Mr. Cai Maisong**, aged 48, joined the Group as a vice president in January 2018. Mr. Cai has over 25 years of working experience. Mr. Cai received a bachelor degree of pharmacy from School of Pharmacy of Beijing Medical University in July 1992, and later received a master degree in business administration from Nankai University. Mr. Cai served as a technician, factory director and vice manager of fourth operation department in first factory of Guangzhou Baiyunshan Pharmaceutical Company from July 1992 to June 1996. Mr. Cai served as a medical representative and director in Les Laboratoires Servier Industrie from June 1996 to January 2001, and served as an assistant manager in Beijing Jingdaren Pharmaceutical Co., Ltd. from January 2001 to May 2001. Mr. Cai served as a vice manager in development zone medicine company of Tianjin purchase station of China National Pharmaceutical Group Corp. and manager in logistics center of China National Pharmaceutical Group Corp. Tianjin Co., Ltd. from June 2001 to July 2002 and from July 2002 to January 2003 respectively. Mr. Cai served as a director of commerce department, manager of marketing department and director of operation management center in Sinopharm Holding Tianjin Co., Ltd. from January 2003 to August 2006, and served as a director of risk and operation management department in Sinopharm Group Co. Ltd. from August 2006 to December 2010. Mr. Cai served as a vice director of risk and operation management department, director of risk and operation management department and vice director of policy research office in CNPGC from December 2010 to August 2017. Mr. Cai served as a employee supervisor in CNPGC from June 2014 to May 2017, and served as a vice principal in Sichuan Province Food and Drug Administration from September 2017 to January 2018. Mr. Cai is also the executive director of Sinopharm Pharmaceutical Logistics Co., Ltd, and the chairman of Sichuan Pharmaceutical Group Co., Ltd. of CNPGC, Sinopharm Group Southwest Medicine Co., Ltd., Sinopharm Holding Shenyang Co., Ltd., Sinopharm Holding Dalian Hecheng Co., Ltd., Sinopharm Holding Jilin Co., Ltd. and Sinopharm Holding Heilongjiang Co., Ltd.

**Mr. Li Dongjiu**, aged 53, non-executive Director, joined the Group on January 2018, and has been the vice president since then. Mr. Li has over 30 years of working experience in the pharmaceutical industry, over 25 years of which relates to management experience in the pharmaceutical and healthcare products industry is a professor-level senior engineer and Doctor of Engineering. Mr. Li obtained a bachelor's degree in Chemical Engineering from Dalian University of Technology in July 1987, a master's degree in Management from Wuhan University of Technology in June 1999, a master's degree of Arts in International Economic Relations from the Flinders University of South Australia in October 2005, a PhD degree of Transportation Planning and Management from Wuhan University of Technology in June 2013, and an EMBA degree from China Europe International Business School. Mr. Li worked for North China Pharmaceutical Co., Ltd. (a company listed on the Shanghai Stock Exchange) as a deputy general manager of North China Pharmaceutical Huasheng Co., Ltd., general manager of Sweeteners Vitamins Department of North China Pharmaceutical Group Corporation, general manager of Sales Company of North China Pharmaceutical Group Corporation and deputy general manager of North China Pharmaceutical Co., Ltd. and head of its financial department, successively from July 1987 to December 2009, and served as executive president of Shanghai Fosun Pharmaceutical Industry Development Co., Ltd., vice president and director of the Pharmaceutical Management Committee and senior vice president and director of the pharmaceutical management committee of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (a company listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange) and president of Shanghai Fosun Pharmaceutical Development Co., Ltd., successively from December 2009 to December 2012. Mr. Li served as a senior vice president, chairman of the medicine commercialization and consumer products management committee and vice chairman of the pharmaceutical manufacturing management committee of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. from January 2013 to February 2015 and served as a director of Nature's Sunshine Products Inc., a company listed on NASDAQ, USA (NASDAQ: NATR) from August 2014 to June 2016. Mr. Li served as a non-executive Director of the Company from October 2013 to January 2018. Mr. Li has served as a vice president, senior vice president and chairman of pharmaceutical commerce committee of Shanghai Fosun Pharmaceutical Development Co., Ltd. from June 2010 to January 2018. Mr. Li is currently a vice president of China Nonprescription Medicines Association (CNMA), China Association of Pharmaceutical Commerce and Shanghai Association of Pharmaceutical Commerce, a commissioner for the UN Commission on Life-Saving Commodities for Women and Children and a member of council of the Cancer Foundation of China. Mr. Li is also the chairman of Sinopharm Holding Fujian Co., Ltd., Sinopharm Holding Fuzhou Co., Ltd., Sinopharm Holding Guizhou Co., Ltd., Sinopharm Holding Yunnan Co., Ltd., Sinopharm Holding Hainan Co., Ltd., Sinopharm Holding Xingsha Pharmaceutical (Xiamen) Co., Ltd. and Sinopharm Online Co., Ltd.

**Mr. Zhou Xudong**, aged 49, joined the Group as a vice president in January 2018. Mr. Zhou has over 28 years of working experience. Mr. Zhou received a professional degree of audit from Nanjing Audit University in July 1990. Mr. Zhou served as an accountant of audit department in Yizheng Chemical Fiber Industry Alliance Company from July 1990 to October 1992. Mr. Zhou served as a salesman, vice director, vice manager of medicine operation department and vice general manager in Nantong City Chemical Pharmaceutical Raw Material Company from November 1992 to December 2002. Mr. Zhou served as a general manager and chairman in Nantong City Pharmaceutical Sales Co., Ltd. from December 2002 to December 2011. Mr. Zhou served as a general manager of Sinopharm Holding Nantong Co., Ltd. and vice general manager of Sinopharm Holding Jiangsu Co., Ltd. from December 2011 to May 2015 and from July 2014 to April 2015 respectively. He has served as a general manager of Sinopharm Holding Jiangsu Co., Ltd. since May 2015. Mr. Zhou is also the executive director of Sinopharm Holding Distribution Center Co., Ltd., and the chairman of Sinopharm Holding Shandong Co., Ltd., Sinopharm Holding Chongqing Co., Ltd. and Sinopharm Holding Chongqing Taimin Pharmaceutical Co., Ltd.

**Mr. Xu Shuangjun**, aged 50, has been the non-executive vice president of the Company since March 2011. He has over 32 years of working experience, over 24 years of which is management experience in the pharmaceutical and healthcare products industry. He graduated from the School of Pharmacy of the Second Military Medical University in Shanghai and obtained a bachelor's degree in medicine in 2001. He further obtained a master's degree in business administration from the Macau University of Science and Technology in 2006 and has the qualifications of practicing pharmacist and chief pharmacist. Mr. Xu was employed at Shijiazhuang Lerentang from October 1987 to March 1999. He was manager of the operating branch and the deputy general manager of Shijiazhuang City Medicines and Herbs Co., Ltd. from March 1999 to August 2004, and was the chairman and general manager of Hebei Zhongrui Medicines Co., Ltd., the general manager and secretary of the Party Committee of Shijiazhuang Lerentang Pharmaceutical Co., Ltd., and the chairman and general manager of and secretary of the Party Committee of Lerentang Pharmaceutical Group Co., Ltd. from August 2004 to May 2011. Mr. Xu was the vice chairman and general manager, secretary of the Party Committee, and chairman of Sinopharm Lerentang Pharmaceutical Co., Ltd. from May 2011 to December 2015, and has been its vice chairman since December 2015.

# 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 2017.

## Principal Business

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

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

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

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

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

## Results

The operating results of the Group during the Reporting Period are set out in the Consolidated Statement of Profit and Loss on page 95 of this annual report.

## Dividends

Relevant resolution was passed at a meeting of the Board held on 23 March 2018 to propose to distribute a final dividend of RMB0.57 per share (tax inclusive) for the year ended 31 December 2017 (the "**Final Dividend**"), totalling approximately RMB1,577,244,000. If the proposal of profit distribution is approved by shareholders at the 2017 annual general meeting to be held on Thursday, 28 June 2018 (the "**AGM**"), the Final Dividend will be distributed to the shareholders whose names appear on the register of members of the Company on Wednesday, 11 July 2018 no later than 28 August 2018.

According to the Articles of Association of the Company, the Final Dividends will be denominated and declared in Renminbi. Final Dividend on domestic shares of the Company and for investors (the "**Southbound Trading Shareholders**") investing in the H shares of the Company through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect (the "**Southbound Trading**") will be paid in Renminbi, and the Final Dividend for other holders of H shares of the Company will be paid in Hong Kong dollars. The amount of the Final Dividend payable in Hong Kong dollars shall be calculated based on the average exchange rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the calendar week prior to 28 June 2018 (being the date of declaration of the Final Dividend).

For the Southbound Trading Shareholders, the Company will enter into the Agreement on Distribution of Cash Dividends of H Shares for Southbound Trading with China Securities Depository and Clearing Corporation Limited, pursuant to which, the Shanghai Branch and Shenzhen Branch of China Securities Depository and Clearing Corporation Limited, each of which as a nominee of the holders of H shares for Southbound Trading, will receive all the Final Dividend distributed by the Company and distribute the Final Dividend to the relevant Southbound Trading Shareholders through their depositary and clearing systems.

Pursuant to the 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 register of the members of H shares of the Company should deliver a legal opinion ascertaining its status as a resident enterprise furnished by a qualified PRC lawyer (with the official chop of the issuing law firm affixed thereon) and relevant documents to Computershare Hong Kong Investor Services Limited in due course, if they do not wish to have the 10% corporate income tax withheld and paid on their behalf by the Company.

Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of GuoShui Fa [1993] No. 045 Document (the "**Notice**") issued by the State Administration of Tax on 28 June 2011, the dividend to be distributed by the PRC non-foreign invested enterprises which has issued shares in Hong Kong to the overseas resident individual shareholders, is subject to the individual income tax with a tax rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries of their residence and Mainland China. Thus, 10% personal income tax will be withheld by the Company from the Final Dividend payable to the individual H-share shareholders whose names appear on the register of members of the Company on Wednesday, 11 July 2018, unless otherwise stated in the relevant taxation regulations, taxation agreements or notices.

Pursuant to the "Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets" (Cai Shui [2014] No.81) and the "Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets" (Cai Shui [2016] No.127) jointly promulgated by the Ministry of Finance, the State Administration of Taxation and the China Securities Regulatory Commission, for dividends derived by Mainland individual investors from investing in H-share listed on the Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect, H-share companies shall withhold individual income tax at a tax rate of 20% for the investors. For Mainland securities investment funds investing in shares listed on Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect, the above rules also apply and individual income tax shall be levied on dividends derived therefrom. Dividends derived by Mainland enterprise investors from investing in shares listed on Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect shall be reported and paid by the enterprise investors themselves. H-share companies will not withhold or pay enterprise income tax on their behalf in the distribution of dividends.

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

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, the trustee (the "**Trustee**") of the share award scheme effective on 18 October 2016 (the "**Scheme**"), pursuant to the rules of the Scheme, purchased on the open market a total of 6,570,000 H shares of the Company at a total consideration of approximately RMB203.29 million. In addition, as three incentive recipients resigned from the Group, making them unqualified for the Scheme, the Trustee sold 230,000 H shares of the Company to the secondary market during the second half of 2017. Save as disclosed above, during the Reporting Period, the Company and its subsidiaries had not purchased, sold or ransomed any of the listed shares of the Company.

## Principal Subsidiaries

Details of the names, principal places of business, places of incorporation and issued share capital of the Company's principal subsidiaries are set out in Note 43 to the Consolidated Financial Statements.

## Reserves

Details of movements in reserves of the Group during the Reporting Period are set out in the Consolidated Statement of Changes in Equity on page 99 of this annual report and Note 30 to the Consolidated Financial Statements.

## Distributable Reserves

In accordance with the Company Law of the PRC, the Company may only distribute dividends out of its distributable annual 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)).

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) the HKFRS.

In 2017, the distributable reserves of the Company, calculated based on the above principles, amounted to approximately RMB17,173.37 million, which is prepared in accordance with the HKFRSs.

## Property, Plant, Equipment and Investment Properties

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

## Borrowings
Details of borrowings of the Group are set out in Note 31 to the Consolidated Financial Statements.

## Debenture
In order to facilitate the adjustment of the debt structure of the Group and reduce financing costs, the Company issued corporate bonds of RMB1 billion and super short-term commercial papers of RMB3 billion during the Reporting Period.

Details of issued bonds of the Company are set out in Note 31 to the Consolidated Financial Statements.

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

For the year ended 31 December 2017, 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.

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

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

## Non-Exempt Continuing Connected Transactions
For the year of 2017, the annual caps for and the actual transaction amounts of the non-exempt continuing connected transactions by the Group are set out below:

| **Continuing Connected Transactions between the Group and the CNPGC Group under the Master Procurement and Master Sales Agreement** | **Annual caps for the year 2017** (RMB million) | **Actual transaction amounts for the year ended 31 December 2017** (RMB million) |
|---|---|---|
| Transactions between the Group and the CNPGC Group under the Master Procurement Agreement | 10,000 | 3,400 |
| Transactions between the Group and the CNPGC Group under the Master Sales Agreement | 2,800 | 897 |

| Continuing Connected Transactions between the Group and Sinopharm Group Finance Co., Ltd. under the Financial Services Framework Agreement | Annual caps for 2017 (RMB million) | Actual transaction amounts for the year ended 31 December 2017 (RMB million) |
|---|---|---|
| Maximum daily balance of the deposits placed with Sinopharm Group Finance Co., Ltd. by the Group | 3,500 | 3,483 |
| Interests/service fees incurred by the Group for the provision of other financial services by Sinopharm Group Finance Co., Ltd. | 200 | 110 |

| Continuing Connected Transaction between the Group and the CNPGC Group under the EPC General Contracting Services Framework Agreement | Annual caps for 2017 (RMB million) | Actual transaction amounts for the year ended 31 December 2017 (RMB million) |
|---|---|---|
| Amount payable by the Group to the CNPGC Group under the EPC General Contracting Services Framework Agreement | 500 | 7 |

### The Continuing Connected Transactions Between the Group and the CNPGC Group under the Master Procurement Agreement

In order to regulate the continuing connected transactions in respect of the procurement of pharmaceutical products between the Group and CNPGC and its subsidiaries and associates (the "**CNPGC Group**"), the Company and the CNPGC renewed the Master Procurement Agreement of Pharmaceutical Products, Personal-care Supplies and Medical Equipment ("**Master Procurement Agreement**") on 7 November 2014, and set up the annual caps for the three years ending 31 December 2017 of the continuing connected transactions under the Master Procurement Agreement. The annual caps for the continuing connected transactions contemplated under the Master Procurement Agreement for the three years ending 31 December 2017 will amount to RMB6,000 million, RMB8,000 million and RMB10,000 million, respectively.

Pursuant to the Listing Rules, the annual caps of three years ended 31 December 2017 of the continuing connected transactions under the Master Procurement Agreement were approved by the Group's independent shareholders.

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

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

The Master Procurement Agreement is for a term of three years with effect from 1 January 2015 and ending on 31 December 2017. Upon expiry, the Master Procurement Agreement will, subject to compliance with the relevant requirements under the Listing Rules and agreement of the parties, be renewed for a further term of three years. Details for the transactions were set out in an announcement dated 7 November 2014, and a circular dated 12 November 2014 published on the websites of Hong Kong Stock Exchange and the Company.

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

During the Reporting Period, the proposed annual caps for and the actual transaction amounts under the Master Procurement Agreement payable to CNPGC Group by the Group were RMB10,000 million and RMB3,400 million, respectively.

As the above-mentioned Master Procurement Agreement and the annual caps for the continuing connected transactions thereunder will expire on 31 December 2017, therefore on 27 October 2017, the Company and the CNPGC renewed the Master Procurement Agreement for a further term of three years from 1 January 2018 to 31 December 2020. The renewed Master Procurement Agreement was renamed to Procurement Framework Agreement. The annual caps for the continuing connected transactions contemplated under the Procurement Framework Agreement for the three years ending 31 December 2020 will amount to RMB6,000,000,000, RMB8,000,000,000 and RMB10,000,000,000, respectively. Details for the transactions were set out in an announcement dated 27 October 2017 published on the websites of Hong Kong Stock Exchange and the Company.

### The Continuing Connected Transactions between the Group and the CNPGC Group under the Master Sales Agreement

In order to regulate the continuing connected transactions in respect of the sales of pharmaceutical products between the Group and the CNPGC Group, the Company and the CNPGC renewed the Master Sales Agreement of Pharmaceutical Products, Personal-care Supplies, Medical Equipment, Chemical Reagents and Laboratory Supplies ("**Master Sales Agreement**") on 7 November 2014, and set up the annual caps for the three years ending 31 December 2017 of the continuing connected transactions under the Master Sales Agreement. The annual caps for the continuing connected transactions contemplated under the renewed Master Sales Agreement for the three years ending 31 December 2017 will amount to RMB1,650 million, RMB2,200 million and RMB2,800 million, respectively.

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

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

The Master Sales Agreement is for a term of three years with effect from 1 January 2015 and ending on 31 December 2017. Upon expiry, the Master Sales Agreement will, subject to compliance with the relevant requirements under the Listing Rules and agreement of the parties, be renewed for a further term of three years. Details for the transactions were set out in an announcement dated 7 November 2014 published on the websites of Hong Kong Stock Exchange and the Company.

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

During the Reporting Period, the proposed annual caps for and the actual transaction amounts under the Master Sales Procurement Agreement payable to the Group by the CNPGC Group were RMB2,800 million and RMB897 million, respectively.

As the above-mentioned Master Sales Agreement and the annual caps for the continuing connected transactions thereunder will expire on 31 December 2017, therefore on 27 October 2017, the Company and the CNPGC renewed the Master Sales Agreement for a further term of three years from 1 January 2018 to 31 December 2020. The renewed Master Sales Agreement was renamed to Procurement Framework Agreement. The annual caps for the continuing connected transactions contemplated under the Procurement Framework Agreement for the three years ending 31 December 2020 will amount to RMB1,400,000,000, RMB2,000,000,000 and RMB2,800,000,000, respectively. Details for the transactions were set out in an announcement dated 27 October 2017 published on the websites of Hong Kong Stock Exchange and the Company.

**The Continuing Connected Transactions between the Group and Sinopharm Group Finance Co., Ltd. under the Financial Services Framework Agreement**

In order to regulate the continuing connected transactions in respect of the utilization of financial services between the Group and Sinopharm Group Finance Co., Ltd. the Company and Sinopharm Group Finance Co., Ltd. (a subsidiary of the ultimate controlling shareholder of the Company and a connected person of the Company) entered into the Financial Services Framework Agreement on 7 November 2014, and set up the annual caps for the continuing connected transactions thereunder for the three years ending 31 December 2017. The maximum daily balance of the deposits under the renewed Financial Services Framework Agreement for each of the three years ending 31 December 2017 will amount to RMB2,000 million, and the annual caps for the interests/service fees paid for the provision of other financial services under the renewed Financial Services Framework Agreement for each of the three years ending 31 December 2017 will amount to RMB200 million.

Taking into the account the historical transaction figures, and based on the anticipated demand of the Group, the Board expects the existing 2016 and 2017 annual caps for the continuing connected transactions under the Financial Services Framework Agreement in respect of the maximum daily balance of the deposits placed with Sinopharm Group Finance Co., Ltd. by the Group will be insufficient for the Group's requirements and resolved the same to be revised on 9 November 2016. The revised annual caps for the continuing connected transactions under the Financial Services Framework Agreement in respect of the maximum daily balance of the deposits placed with Sinopharm Group Finance Co., Ltd. by the Group for each of the two years ending 31 December 2017 is RMB3,500 million.

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

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

The Financial Services Framework Agreement is effective from 1 January 2015 to 31 December 2017. Details for the transactions were set out in an announcement dated 7 November 2014 and 9 November 2016 published on the websites of Hong Kong Stock Exchange and the Company.

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

During the Reporting Period, under the Financial Services Framework Agreement, the maximum daily balance of the deposits placed with Sinopharm Group Finance Co., Ltd. by the Group was RMB3,500 million, while the actual amounts was RMB3,483 million; the annual cap for the interests/service fees incurred by the Group for the provision of other financial services by Sinopharm Group Finance Co., Ltd. was RMB200 million, while the actual amount was RMB110 million.

As the above-mentioned Financial Services Framework Agreement and the annual caps for the continuing connected transactions thereunder will expire on 31 December 2017, therefore on 27 October 2017, the Company and Sinopharm Group Finance Co., Ltd. renewed the Financial Services Framework Agreement for a further term of three years from 1 January 2018 to 31 December 2020. The maximum daily balance of the deposits under the renewed Financial Services Framework Agreement for each of the three years ending 31 December 2020 will amount to RMB3,500,000,000, and the annual caps for the interests/service fees paid for the provision of Other Financial Services under the renewed Financial Services Framework Agreement for each of the three years ending 31 December 2020 will amount to RMB200,000,000. Details for the transactions were set out in an announcement dated 27 October 2017 published on the websites of Hong Kong Stock Exchange and the Company.

### The Continuing Connected Transactions between the Group and the CNPGC Group under the EPC General Contracting Service Framework Agreement

In order to regulate the continuing connected transactions in respect of the EPC general contracting service between the Group and the CNPGC Group, the Company and the CNPGC entered into the EPC General Contracting Service Framework Agreement ("**EPC Service Agreement**") on 15 October 2015, and set up the annual caps for the three years ending 31 December 2017 of the continuing connected transactions under the EPC Service Agreement. The annual caps for the continuing connected transactions contemplated under the EPC Service Agreement for the three years ending 31 December 2017 will amount to RMB300 million, RMB400 million and RMB500 million, respectively. Pursuant to the Listing Rules, the EPC Service Agreement and the annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2017 have been approved by the Board of the Company.

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

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

The EPC Service Agreement is for a term of three years with effect from 1 January 2015 and ending on 31 December 2017. Upon expiry, the EPC Service Agreement will, subject to compliance with the relevant requirements under the Listing Rules and agreement of the parties, be renewed for a further term of three years. Details for the transactions were set out in an announcement dated 15 October 2015 published on the websites of Hong Kong Stock Exchange and the Company.

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

During the Reporting Period, the proposed annual caps and the actual amounts under the EPC Service Agreement payable by the Group to the CNPGC Group were RMB500 million and RMB7 million, respectively.

As the above-mentioned EPC General Contracting Service Framework Agreement and the annual caps for the continuing connected transactions thereunder will expire on 31 December 2017, therefore on 27 October 2017, the Company and the CNPGC renewed the EPC General Contracting Service Framework Agreement for a further term of three years from 1 January 2018 to 31 December 2020. The annual caps for the continuing connected transactions contemplated under the renewed EPC General Contracting Service Framework Agreement for each of the three years ending 31 December 2020 will amount to RMB500,000,000. Details for the transactions were set out in an announcement dated 27 October 2017 published on the websites of Hong Kong Stock Exchange and the Company.

The Company has confirmed that the execution and enforcement of the implementation agreements under the continuing connected transactions set above for the year ended 31 December 2017 has followed the pricing principles of such continuing connected transactions.

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

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

ii. on normal commercial terms or better to the Company; and

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

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

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

i. were approved by the Board;

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

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

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

## Non-Exempt Connected Transaction

On 27 November 2017, the Company entered into the equity transfer agreement with CNPGC, the ultimate controlling shareholder of the Company, in respect of the acquisition of 100% equity interest in Shanghai Pudong New Area Medicines and Herbs Co., Ltd. (including its wholly-owned subsidiary Shanghai Yanghetang Pharmacy Chain Operation Co., Ltd.) at a cash consideration of RMB217,473,000. Upon completion of the acquisition, Shanghai Pudong New Area Medicines and Herbs Co., Ltd. became a wholly-owned subsidiary of the Company. For details, please refer to the announcement of the Company published on the websites of the Company and the Hong Kong Stock Exchange on 11 November 2017.

Save as disclosed above, for the year ended 31 December 2017, there is no other related party transaction or continuing related party transaction set out in Note 42 to the Consolidated Financial Statements which constitutes discloseable connected transaction or continuing connected transaction under the Listing Rules. In respect of the connected transactions and the continuing connected transactions, the Company has complied with the disclosure requirements of the Listing Rules (as amended from time to time).

## Directors' and Supervisors' Service Contracts

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

## Biographies of Directors, Supervisors and Senior Management

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

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

### Executive Directors

Mr. Li Zhiming (re-elected on 20 September 2017)
Mr. Liu Yong (elected on 18 December 2017)
Mr. Wei Yulin (ceased to act on 24 March 2017)

### Non-executive Directors

Mr. Chen Qiyu (re-elected on 20 September 2017)
Mr. She Lulin (re-elected on 20 September 2017)
Mr. Wang Qunbin (re-elected on 20 September 2017)
Mr. Ma Ping (re-elected on 20 September 2017)
Mr. Deng Jindong (re-elected on 20 September 2017)
Mr. Li Dongjiu (re-elected on 20 September 2017 and ceased to act on 9 March 2018)
Mr. Lian Wanyong (re-elected on 20 September 2017 and ceased to act on 9 March 2018)
Mr. Wen Deyong (elected on 20 September 2017)
Ms. Rong Yan (elected on 9 March 2018)
Mr. Wu Yijian (ceased to act on 20 September 2017 and elected on 9 March 2018)

### Independent Non-executive Directors

Ms. Li Ling (re-elected on 20 September 2017)
Mr. Yu Tze Shan Hailson (re-elected on 20 September 2017)
Mr. Tan Wee Seng (re-elected on 20 September 2017)
Mr. Liu Zhengdong (re-elected on 20 September 2017)
Mr. Zhuo Fumin (re-elected on 20 September 2017)

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

The remuneration committee determines and makes recommendation to the Board (as appropriate) on the remuneration and other benefits payable to the Directors. The remuneration 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, and determines remuneration of the Directors based on their qualifications, experience and contributions, to attract and retain its Directors as well as to control costs.

Details of the remuneration of the Directors and Supervisors in 2017 are set out in Note 46 to the Consolidated Financial Statements.

Details of the five highest paid individuals of the Group in 2017 are set out in Note 10 to the Consolidated Financial Statements on page 143 of this annual report.

Details of the remuneration of the current senior management of the Company by band for the year ended 31 December 2017 are set out as follows:

| Range | Number of individuals |
|---|---|
| RMB nil to RMB3,000,000 | 1 |
| RMB3,000,001 to RMB6,000,000 | 5 |
| RMB6,000,000 and above | 3 |

## Interests of Directors and Supervisors in Transaction, Arrangement or Contract

Save as the non-exempt continuing connected transactions and the non-exempt connected transactions disclosed in this annual report, for the year ended 31 December 2017, there was no transaction, arrangement and contract of significance to which the Company, its holding company, its subsidiary or a subsidiary of its holding company was a party and in which a Director, Supervisor or their relevant party has or had at any time during that period, in any way, whether directly or indirectly, a material interest.

## Interests of Directors in Competing Business

As at 31 December 2017, three non-executive Directors, namely Mr. Chen Qiyu, Mr. Wang Qunbin and Mr. Li Dongjiu had interest in businesses which compete or are likely to compete, either directly or indirectly, with the business of the Group. Mr. Wang Qunbin is a non-executive director of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. ("**Fosun Pharma**"). Mr. Chen Qiyu is an executive director and the chairman of the board of Fosun Pharma and a director of some of the Fosun Production Companies. Mr. Li Dongjiu is a senior vice president of Fosun Pharma and a director of certain distribution, manufacture and retail companies of Fosun.

For the year ended 31 December 2017, the Group's total revenue from sales of pharmaceutical products to Fosun Pharma and its subsidiaries was approximately RMB140 million and total costs from purchase of pharmaceutical products from Fosun Pharma and its subsidiaries was approximately RMB1,531 million, accounting for 0.05% and 0.60%, respectively, of the Group's audited total revenue and total costs for the same period.

Certain Fosun Production Companies are wholly-owned or controlled by Fosun Pharma. A summary of the facts and circumstances regarding the Fosun Production Companies are set out below:

### Description of business

The Fosun Production Companies principally engage in the production of pharmaceutical products in the PRC. The core business of the Group is the distribution of pharmaceutical products in the PRC, not production of medicines. For the year ended 31 December 2017, the Group's revenue from the production of pharmaceutical products only accounted for approximately 0.31% of the Group's total audited revenue. Furthermore, because there is a clear delineation between the medicines produced by the Group and those produced by the Fosun Production Companies, the Directors believe that there is no competition between the Fosun Production Companies and the Group.

### Independence

The Company is financially independent from the Fosun Production Companies. Given the insignificant proportion of sales of pharmaceutical products to/purchase of pharmaceutical products from certain Fosun Production Companies to the Group's total audited revenue/costs, therefore, the Group is also operationally independent from the Fosun Production Companies.

As mentioned above, Mr. Chen Qiyu and Mr. Li Dongjiu, who are non-executive Directors, are directors of certain Fosun Production Companies. Apart from the above two non-executive Directors, who are not involved in the day-to-day operations and management of the Company, none of the other Directors and members of senior management of the Company 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.

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

As at 31 December 2017, the interests and short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the requirements of the Model Code.

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

Save as disclosed above, as at 31 December 2017 none of the Directors, Supervisors and the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the requirements of the Model Code.

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

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

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

As at 31 December 2017, so far as was known to the Directors, the interests or short positions of the following persons (other than the Directors, Supervisors or the chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

| Name | Class of shares | Nature of interest | Number of shares held | Approximate percentage to the total number of shares of the Company (%) | Approximate percentage to the relevant class of shares (%) | Long position/short position/shares available for lending |
|---|---|---|---|---|---|---|
| CNPGC | Domestic shares | Beneficial owner | 2,728,396 (Note 2) | 0.10 | 0.17 | – |
| | Domestic shares | Interest of controlled corporation | 1,571,555,953 (Note 1 and 2) | 56.79 | 99.83 | – |
| Sinopharm Investment | Domestic shares | Beneficial owner | 1,571,555,953 (Note 1 and 2) | 56.79 | 99.83 | – |
| Fosun Pharma | Domestic shares | Interest of controlled corporation | 1,571,555,953 (Note 1 and 3) | 56.79 | 99.83 | – |
| Fosun High Technology | Domestic shares | Interest of controlled corporation | 1,571,555,953 (Note 1 and 4) | 56.79 | 99.83 | – |
| Fosun Company | Domestic shares | Interest of controlled corporation | 1,571,555,953 (Note 1 and 5) | 56.79 | 99.83 | – |
| Fosun Holdings | Domestic shares | Interest of controlled corporation | 1,571,555,953 (Note 1 and 6) | 56.79 | 99.83 | – |

| Name | Class of shares | Nature of interest | Number of shares held | Approximate percentage to the total number of shares of the Company (%) | Approximate percentage to the relevant class of shares (%) | Long position/short position/ shares available for lending |
|---|---|---|---|---|---|---|
| Fosun International Holdings | Domestic shares | Interest of controlled corporation | 1,571,555,953 (Note 1 and 7) | 56.79 | 99.83 | – |
| Mr. Guo Guangchang | Domestic shares | Interest of controlled corporation | 1,571,555,953 (Note 1 and 8) | 56.79 | 99.83 | – |
| BlackRock, Inc. | H shares | Interest of controlled corporation (Note 10) | 74,561,353 | 2.69 | 6.25 | Long position |
| | | | 601,600 | 0.02 | 0.05 | Short position |
| Matthews International Capital Management, LLC | H shares | Investment manager | 60,109,600 | 2.17 | 5.03 | Long position |
| JPMorgan Chase & Co. | H shares | Beneficial owner, Investment manager, Custodian/ approved lending agent (Note 9) | 205,332,875 | 7.42 | 17.21 | Long position |
| | | | 617,200 | 0.02 | 0.05 | Short position |
| | | | 168,035,149 | 6.07 | 14.08 | Shares available for lending |
| Oppenheimer Developing Markets Fund | H shares | Beneficial owner | 167,530,000 | 6.05 | 14.04 | Long position |
| FIL Limited | H shares | Interest of controlled corporation (Note 11) | 59,697,600 | 2.16 | 5.00 | Long position |

Notes:

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

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

(2) CNPGC is interested in 2,728,396 domestic shares directly and 1,571,555,953 domestic shares indirectly through Sinopharm Industrial Investment Co., Ltd. ("**Sinopharm Investment**"). As CNPGC owns 51% equity interest in Sinopharm Investment, it is deemed to be interested in the shares held by Sinopharm Investment for the purposes of the SFO.

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

(4) Fosun High Technology (Group) Co., Ltd. ("**Fosun High Technology**") is the beneficial owner of 37.94% equity interest in Fosun Pharma and, therefore, Fosun High Technology is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

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

(6) Fosun Holdings Ltd. ("**Fosun Holdings**") is the beneficial owner of 71.68% equity interest in Fosun Company and, therefore, Fosun Holdings is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

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

(8) Mr. Guo Guangchang is the beneficial owner of 65.45% equity interest in Fosun International Holdings and 0.005% equity interest in Fosun Pharma and, therefore, Mr. Guo Guangchang is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(9) JPMorgan Chase & Co. is interested, directly and indirectly through a series of controlled corporations, in an aggregate of long positions of 263,194,761 H shares (of which 249,218,719 are H shares available for lending) and short positions of 1,275,200 H shares of the Company.

(10) BlackRock, Inc. is interested in long positions of 74,561,353 and short positions of 601,600 H shares of the Company indirectly through a series of controlled corporations.

(11) FIL Limited is interested in long positions of 59,697,600 H shares of the Company indirectly through a series of controlled corporations.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2017, no person (other than the Directors, Supervisors or the chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

## Pre-Emptive Rights

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

## Sufficiency of Public Float

Based on the information that is publicly available to the Company and to the best knowledge of all Directors, there was sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules in 2017 and prior to the issue of this annual report.

## Management Contract

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

## Pension Scheme

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

## Donation

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

## Entrusted Deposit and Matured Time Deposit

As at 31 December 2017, the Company had not held any deposits under trust in any financial institution in the PRC or any time deposit which could not be withdrawn upon maturity.

## Tax Relief and Exemption

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

## Confirmation of Independency by Independent Non-Executive Directors

The Company had received annual confirmation of independence from each independent non-executive Director. Based on the confirmation, the Company considered that all independent non-executive Directors were independent as required under the Listing Rules.

## Auditor

On 16 June 2016, the Company changed its international auditor and domestic auditor from PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP to Ernst & Young and Ernst & Young Hua Ming LLP. The financial statements set out in this annual report have been audited by Ernst & Young.

The other chapters, reports or notes mentioned in the report all compromise part of the Report of the Board of Directors.

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

Shanghai, PRC
23 March 2018

# Report of the Supervisory Committee

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

## I. Works of the Supervisory Committee During the Reporting Period

For year 2017, the Supervisory Committee held three meetings and the details are as follows:

On 24 March 2017, the eighth meeting of the third session of the Supervisory Committee was convened to approve the "Report of the Supervisory Committee of 2016" and "Resolution on Determination of 2017 Remuneration of Independent Supervisors of the Third Session of the Supervisory Committee".

On 31 July 2017, the first extraordinary meeting of the third session of the Supervisory Committee was convened to approve the "Resolution on rotation of the third session of the Supervisory Committee and election of external Supervisor of the fourth session of the Supervisory Committee".

On 20 September 2017, the first meeting of the fourth session of the Supervisory Committee was convened to approve the "Resolution on election of the Chief Supervisor of the fourth session of the Supervisory Committee" and "Resolution on Determination of 2017 Remuneration of Independent Supervisors of the Fourth Session of the Supervisory Committee".

## II. Comments of the Supervisory Committee on Certain Matters of the Company in 2017

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

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

2. Evaluation of financial condition of the Company. During the Reporting Period, the Supervisory Committee has supervised and reviewed the financial structure and position of the Company. The Supervisory Committee is of the opinion that the financial structure of the Company was healthy and standardized and the Company was in a good financial position. The 2017 Audit Report of the Company has truly, accurately and completely reflected the financial condition, results of operation and cash flows of the Company.

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

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

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

6. Preparation and review of annual report of the Company. The preparation and review procedures of the 2017 annual report of the Company conformed to all the relevant regulations of the China Securities Regulatory Commission and the Hong Kong Stock Exchange. No breach of confidentiality provisions by any person involved in the preparation or review of annual report has been found.

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

**Yao Fang**
*Chief Supervisor*

23 March 2018

To comply with the requirements set out in the Environmental, Social and Governance Report Guide issued by the Stock Exchange of Hong Kong Limited in December 2015, Sinopharm Group Co. Ltd. (the "**Company**" or "**Sinopharm Group**", together with its subsidiaries referred to as the "**Group**") hereby submits its Annual Environmental, Social and Governance ("**ESG**") Report (the "**ESG Report**") from 1 January 2017 to 31 December 2017. The reporting scope of the ESG Report covers the Company and its subsidiaries.

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

## 1. Communication with Stakeholders

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

### Communication with and Participation of Stakeholders

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

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

## 2. Product Liability

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

### Quality Management System

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

### Qualification Certificates

**GSP**

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

**ISO9001**

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


**SA8000**

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

**ISO27001**

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

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

In 2017 33 management rules were added and amended in accordance with new regulations and new version requirements of ISO9001:2015, the Company's product management system was timely improved, so as to guarantee the conformity of quality system from the perspective of system. In order to guarantee the implementation potency, the Company organized five relevant trainings on system, law and regulation with 767 people being trained, and completed two large-scale trainings for subsidiaries with 300 people being trained. The training focused on medical device regulation, quality risk management, process method and scenario analysis of internal and external organization and change management etc, the subsidiary's quality awareness and capability to analyze and review risk and take measures against risk were improved.

**Logistics Quality Management**

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

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

Traceability of drugs is an important management issue in the medical industry. To trace the quality status in case of a quality problem or customer feedback and achieve the purpose of source management, the Company has developed the Regulations on Management of Identification and Traceability, from which it is required to distinguish consignors, batch numbers, specifications and dosage forms of drugs by identification and to identify, maintain and recheck the qualification status of drugs of all stages by using various types of warehouses, regions and color labels. In 2017, in accordance with the requirements of relevant documents such as "The Notice of Vaccine Storage and Transportation Management Regulation (2017 version)", "Drug Sales Quality Management Regulation" (Amended) and "Medical Device Supervision & Management Regulation", the Company continued to amend and improve the relevant rules of quality system, and conducted an audit on subordinate logistics companies and tracked the implementation details in order to provide the basis for the Company's continuous improvement. No significant nonconformity was found in this audit.

**Drug Quality Safety**

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

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

In 2017, the Company's headquarters has successively passed the special examination on the narcotic and psychotropic drugs and the vaccine by the Shanghai Municipal Food and Drug Administration for 14 times with the passing rate of the special examination up to 100%. In 2017, the Company's headquarters received an unannounced inspection from the Shanghai Municipal Food and Drug Administration, only one general defect was found and no major and severe defects were found, and the rectification has been completed. In 2017, the Company's subsidiaries have got examinations by outside inspectors for totally 1457 times (1440 times in operation and 17 times in production), and they all met the requirements.

**Customer Satisfaction and Complaint Handling**

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

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

### Product Recovery

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

### Intellectual Property Rights Protection

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

### Consumer Privacy Protection

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

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

## 3. Environmental Protection

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

### Environmental protection system

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

The Company has formulated a series of management systems including the Administrative Measures for Environmental Protection, the Administrative Measures for Clean Production, the Administrative Measures for Hazardous Waste, and the Emergency Plan for Environmental Accidents, specifying responsibilities of employees at various levels in terms of the environmental protection, energy conservation and emission reduction, and strengthening the environmental protection consciousness of all the companies. The superintendent of the subsidiary shall be primarily responsible for the environmental protection of all the subsidiaries, and the performance shall be included into the annual appraisal index of the superintendent of the subsidiaries, in order to enhance the environmental protection responsibility and consciousness of the leaders of all the subsidiaries. The target-oriented responsibility system shall be adopted in the management with the superintendent of the subsidiary primarily responsible for the environmental protection. At the beginning of 2017, the Company entered into the Target Responsibility Statement for Quality Management, Safe Production, Energy Conservation and Environmental Protection with all its subsidiaries with signing rate of 100%.

### Publicity of environmental protection

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

### Energy conservation and emission reduction

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

All the industrial enterprises subordinate to the Company have signed the monitoring contract with the local environmental monitoring authority, entrusting the local environmental monitoring station with the regular monitoring of the waste gas, waste water and noise at boundary of industrial enterprises. In order to further standardize the environmental protection management and strengthen the pollution prevention and control, in addition to accepting the supervision by external organizations such as the local environmental protection authority, all the subordinate industrial enterprises have established and improved the statistical monitoring system for the environmental protection, energy conservation and emission reduction, strengthened the statistical monitoring of the energy consumption and pollutant emission in the production and operation, eliminated the possible environmental risks and hidden hazards in the production and operation, and improved the appraisal system and reward & punishment measures in accordance with the Administrative Measures for the Supervision and Appraisal of the Environmental Protection, Energy Conservation and Emission Reduction by Sinopharm Holding. In 2017, all the major emissions from the subordinate industrial enterprises including COD and SO2 were disposed of, and all the sewage and waste gas were discharged in consistency with relevant standards.

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

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

In 2017, the amount of pollutants emitted by the Group was listed below:

| | 2017 |
|---|---|
| **Exhaust emission (ton)** | |
| total emission amount of $NO_x$ | 54.79 |
| total emission amount of $SO_x$ | 0.16 |
| total emission amount of PM | 5.03 |
| **Greenhouse gas emission (ton)** | |
| total greenhouse gas emission amount of range 1 | 26,641.98 |
| total greenhouse gas emission amount of range 2 | 78,460.51 |
| **Total amount of direct/indirect energy consumption by type (MWh)** | |
| electricity | 101,342.54 |
| heat | 23,913.87 |
| diesel | 52,044.82 |
| gasoline | 45,029.14 |
| **Unit amount of direct/indirect energy consumption (MWh per person)** | |
| electricity | 1.64 |
| heat | 0.39 |
| diesel | 0.84 |
| gasoline | 0.73 |
| **Total water consumption amount (cubic meter)** | 1,080,989.78 |
| Unit water consumption amount (cubic meter per person) | 17.52 |
| **Total amount of non-hazardous waste (ton)** | |
| office waste | 2,392.57 |
| **Total amount of hazardous waste (ton)** | |
| Chemical Oxygen Demand (COD) | 6.88 |
| Biochemical Oxygen Demand (BOD) | 0.34 |
| NH3-N | 0.45 |
| **Total amount of packaging material used by finished products (ton)** | |
| carton | 9,794.66 |
| packing bottle | 2,539.60 |

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

### Green office

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

## 4. Protection of Rights and Interests

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

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

**Honors in 2017**

| | | |
|---|---|---|
| **"China HR Pioneer Employer Award"** | — | **First Resource** |
| **"2017 China Role Model Employer"** | — | **51job.com** |
| **"2017 Employer with Outstanding Reform"** | — | **Liepin.com** |

### Equal employment

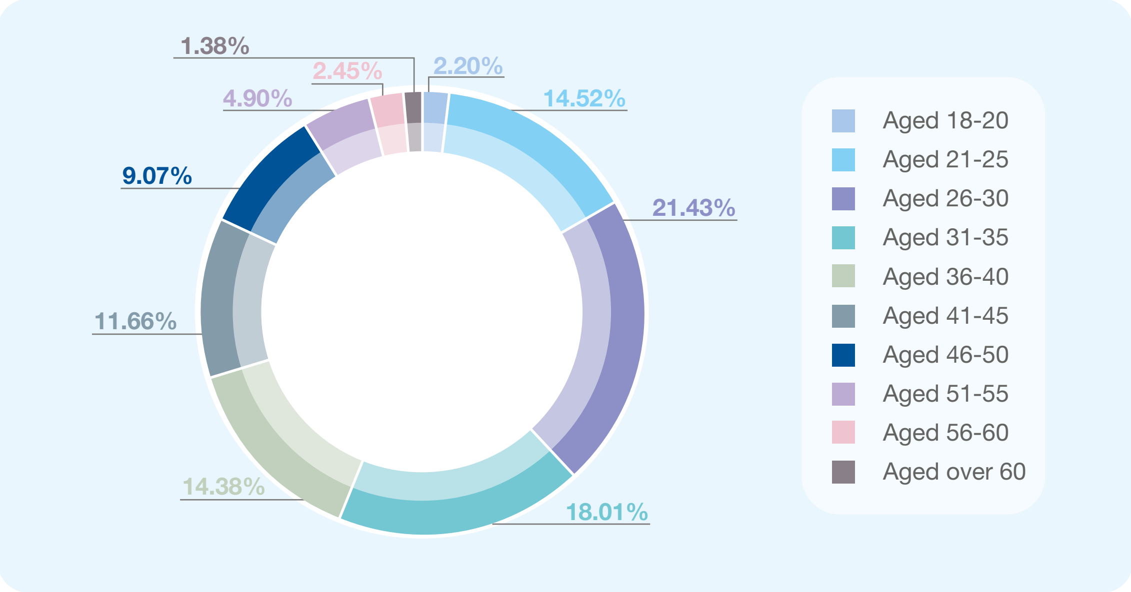
The Company recruits employees on an equal and selective basis following the principle of openness and fairness, opposes the employment discrimination in various forms, enters into labor contracts with employees, and protects employees from any discrimination due to the race, religion, physical disability,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

The Company has established the information management platform based on the HR information system, covering 542 subsidiaries at all levels. As an effective HR management tool, the HR information system has realized the basic HR management in the electronic form, strengthened the supervision on the organization setting, staffing management and employee recruitment and dismissal, and exported five statements of organization and personnel module and analysis of 25 HR indexes on a regular basis, which prevents any employment in violation of the Labor Law of the People's Republic of China such as employment of child laborers.

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

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

As of December 31 2017, the Group had 61,694 employees in total, among whom female employees accounted for 58.67%, and male employees accounted for 41.33%. The proportion of employees at various ages is as follows:



### Employee benefits

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

**Statutory benefits**

The Company offers various social security benefits for all the employees such as the social insurances and housing provident funds in strict accordance with Chinese policies relating to social security, and guarantees all the legal holidays for employees.

**Caring benefits**

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

**Incentive benefits**

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

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

### Development of trade union

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

## 5. Health and Safety

### Employees' health

The Company strives to build a comfortable and healthy working and living environment for employees. It has continuously perfected the health management strictly in accordance with the Labor Law of the People's Republic of China, the Law on the Prevention and Control of Occupational Diseases and local regulations related to prevention and control of occupational diseases. Since 2009, it has gradually established and implemented the international SA8000 Social Accountability System, and set up the social accountability leading team led by the Party Committee Secretary and President according to requirements in the Guiding Opinions on the Fulfillment of Social Accountability by Central Enterprises of the State-owned Assets Supervision and Administration Commission of the State Council, in order to protect the legitimate rights and interests of the employees through the continuous and effective operation and improvement of the system. The Company comprehensively classifies the existing rules, regulations and management archives according to the requirements of the SA8000 Social Accountability System, distinguishes the health and safety hazards, and establishes the occupation health and safety management system giving top priority to the physical and mental health of employees. There were not any employees suffering from occupational diseases in the Company and its subsidiaries in 2017.

**Occupational health management**

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

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

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

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

**Notification and warning of occupational hazards**

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

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

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

**Report of occupational hazards**

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

**Management of protective articles for occupational hazards**

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

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

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

**"Three simultaneouses" in the development of occupational health**

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

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

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

### Safety management

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

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

Safety agreements were signed with all subsidiaries with signing rate of 100%. Professional safety personnel were assigned to industrial and high-risk enterprises in accordance with CNPGC's requirement, safety administration department was established with completion rate of 100%. The Company continued to increase spending on safe production, the total spending on safe production reached RMB31.84 million in 2017, representing an increase of RMB1.6 million compared with previous year.

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

## 6. Development and Training

### Employee training

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

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

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

### Appraisal and promotion

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

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

## 7. Supply Chain Management

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

### Code of conduct of suppliers

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

**Supplier management**

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

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

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

## 8. Anti-corruption

**Perfect anti-corruption mechanism**

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

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

Sinopharm Holding formulates the Detailed Rules for Implementation of Incorruption of Enterprise Leaders, in order to enhance the incorruption of leaders at all levels, prevent the corruptive behavior and protect the interest of contributors. It also signs the Responsibility Statement of Improvement of Party Conduct and Government Integrity with superintendents of subsidiaries.

Sign the Letter of Commitment of Operation Compliance with subsidiaries

Sinopharm Holding enters into the Letter of Commitment of Operation Compliance with its subsidiaries, and establishes the compliance management working team, in order to inspect the corruption and operation compliance of the subsidiaries, include the compliance inspection in the audit work, further lift the minimum requirements on compliance, and promote the establishment of long-term mechanism of operation compliance.

Formulate the Punishment Regulations on Employees’ Violation of Discipline

In order to rigorously enforce economic discipline, standardize the employees’ behavior, and guarantee the implementation of various systems of the Company, Sinopharm Holding formulates the Punishment Regulations on Employees’ Violation of Discipline, clearly stipulating the behavior violating the financial system, human resource system, quality management system, safety and environmental protection management, and the punishment procedures and modes for such behaviors.

### Transparent reporting platform

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

### "Eight regulations" of incorruption

The Party Committee of the Company formulates the Detailed Rules of Sinopharm Holding for the Implementation of Eight Regulations of the Central Committee concerning the Improvement of Working Style for Closer Ties with the Masses according to actual situation of the Company, in order to further perfect and implement the requirements of the "Eight Regulations" of the Political Bureau of the Central Committee on the improvement of the working style for closer ties with the masses, improve the working style, keep close ties with the masses, serve the employees, establish a good team image, and promote the development of the Company.

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

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

## 9. Returning the Society

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

### Voluntary medical treatment

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

### Concern for the disaster area

Following the cultural tent of "caring for life and attending to health", the Company actively fulfills the social responsibilities as a central enterprise. Over years it returns to the society and bring benefits to the people in various forms. Especially when severe natural disasters occur, the Company initiated all the employees to actively participate in the first aid and make contributions to the people in the disaster area. During the Sichuan Jiuzhaigou earthquake disaster occurred in 2017, the Company delivered more than 20 drug varieties in total and disinfecting drugs and protection materials with value of RMB89,300.

### Poverty relief

The Company not only strives to realize further development expansion and improvement, but also actively returns the society. It actively participates in the construction of local residential areas, fulfills its social responsibilities, cares about the hardship of employees in difficulty, and eliminates the difficulty and trouble for them by making use of its own fund, manpower and technology. Over the past decade, the Party Committee of the Company has integrated the assistance in pairs in Fujun Village with the in-depth development of grassroots Party organization and the enhancement of the fulfillment of social responsibilities by enterprises, fully implemented the contents of assistance, given full play to the role of the Party organizations in the Company and all the subsidiaries in Shanghai, fully mobilized the Party members and leaders to actively participate in the assistance in pairs according to the unified deployment of the Municipal Commission of Social Workers in active response to the appeal of the Municipal Party Committee, which has realized outstanding achievements, and won the unanimous recognition and praise among the villagers. The Company also encourages its subsidiaries to actively fulfill social responsibilities. In 2017 the Company's 16 subsidiaries in Shanghai donated more than RMB162,900 as kindness contribution. In 2017 the Company made specific precision donation of RMB3.5 million, donation of RMB479,500 to help poor students and other philanthropic donation of RMB1,281,300.

# Independent Auditor’s Report

EY 安永

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

## Opinion

We have audited the consolidated financial statements of Sinopharm Group Co. Ltd. (the “Company”) and its subsidiaries (the “Group”) set out on pages 95 to 232, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for opinion

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

## Key audit matters

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

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

## Key audit matters (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment of goodwill* | |
| The carrying value of goodwill amounted to RMB4,127 million as at 31 December 2017 and was allocated to the Group's cash-generating units ("CGUs") of pharmaceutical distribution, retail pharmacy and other business segments. Under HKFRSs, the Group is required to annually perform the impairment test for goodwill. The impairment test is based on the recoverable amount of the respective CGUs to which the goodwill is allocated. Management performed the impairment test using the value in use calculation based on the discounted cash flow method. Assumptions such as the discount rate and the growth rate are set up applying estimates and significant judgements by management.<br><br>The Group's disclosures about impairment of goodwill are included in Note 17 "Intangible assets" to the financial statements, which specifically explains the key assumptions that management used for value-in-use calculations. | Our audit procedures included, involving our valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group, in particular, the discount rate and the long term growth rate. We assessed the forecasts used with respect to future revenues and operating results by comparing the forecasts with the historical performance of the respective CGUs and the business development plan. We also read and assessed the Group's disclosures of goodwill. |

## Key audit matters (continued)

| Key audit matter (continued) | How our audit addressed the key audit matter (continued) |
|---|---|
| *Impairment of trade receivables* | |
| At as 31 December 2017, the Group had trade receivables of RMB76,269 million, for which an impairment of RMB740 million was recorded. The assessment of impairment involves management's judgement and estimates. Specific factors management considers include the age of the balance, location of customers, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties. Management uses this information to determine whether a provision for impairment is required either individually or collectively. We focused on this area because it requires significant management's judgement and estimates.<br><br>The Group's disclosures about impairment of trade receivables are included in Note 26 "Trade receivables" to the financial statements. | Our audit procedures included, evaluating the analysis prepared by management for the impairment assessment.<br><br>In assessing the overall provision for impairment, we assessed management's policy for recognising provisions.<br><br>We selected samples of individually significant trade receivable balances where a provision for impairment of trade receivables was recognised and obtained an understanding of the rationale behind management's judgement. We reviewed the overdue analysis, the customer's historical payment patterns and subsequent payments.<br><br>We assessed the ageing reports of trade receivables, by tracing to the invoice dates on a sampling basis.<br><br>We also read and assessed the relevant disclosures made in the financial statements, including disclosures of the basis for this estimation. |

## Other information included in the Annual Report

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

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

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

## Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Ernst & Young**
*Certified Public Accountants*
Hong Kong
23 March 2018

# Consolidated Statement of Profit or Loss

**Year ended 31 December 2017**

| | Notes | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|---|
| Revenue | 5,6 | **277,717,018** | 258,387,689 |
| Cost of sales | 9 | **(254,640,464)** | (237,717,016) |
| **Gross profit** | | **23,076,554** | 20,670,673 |
| Other income | 7 | **399,814** | 272,285 |
| Selling and distribution expenses | 9 | **(7,383,263)** | (6,618,858) |
| Administrative expenses | 9 | **(4,187,139)** | (4,110,380) |
| **Operating profit** | | **11,905,966** | 10,213,720 |
| Other gains – net | 8 | **359,234** | 410,732 |
| Finance income | | **321,165** | 291,010 |
| Finance costs | | **(2,854,784)** | (2,222,830) |
| Finance costs – net | 11 | **(2,533,619)** | (1,931,820) |
| Share of profits and losses of: | | | |
| Associates | 19 | **431,470** | 232,190 |
| A joint venture | | **9,953** | – |
| **Profit before tax** | | **10,173,004** | 8,924,822 |
| Income tax expense | 12 | **(2,304,828)** | (2,033,227) |
| **Profit for the year** | | **7,868,176** | 6,891,595 |
| **Attributable to:** | | | |
| Owners of the parent | | **5,283,091** | 4,647,344 |
| Non-controlling interests | | **2,585,085** | 2,244,251 |
| | | **7,868,176** | 6,891,595 |
| **Earnings per share attributable to ordinary equity holders of the parent (expressed in RMB per share)** | | | |
| – Basic | 13 | **1.91** | 1.68 |
| – Diluted | 13 | **1.91** | 1.68 |

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

# Consolidated Statement of Comprehensive Income

**Year ended 31 December 2017**

| | Notes | **2017**<br>**RMB'000** | 2016<br>RMB'000 |
|---|---|---|---|
| **Profit for the year** | | **7,868,176** | 6,891,595 |
| **Other comprehensive loss:** | | | |
| *Other comprehensive income not to be reclassified to profit or loss in subsequent periods* | | | |
| Remeasurements of post-employment benefit obligations | 12 | **10,121** | 10,110 |
| *Other comprehensive loss to be reclassified to profit or loss in subsequent periods* | | | |
| Available-for-sale investments: | | | |
| Changes in fair value, net of tax | 12 | **(26,507)** | (7,613) |
| Exchange differences | 12 | **16,235** | (17,839) |
| Share of other comprehensive loss of associates | 12 | **(645)** | (1,507) |
| Net other comprehensive loss to be reclassified to profit or loss in subsequent periods | | **(10,917)** | (26,959) |
| **Other comprehensive loss for the year, net of tax** | | **(796)** | (16,849) |
| **Total comprehensive income for the year** | | **7,867,380** | 6,874,746 |
| **Attributable to:** | | | |
| Owners of the parent | | **5,292,000** | 4,630,998 |
| Non-controlling interests | | **2,575,380** | 2,243,748 |
| | | **7,867,380** | 6,874,746 |

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

# Consolidated Statement of Financial Position

31 December 2017

| | Notes | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Prepaid land lease payments | 14 | **1,348,599** | 1,328,555 |
| Investment properties | 15 | **401,121** | 407,552 |
| Property, plant and equipment | 16 | **7,795,659** | 6,752,464 |
| Intangible assets | 17 | **6,674,179** | 6,282,772 |
| Investment in a joint venture | | **12,893** | 2,940 |
| Investments in associates | 19 | **5,051,003** | 3,327,990 |
| Available-for-sale investments | 21 | **553,456** | 461,980 |
| Finance lease receivables | 22 | **–** | 3,788,098 |
| Deferred tax assets | 23 | **836,511** | 791,208 |
| Other non-current assets | 24 | **2,022,214** | 1,808,312 |
| Total non-current assets | | **24,695,635** | 24,951,871 |
| **Current assets** | | | |
| Inventories | 25 | **26,768,692** | 25,759,525 |
| Trade receivables | 26 | **75,528,859** | 69,245,421 |
| Prepayments and other receivables | 27 | **8,675,478** | 5,677,916 |
| Available-for-sale investments | 21 | **516** | 5,468 |
| Finance lease receivables | 22 | **–** | 1,480,990 |
| Pledged deposits and restricted cash | 28 | **4,858,412** | 5,017,640 |
| Cash and cash equivalents | 28 | **29,011,436** | 25,572,759 |
| Total current assets | | **144,843,393** | 132,759,719 |
| **Total assets** | | **169,539,028** | 157,711,590 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 29 | **2,767,095** | 2,767,095 |
| Treasury shares held for share incentive scheme | 45 | **(193,003)** | – |
| Reserves | 30 | **32,683,543** | 29,043,833 |
| | | **35,257,635** | 31,810,928 |
| **Non-controlling interests** | | **16,012,019** | 12,721,508 |
| **Total equity** | | **51,269,654** | 44,532,436 |

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

# Consolidated Statement of Financial Position

**31 December 2017**

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Interest-bearing bank and other borrowings | 31 | **5,441,488** | 11,135,299 |
| Deferred tax liabilities | 23 | **666,872** | 601,328 |
| Post-employment benefit obligations | 32 | **358,895** | 518,353 |
| Other non-current liabilities | 33 | **925,815** | 1,186,815 |
| Total non-current liabilities | | **7,393,070** | 13,441,795 |
| **Current liabilities** | | | |
| Trade payables | 34 | **66,612,779** | 66,745,815 |
| Accruals and other payables | 35 | **13,159,792** | 9,679,585 |
| Dividends payable | | **54,892** | 93,770 |
| Tax payable | | **885,933** | 855,611 |
| Interest-bearing bank and other borrowings | 31 | **30,162,908** | 22,362,578 |
| Total current liabilities | | **110,876,304** | 99,737,359 |
| **Total liabilities** | | **118,269,374** | 113,179,154 |
| **Total equity and liabilities** | | **169,539,028** | 157,711,590 |

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

The financial statements were approved by the Board of Directors on 23 March 2018 and were signed on its behalf by

**Li Zhiming**
*Director*

**Tan Wee Seng**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December 2017

| | Notes | Attributable to owners of the parent | | | | | |
|---|---|---|---|---|---|---|---|
| | | Share capital RMB'000 (Note 29) | Treasury shares held for share incentive scheme RMB'000 (Note 45) | Reserves RMB'000 (Note 30) | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| As at 1 January 2016 | | 2,767,095 | – | 27,343,215 | 30,110,310 | 10,768,367 | 40,878,677 |
| Total comprehensive income | | – | – | 4,630,998 | 4,630,998 | 2,243,748 | 6,874,746 |
| Effects of transactions with non-controlling interests | | – | – | (1,176,180) | (1,176,180) | (390,162) | (1,566,342) |
| Capital injection from non-controlling shareholders of subsidiaries | | – | – | – | – | 344,875 | 344,875 |
| Acquisition of subsidiaries | | – | – | – | – | 4,304 | 4,304 |
| Disposal of subsidiaries | | – | – | – | – | (172,860) | (172,860) |
| Equity-settled share incentive scheme | | – | – | 3,359 | 3,359 | 514 | 3,873 |
| Dividends paid to non-controlling interests | | – | – | – | – | (480,291) | (480,291) |
| Dividend declared | | – | – | (1,134,509) | (1,134,509) | – | (1,134,509) |
| Assets restructuring | | – | – | (596,589) | (596,589) | 411,901 | (184,688) |
| Others | | – | – | (26,461) | (26,461) | (8,888) | (35,349) |
| As at 31 December 2016 | | 2,767,095 | – | 29,043,833 | 31,810,928 | 12,721,508 | 44,532,436 |
| Total comprehensive income | | **-** | **-** | **5,292,000** | **5,292,000** | **2,575,380** | **7,867,380** |
| Effects of transactions with non-controlling interests | 40 | **-** | **-** | **(378,856)** | **(378,856)** | **(298,284)** | **(677,140)** |
| Capital injection from non-controlling shareholders of subsidiaries | | **-** | **-** | **-** | **-** | **1,653,558** | **1,653,558** |
| Acquisition of subsidiaries | 41 | **-** | **-** | **-** | **-** | **108,063** | **108,063** |
| Deemed disposal of subsidiaries | 40 | **-** | **-** | **(3,210)** | **(3,210)** | **(115,974)** | **(119,184)** |
| Purchase of shares for the share incentive scheme | | **-** | **(203,290)** | **-** | **(203,290)** | **-** | **(203,290)** |
| Dividend on shares held by the share incentive scheme | | **-** | **3,285** | **-** | **3,285** | **-** | **3,285** |
| Release of shares from the share incentive scheme | | **-** | **7,117** | **-** | **7,117** | **-** | **7,117** |
| Dividend on shares released from the share incentive scheme | | **-** | **(115)** | **115** | **-** | **-** | **-** |
| Equity-settled share incentive scheme | | **-** | **-** | **23,979** | **23,979** | **3,554** | **27,533** |
| Dividends paid to non-controlling interests | | **-** | **-** | **-** | **-** | **(657,153)** | **(657,153)** |
| Dividend declared | | **-** | **-** | **(1,383,548)** | **(1,383,548)** | **-** | **(1,383,548)** |
| Share of changes in equity other than comprehensive income and distributions received from associates | | **-** | **-** | **16,498** | **16,498** | **-** | **16,498** |
| Other changes of investment in an associate | | **-** | **-** | **(2,027)** | **(2,027)** | **-** | **(2,027)** |
| Deemed disposal of an investment in an associate | | **-** | **-** | **47,424** | **47,424** | **-** | **47,424** |
| Others | | **-** | **-** | **27,335** | **27,335** | **21,367** | **48,702** |
| As at 31 December 2017 | | **2,767,095** | **(193,003)** | **32,683,543** | **35,257,635** | **16,012,019** | **51,269,654** |

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

# Consolidated Statement of Cash Flows

**Year ended 31 December 2017**

| | Notes | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Cash generated from operations | 37(a) | 4,075,926 | 11,303,860 |
| Income tax paid | | (2,408,581) | (2,045,896) |
| Net cash generated from operating activities | | 1,667,345 | 9,257,964 |
| **Cash flows from investing activities:** | | | |
| Proceeds from disposal of intangible assets | | 932 | – |
| Proceeds from disposal of prepaid land lease payments | | 28,239 | 28,418 |
| Proceeds from disposal of property, plant and equipment | | 116,600 | 324,064 |
| Proceeds from disposal of available-for-sale investments | | 24,807 | 1,370 |
| Proceeds from disposal of investment properties | | 774 | 3,309 |
| Proceeds from disposal of an associate | | 17,799 | – |
| Proceeds from disposal of other non-current assets | | 5,228 | – |
| Interest received from long-term deposits | | 62,367 | 66,829 |
| Disposal of subsidiaries, net of cash disposed of | 39 | (125,859) | 165,245 |
| Dividends received from associates | | 150,192 | 104,921 |
| Dividends received from available-for-sale investments | | 6,466 | 16,712 |
| Payment for an investment in an associate | | – | (75,259) |
| Purchase of prepaid land lease payments | | (53,398) | (16,967) |
| Purchase of property, plant and equipment | | (1,749,769) | (1,211,734) |
| Purchase of intangible assets | | (91,532) | (135,135) |
| Purchase of investment properties | | (782) | (359) |
| (Payments)/repayments of long-term deposits | | (155,936) | 55,675 |
| Prepayment for aquisition of industry investment funds | | (195,000) | – |
| Acquisition of available-for-sale investments | | (108,550) | (9,163) |
| Acquisition of subsidiaries, net of cash acquired of | 41 | (296,139) | (19,154) |
| Consideration paid for prior years acquisition of subsidiaries | | (298,953) | (210,882) |
| Acquisition of associates | | (44,000) | (276,050) |
| Acquisition of a joint venture | | – | (2,940) |
| Decrease/(increase) in restricted cash | 28 | 159,228 | (415,354) |
| Net cash used in investing activities | | (2,547,286) | (1,606,454) |

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **Cash flows from financing activities:** | | | |
| Proceeds from borrowings from banks | | 41,952,851 | 26,884,853 |
| Proceeds from borrowings from related parties | | 161,378 | 20,000 |
| Proceeds from borrowings from other financial institution | | 797,716 | 699,000 |
| Repayments of borrowings from banks | | (32,336,232) | (25,527,678) |
| Repayments of borrowings from related parties | | (49,600) | (52,000) |
| Repayments of borrowings from other financial institution | | (690,000) | (672,665) |
| Repayments of bonds | | (6,000,000) | (14,000,000) |
| Proceeds from issuing of bonds | | 3,992,345 | 14,973,982 |
| Capital injections from non-controlling shareholders of subsidiaries | | 1,593,403 | 613,019 |
| Assets restructuring | | – | (416,463) |
| Dividends paid to owners of the parent of the Company | | (1,383,433) | (1,134,509) |
| Dividends paid to non-controlling shareholders of subsidiaries | | (754,748) | (478,626) |
| Acquisition of non-controlling interests | | (577,674) | (941,801) |
| Advance from employees for purchase of shares under incentive scheme | | 96,241 | – |
| Purchase of shares under the share incentive scheme | | (196,218) | – |
| Interest paid | | (2,303,646) | (1,994,076) |
| Net cash from/(used in) financing activities | | 4,302,383 | (2,026,964) |
| **Increase in cash and cash equivalents** | | 3,422,442 | 5,624,546 |
| Cash and cash equivalents at beginning of year | 28 | 25,572,759 | 19,966,052 |
| Effect of foreign exchange rate changes, net | | 16,235 | (17,839) |
| **Cash and cash equivalents at end of year** | 28 | 29,011,436 | 25,572,759 |

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

## 1. General information

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

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

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

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

The ultimate holding company of the Company is China National Pharmaceutical Group Co., Ltd. ("CNPGC"), which was established in the PRC.

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements were approved for issue by the Board of Directors on 23 March 2018.

## 2. Summary of significant accounting policies

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

### (1) Basis of preparation

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

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

## 2. Summary of significant accounting policies (continued)

### (1) Basis of preparation (continued)

#### (i) Revised HKFRSs adopted by the Group

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

| | |
|---|---|
| Amendments to HKAS 7 | *Disclosure Initiative* |
| Amendments to HKAS 12 | *Recognition of Deferred Tax Assets for Unrealised Losses* |
| Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle* | *Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12* |

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 37(b) to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

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

| | |
|---|---|
| Amendments to HKFRS 2 | *Classification and Measurement of Share-based Payment Transactions*[1] |
| Amendments to HKFRS 4 | *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1] |
| HKFRS 9 | *Financial Instruments*[1] |
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation*[2] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| HKFRS 15 | *Revenue from Contracts with Customers*[1] |
| Amendments to HKFRS 15 | *Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1] |
| HKFRS 16 | *Leases*[2] |
| HKFRS 17 | *Insurance Contracts*[3] |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures*[2] |
| Amendments to HKAS 40 | *Transfers of Investment Property*[1] |
| HK(IFRIC)-Int 22 | *Foreign Currency Transactions and Advance Consideration*[1] |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments*[2] |
| *Annual Improvements 2014-2016 Cycle* | Amendments to HKFRS 1 and HKAS 28[1] |
| *Annual Improvements 2015-2017 Cycle* | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[2] |

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after 1 January 2021
[4] No mandatory effective date yet determined but available for adoption

## 2. Summary of significant accounting policies (continued)

### (1) Basis of preparation (continued)

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

Further information about those HKFRSs that are expected to be applicable to the Group is as described below.

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements are summarised as follows:

## 2. Summary of significant accounting policies (continued)

### (1) Basis of preparation (continued)

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

(a) Classification and measurement

HKFRS 9 requires that the Group classifies debt instruments based on the combined effect of application of business model (hold to collect contractual cash flow, hold to collect contractual cash flow and sell financial assets or other business models) and contractual cash flow characteristics (sole payments of principal and interest on the principal amount outstanding or not). Debt instruments not giving rise to cash flows that are sole payments of principal and interest on the principal amount outstanding would be measured at fair value through profit and loss. Other debt instruments giving rise to cash flows that are sole payments of principal and interest on the principal amount outstanding would be measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss, based on their respective business model.

Equity investments currently held as available for sale will generally be measured at fair value through profit or loss unless the Group elects to measure at fair value through other comprehensive income (without recycling, i.e. any gain/loss will be recorded in other comprehensive income and will not be reclassified to profit or loss, while the dividend is recognized through profit or loss) for equity investments that are not held for trading.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its financial assets included in its debt instruments within the next twelve months. Based on the assessments undertaken to date, the Group does not expect that the adoption of HKFRS 9 will have a significant impact on the impairment of its financial assets.

## 2. Summary of significant accounting policies (continued)

### (1) Basis of preparation (continued)

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

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKFRS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material.

## 2. Summary of significant accounting policies (continued)

### (1) Basis of preparation (continued)

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

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 38(b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB3,293,941,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Amendments to HKAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

## 2. Summary of significant accounting policies (continued)

### (1) Basis of preparation (continued)

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

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

## 2. Summary of significant accounting policies (continued)

### (2) Subsidiaries

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

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

**(i) Business combinations not under common control**

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

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

## 2. Summary of significant accounting policies (continued)

### (2) Subsidiaries (continued)

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

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

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

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

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

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

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

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

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

## 2. Summary of significant accounting policies (continued)

### (2) Subsidiaries (continued)

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

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

#### (iv) Disposal of subsidiaries

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained earnings, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

#### (v) Goodwill

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

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

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

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

## 2. Summary of significant accounting policies (continued)

### (2) Subsidiaries (continued)

#### (vi) Separate financial statements

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

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

### (3) Investments in associates and joint ventures

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

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

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

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

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

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

## 2. Summary of significant accounting policies (continued)

### (4) Segment reporting

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

### (5) Foreign currency translation

**(i) Functional and presentation currency**

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

**(ii) Transactions and balances**

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss within finance income or costs. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss within other gains – net.

Changes in the fair value of monetary securities denominated in foreign currencies classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the securities, and other changes in the carrying amount of the securities. 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 differences on non-monetary financial assets and liabilities such as equity investments held at fair value through profit or loss are recognised in profit or loss as part of the fair value gains or losses. Translation differences on non-monetary financial assets such as equity investments classified as available-for-sale are included in other comprehensive income.

## 2. Summary of significant accounting policies (continued)

### (5) Foreign currency translation (continued)

#### (iii) Group companies

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

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

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

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

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

### (6) Property, plant and equipment

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

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

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

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

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

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

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

### (7) Investment property

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

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

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

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

### (8) Prepaid land lease payments

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

### (9) Intangible assets other than goodwill

#### (i) Sales network

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

#### (ii) Trademarks and patent rights

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

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

## 2. Summary of significant accounting policies (continued)

### (9) Intangible assets other than goodwill (continued)

**(iii) Exclusive distribution rights**

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

**(iv) Favourable leasing rights**

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

**(v) 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 10 years.

**(vi) Internally generated product development cost**

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

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

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

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

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

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

## 2. Summary of significant accounting policies (continued)

### (10) Leases

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

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

### (11) Fair value measurement

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

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

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

## 2. Summary of significant accounting policies (continued)

### (11) Fair value measurement (continued)

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

### (12) Impairment of non-financial assets

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

### (13) Financial assets

**Classification**

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

(i) Loans and receivables

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

(ii) Available-for-sale investments

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

## 2. Summary of significant accounting policies (continued)

### (13) 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. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale investments are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

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

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

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

**Derecognition of financial assets**

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

## 2. Summary of significant accounting policies (continued)

### (14) Impairment of financial assets

**(i) Assets carried at amortised cost**

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

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

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

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

**(ii) Assets classified as available for sale**

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

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

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

## 2. Summary of significant accounting policies (continued)

### (15) 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.

### (16) 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; otherwise, 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.

### (17) Cash and cash equivalents

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

### (18) Share capital

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

### (19) Treasury shares

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

### (20) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables 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.

## 2. Summary of significant accounting policies (continued)

### (21) Borrowings

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

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

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

### (22) Borrowing costs

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

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

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

### (23) Derecognition of financial liabilities

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

### (24) Offsetting of financial instruments

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

## 2. Summary of significant accounting policies (continued)

### (25) Current and deferred income tax

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

**(i) Current income tax**

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

**(ii) Deferred income tax**

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

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

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

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

## 2. Summary of significant accounting policies (continued)

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

#### (iii) Offsetting

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

### (26) Employee benefits

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

A defined contribution plan is a pension plan under which the Group pays fixed 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 statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. 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 obligation.

The current service cost of the defined benefit plan, recognised in the statement of profit or loss in employee benefit expenses, except where included in the cost of an asset, reflects the increase in the defined benefit obligation results from employee service in the current year, benefit changes, curtailments and settlements.

Past-service costs are recognised in income.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expenses in the statement of profit or loss.

## 2. Summary of significant accounting policies (continued)

### (26) Employee benefits (continued)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses 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.

**(a) Other post-employment obligations**

Some group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

**(b) Termination benefits**

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (i) when the Group can no longer withdraw the offer of those benefits; and (ii) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

**(c) Profit-sharing and bonus plans**

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

**(d) Employee leave entitlements**

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the statement of financial position date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

## 2. Summary of significant accounting policies (continued)

### (27) Provisions

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

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

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

### (28) Revenue recognition

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

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

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

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

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

## 2. Summary of significant accounting policies (continued)

### (28) Revenue recognition (continued)

**(ii) Sales of goods – retail pharmacy**

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

**(iii) Sales of services**

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

**(iv) Operating lease income**

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

**(v) Finance lease income**

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

**(vi) Franchise income**

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

**(vii) Interest income**

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

**(viii) Dividend income**

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

### (29) Government grants

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

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

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

## 2. Summary of significant accounting policies (continued)

### (30) Dividend distribution

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

### (31) Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Asian Options model, further details of which are given in note 45 to the financial statements.

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

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

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

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

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

## 2. Summary of significant accounting policies (continued)

### (32) Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

## 3. Financial risk management

### (1) Financial risk factors

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

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

#### (i) Foreign currency risk

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

As at 31 December 2017, 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 2017 would have been approximately RMB17,576,000 (2016: RMB32,708,000) higher/lower, mainly as a result of foreign exchange losses/gains on translation of USD, HKD and EUR-denominated cash and cash equivalents, borrowings from banks and other financial institutions and trade payables.

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

Except for deposits in banks or other financial institutions which earn interest at floating rates (Note 28), 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 2017, if interest rates on deposits in banks or other financial institution had been 15% higher/lower with all other variables held constant, the post-tax profit for the year ended 31 December 2017 would have been RMB32,789,000 (2016: RMB32,739,000) higher/lower, mainly as a result of higher/lower interest income on cash at banks or other financial institutions.

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

As at 31 December 2017, if interest rates on borrowings had been 50 basis points higher/lower with all other variables held constant, the post-tax profit for the year ended 31 December 2017 would have been RMB88,559,000 (2016: RMB73,167,000) lower/higher, mainly as a result of higher/lower interest expense on borrowings.

## 3. Financial risk management (continued)

### (1) Financial risk factors (continued)

#### (iii) Credit risk

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

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

The Group has policies to place its cash and cash equivalents only with major financial institutions and other financial institutions controlled by CNPGC. As at 31 December 2017, most of the restricted bank deposits and cash and cash equivalents were deposited with major financial institutions in Mainland China and Hong Kong except the deposit placed in a related party as disclosed in Note 42.

#### (iv) Liquidity risk

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

At the reporting date, the Group held cash and cash equivalents of RMB29,011,436,000 (2016: RMB25,572,759,000) (Note 28) and trade receivables of RMB75,528,859,000 (2016: RMB69,245,421,000) (Note 26) that are expected to readily generate cash inflows for managing liquidity risk. The Group also has agreed to receive bank acceptance notes from certain customers with long-term business trading history and most of these notes are guaranteed by major banks in Mainland China. The maturity of these bank acceptance notes ranges from 3 to 6 months. To maintain flexibility in the Group's funding requirements, a major portion of these bank acceptance notes are discounted to banks or other financial institutions with effective interest rates ranging from 2.74% to 5.95% per annum.

## 3. Financial risk management (continued)

### (1) Financial risk factors (continued)

**(iv) Liquidity risk** (continued)

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

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **As at 31 December 2017** | | | | | |
| Interest-bearing bank and other borrowings | **30,765,957** | **4,325,817** | **1,247,102** | **–** | **36,338,876** |
| Trade and other payables | **77,197,174** | **–** | **–** | **–** | **77,197,174** |
| Dividends payable | **54,892** | **–** | **–** | **–** | **54,892** |
| Other non-current liabilities | **–** | **63,690** | **19,924** | **–** | **83,614** |
| | **108,018,023** | **4,389,507** | **1,267,026** | **–** | **113,674,556** |
| **As at 31 December 2016** | | | | | |
| Interest-bearing bank and other borrowings | 23,221,521 | 5,476,312 | 6,026,970 | – | 34,724,803 |
| Trade and other payables | 74,359,360 | – | – | – | 74,359,360 |
| Dividends payable | 93,770 | – | – | – | 93,770 |
| Other non-current liabilities | – | 313,672 | 19,617 | – | 333,289 |
| | 97,674,651 | 5,789,984 | 6,046,587 | – | 109,511,222 |

Note: The calculation of expected interest to be paid is based on borrowings as at 31 December 2017 and 2016 and the interest rate as at 31 December 2017 and 2016.

### (2) Capital risk management

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

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

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

## 3. Financial risk management (continued)

### (2) Capital risk management (continued)

The gearing ratios are as follows:

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Total liabilities | **118,269,374** | 113,179,154 |
| Total assets | **169,539,028** | 157,711,590 |
| Gearing ratio | **69.76%** | 71.76% |

### (3) Fair value estimation

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

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

The table below presents the Group's assets and liabilities that are measured at fair value at 31 December 2017 and 2016.

| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 31 December 2017 | | | | |
| Available-for-sale investments | **33,084** | **4,570** | **175,098** | **212,752** |
| At 31 December 2016 | | | | |
| Available-for-sale investments | 74,000 | 4,570 | 148,821 | 227,391 |

## 3. Financial risk management (continued)

### (3) Fair value estimation (continued)

**(i) Financial instruments in level 1**

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

**(ii) Financial instruments in level 2**

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of reporting period, with the resulting value discounted back to the present value.
- Other techniques, such as a discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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

**(iii) Financial instruments in level 3**

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

The available-for-sale investments in level 3 represented asset-backed securities. As at 31 December 2017, the Group invested in asset-backed securities which were issued by special purpose trusts. The Group entered into securitisation transactions in the normal course of business by transferring accounts receivables to special purpose trusts which in turn issued asset-backed securities to investors. The Group acquired some subordinated tranches of securities and accordingly parts of the risks and rewards of the transferred credit assets.

As at 31 December 2017, the Group continued to involve in the asset-back securities transactions to some extent. The Group continued to recognise the relevant assets amounting to RMB175,098,000 (Note 27). The associated liabilities were RMB175,098,000 (Note 35) which represented the maximum cash flows exposure due to the subordinated tranches of securities held by the Group, and its secondary earnings appropriation.

## 4. Critical accounting estimates and judgements

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

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

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

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

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

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

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

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

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth 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 statement of profit or loss.

## 4. Critical accounting estimates and judgements (continued)

### (4) 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 financial year end.

### (5) Net realisable value of inventories

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

### (6) Income taxes and deferred income tax

The Group is subject to income taxes in Mainland China and Hong Kong 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 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.

### (7) Post-employment benefit obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. 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.

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

Other key assumptions for pension obligations are partially based on current market conditions. Additional information is disclosed in Note 32.

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

The Group tests annually whether goodwill and trademarks with an indefinite useful life have suffered any impairment, in accordance with the accounting policy stated in Note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 17).

## 5. Segment information

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

(i) Pharmaceutical distribution – distribution of medicine, medical instruments and pharmaceutical products to hospitals, other distributors, retail drug stores and clinics;

(ii) Retail pharmacy – operation of medicine chain stores; and

(iii) Other business – distribution of laboratory supplies, manufacture and distribution of chemical reagents, production and sale of pharmaceutical products, and finance lease.

Although the retail pharmacy segment does not meet the quantitative thresholds required by HKFRS 8 *Operating segments*, management has concluded that this segment should be reported, as it is closely monitored by the operating committee as a potential growth segment and is expected to materially contribute to group revenue in the future.

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment assets consist primarily of prepaid land lease payments, investment properties, property, plant and equipment, intangible assets, investments in associates and a joint venture, inventories, receivables and operating cash.

Segment liabilities are those operating liabilities that result from the operating activities of a segment. Segment liabilities do not include borrowings, deferred tax liabilities and other liabilities that are incurred for financing rather than operating purposes.

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

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

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

## 5. Segment information (continued)

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

### (1) Years ended 31 December 2017 and 2016

| | Pharmaceutical distribution RMB'000 | Retail pharmacy RMB'000 | Other business RMB'000 | Eliminations RMB'000 | Group RMB'000 |
|---|---|---|---|---|---|
| **Year ended 31 December 2017** | | | | | |
| **Segment results** | | | | | |
| External segment revenue | 261,635,713 | 12,341,779 | 3,739,526 | – | 277,717,018 |
| Inter-segment revenue | 2,716,520 | 50,427 | 222,074 | (2,989,021) | – |
| Revenue | 264,352,233 | 12,392,206 | 3,961,600 | (2,989,021) | 277,717,018 |
| Operating profit | 11,154,424 | 398,474 | 410,935 | (57,867) | 11,905,966 |
| Other gains – net | 338,032 | 6,070 | 15,132 | – | 359,234 |
| Share of profits and losses of associates and a joint venture | 8,038 | 2,781 | 430,604 | – | 441,423 |
| | 11,500,494 | 407,325 | 856,671 | (57,867) | 12,706,623 |
| Finance costs – net | | | | | (2,533,619) |
| **Profit before tax** | | | | | 10,173,004 |
| Income tax expense | | | | | (2,304,828) |
| Profit for the year | | | | | 7,868,176 |
| **Other segment items included in the consolidated statement of profit or loss** | | | | | |
| (Reversal of provision)/provision for impairment of trade and other receivables | (49,811) | 2,666 | 9,839 | | (37,306) |
| Provision for impairment of inventories | 39,282 | 116 | 2,537 | | 41,935 |
| Provision for impairment of property, plant and equipment | 917 | – | – | | 917 |
| Provision for impairment of finance lease receivables | – | – | 40,450 | | 40,450 |
| Amortisation of prepaid land lease payments | 34,292 | 135 | 1,316 | | 35,743 |
| Depreciation of property, plant and equipment | 585,488 | 100,464 | 32,143 | | 718,095 |
| Depreciation of investment properties | 17,021 | 969 | 5,265 | | 23,255 |
| Amortisation of intangible assets | 221,892 | 14,438 | 1,704 | | 238,034 |
| **Capital expenditure** | 2,333,652 | 198,545 | 31,289 | | 2,563,486 |

## 5. Segment information (continued)

### (1) Years ended 31 December 2017 and 2016 (continued)

| | Pharmaceutical distribution RMB'000 | Retail pharmacy RMB'000 | Other business RMB'000 | Eliminations RMB'000 | Group RMB'000 |
|---|---|---|---|---|---|
| **Year ended 31 December 2016** | | | | | |
| **Segment results** | | | | | |
| External segment revenue | 243,883,443 | 10,201,689 | 4,302,557 | – | 258,387,689 |
| Inter-segment revenue | 2,575,373 | 36,821 | 138,319 | (2,750,513) | – |
| Revenue | 246,458,816 | 10,238,510 | 4,440,876 | (2,750,513) | 258,387,689 |
| Operating profit | 9,372,677 | 298,098 | 601,990 | (59,045) | 10,213,720 |
| Other gains – net | 35,510 | 8,671 | 366,551 | – | 410,732 |
| Share of profits and losses of associates | 13,807 | 2,500 | 215,883 | – | 232,190 |
| | 9,421,994 | 309,269 | 1,184,424 | (59,045) | 10,856,642 |
| Finance costs – net | | | | | (1,931,820) |
| **Profit before tax** | | | | | 8,924,822 |
| Income tax expense | | | | | (2,033,227) |
| Profit for the year | | | | | 6,891,595 |
| **Other segment items included in the consolidated statement of profit or loss** | | | | | |
| Provision/(reversal of provision) for impairment of trade and other receivables | 57,284 | 22 | (1,142) | | 56,164 |
| Provision/(reversal of provision) for impairment of inventories | 946 | (149) | 7,789 | | 8,586 |
| Provision for impairment of intangible assets | 25,850 | – | – | | 25,850 |
| Provision for impairment of finance lease receivables | – | – | 33,746 | | 33,746 |
| Amortisation of prepaid land lease payments | 40,577 | 51 | 6,175 | | 46,803 |
| Depreciation of property, plant and equipment | 564,844 | 75,984 | 114,895 | | 755,723 |
| Depreciation of investment properties | 11,497 | 2,454 | 2,660 | | 16,611 |
| Amortisation of intangible assets | 214,651 | 14,537 | 19,436 | | 248,624 |
| **Capital expenditure** | 1,190,886 | 175,441 | 98,167 | | 1,464,494 |

## 5. Segment information (continued)

### (2) As at 31 December 2017 and 2016

| | Pharmaceutical distribution RMB'000 | Retail pharmacy RMB'000 | Other business RMB'000 | Eliminations RMB'000 | Group RMB'000 |
|---|---|---|---|---|---|
| **As at 31 December 2017** | | | | | |
| **Segment assets and liabilities** | | | | | |
| Segment assets | 154,352,095 | 7,176,658 | 9,499,578 | (2,325,814) | 168,702,517 |
| Segment assets include: | | | | | |
| Investments in associates and a joint venture | 198,771 | 23,589 | 4,841,536 | – | 5,063,896 |
| Unallocated assets – Deferred tax assets | | | | | 836,511 |
| Total assets | | | | | 169,539,028 |
| Segment liabilities | 77,779,995 | 4,835,357 | 1,775,599 | (2,392,845) | 81,998,106 |
| Unallocated liabilities – Deferred tax liabilities and borrowings | | | | | 36,271,268 |
| Total liabilities | | | | | 118,269,374 |
| **As at 31 December 2016** | | | | | |
| **Segment assets and liabilities** | | | | | |
| Segment assets | 140,062,386 | 5,726,403 | 13,296,519 | (2,164,926) | 156,920,382 |
| Segment assets include: | | | | | |
| Investments in associates and a joint venture | 162,214 | 17,846 | 3,150,870 | – | 3,330,930 |
| Unallocated assets – Deferred tax assets | | | | | 791,208 |
| Total assets | | | | | 157,711,590 |
| Segment liabilities | 73,847,155 | 3,960,703 | 3,288,010 | (2,015,919) | 79,079,949 |
| Unallocated liabilities – Deferred tax liabilities and borrowings | | | | | 34,099,205 |
| Total liabilities | | | | | 113,179,154 |

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

## 6. Revenue

Revenue mainly represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; and gross rental income received and receivable from investment properties during the year.

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Sales of goods | **275,885,083** | 257,171,400 |
| Consulting income | **530,313** | 417,412 |
| Franchise fee and other service fee from medicine chain stores | **66,474** | 133,436 |
| Operating lease income (Note 15) | **159,952** | 164,591 |
| Revenue from logistics service | **308,111** | 160,466 |
| Interest income from finance leases | **688,041** | 270,464 |
| Import agency income | **21,636** | 22,949 |
| Others | **57,408** | 46,971 |
| | **277,717,018** | 258,387,689 |

## 7. Other income

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Government grants (i) | **399,814** | 272,285 |

Note:

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

## 8. Other gains – net

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Write-back of certain liabilities | **100,124** | 12,596 |
| Gain on fair value re-measurement of existing equity in a subsidiary disposed of | **–** | 35,080 |
| Gain on fair value re-measurement of existing equity in business combinations not under common control | **35,239** | – |
| Gain on disposal of subsidiaries | **–** | 110,377 |
| Gain on deemed disposal of subsidiaries and on fair value re-measurement of existing equity in the subsidiary | **219,114** | – |
| Loss on disposal of an investment accounted for the equity method | **(263)** | – |
| Gain on disposal of prepaid land lease payments, investment properties, property, plant and equipment and intangible assets | **45,429** | 255,934 |
| Gain on disposal of available-for-sale investments | **16,636** | 470 |
| Foreign exchange loss – net | **(2,804)** | (5,036) |
| Donation | **(47,877)** | (17,339) |
| Dividend from available-for-sale investments | **18,164** | 13,727 |
| Others – net | **(24,528)** | 4,923 |
| | **359,234** | 410,732 |

## 9. Expenses by nature

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Raw materials and trading merchandise consumed | **254,063,328** | 236,797,833 |
| Changes in inventories of finished goods and work in progress | **13,558** | 29,325 |
| Employee benefit expenses (Note 10) | **6,255,896** | 5,855,887 |
| (Reversal of provision)/provision for impairment of trade receivables | **(69,672)** | 29,718 |
| Provision for impairment of other receivables | **32,366** | 26,446 |
| Provision for impairment of inventories (Note 25) | **41,935** | 8,586 |
| Provision for impairment of intangible assets (Note 17) | **–** | 25,850 |
| Provision for impairment of property, plant and equipment (Note 16) | **917** | – |
| Provision for impairment of finance lease receivables (Note 22) | **40,450** | 33,746 |
| Operating lease rental in respect of land and buildings | **938,020** | 897,185 |
| Depreciation of property, plant and equipment (Note 16) | **718,095** | 755,723 |
| Depreciation of investment properties (Note 15) | **23,255** | 16,611 |
| Amortisation of intangible assets (Note 17) | **238,034** | 248,624 |
| Amortisation of prepaid land lease payments (Note 14) | **35,743** | 46,803 |
| Auditor's remuneration | | |
| – statutory audit service | **22,879** | 20,575 |
| – non-statutory audit service | **774** | 1,761 |
| – non-audit service | **1,600** | 5,625 |
| Advisory and consulting fees | **198,789** | 141,523 |
| Transportation expenses | **999,297** | 972,332 |
| Travel expenses | **278,633** | 288,193 |
| Market development and business promotion expenses | **1,057,739** | 921,930 |
| Utilities | **137,912** | 174,656 |
| Others | **1,181,318** | 1,147,322 |
| Total cost of sales, selling and distribution expenses, and administrative expenses | **266,210,866** | 248,446,254 |

## 10. Employee benefit expenses

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Salaries, wages, allowances and bonuses | **4,899,797** | 4,591,081 |
| Contributions to pension plans (i) | **564,349** | 463,149 |
| Post-employment benefits | **(111,002)** | 25,493 |
| Housing benefits (ii) | **210,727** | 189,578 |
| Share incentive expenses (Note 45) | **26,949** | 3,833 |
| Other benefits (iii) | **665,076** | 582,753 |
| | **6,255,896** | 5,855,887 |

## 10. Employee benefit expenses (continued)

Notes:

**(i)** As stipulated by the related regulations in the PRC, the Group makes contributions to state-sponsored retirement schemes for its employees in Mainland China. The Group has also made contributions to another retirement scheme managed by an insurance company from 2011 for its employees of the Company and certain subsidiaries. The Group's employees make monthly contributions to the schemes at approximately 7% to 10% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group makes contributions of 20% to 28% of such relevant income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. These retirement schemes are responsible for the entire post-retirement benefit obligations to the retired employees.

Contributions totalling RMB8,176,000 (2016: RMB5,781,000) were payable to the fund at the year end of 2017.

**(ii)** Housing benefits represent contributions to the government-supervised housing funds in Mainland China at rates ranging from 5% to 12% of the employees' basic salary.

**(iii)** Other benefits mainly represent expenses incurred for medical insurance, employee welfare, employee education and training, and for union activities.

**(iv)** **Five highest paid individuals**

The five individuals whose emoluments were the highest in the group for the year include three (2016: two) directors whose emoluments are reflected in the analysis shown in Note 46. The emoluments payable to the remaining two (2016: three) individuals during the year are as follows:

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Basic salaries, housing allowances, other allowances and benefits in kind | **2,709** | 3,718 |
| Bonuses | **2,673** | 4,705 |
| Contributions to pension schemes | **236** | 334 |
| Incentive bonuses | **4,620** | 6,329 |
| Share incentive expenses | **869** | 219 |
| | **11,107** | 15,305 |

| | **2017 Number** | 2016 Number |
|---|---|---|
| Emolument bands | | |
| HK$5,500,001 — HK$6,000,000 (RMB4,597,506 — RMB5,015,460) | **–** | 2 |
| HK$6,000,001 — HK$6,500,000 (RMB5,015,461 — RMB5,433,415) | **1** | 1 |
| HK$7,000,001 — HK$7,500,000 (RMB5,851,370 — RMB6,269,325) | **1** | – |

**(v)** For the years ended 31 December 2016 and 2017, no directors received emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or had agreed to waive any emoluments.

## 11. Finance income and costs

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Interest expense: | | |
| – Borrowings | **1,493,581** | 1,240,172 |
| – Discount of notes receivable | **321,831** | 319,003 |
| – Factoring of accounts receivable | **790,027** | 489,476 |
| – Net interest on net defined benefit liability | **16,266** | 14,982 |
| Gross interest expense | **2,621,705** | 2,063,633 |
| Bank charges | **242,920** | 179,338 |
| Less: capitalised interest expense (Note 16) | **(9,841)** | (20,141) |
| Finance costs | **2,854,784** | 2,222,830 |
| Finance income: | | |
| – Interest income on deposits in banks or other financial institutions | **(258,798)** | (224,181) |
| – Interest income on long-term deposits | **(62,367)** | (66,829) |
| Net finance costs | **2,533,619** | 1,931,820 |

## 12. Taxation

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Current income tax | **2,442,901** | 2,314,064 |
| Deferred income tax (Note 23) | **(138,073)** | (280,837) |
| | **2,304,828** | 2,033,227 |

## 12. Taxation (continued)

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

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Profit before tax | **10,173,004** | 8,924,822 |
| Less: Share of profits and losses of associates and a joint venture | **(441,423)** | (232,190) |
| | **9,731,581** | 8,692,632 |
| Tax calculated at the applicable tax rate | **2,432,895** | 2,173,158 |
| Expenses not deductible for tax purposes | **76,053** | 69,553 |
| Income not subject to tax | **(49,298)** | (1,768) |
| Tax losses not recognised | **20,408** | 25,817 |
| Tax losses utilised from previous periods | **(10,585)** | (32,915) |
| Impact of change in the applicable income tax rate on deferred tax | **(23)** | 4,834 |
| Impact of lower tax rates enacted by local authority | **(95,570)** | (132,360) |
| Income tax refund | **(69,052)** | (73,092) |
| Income tax expense | **2,304,828** | 2,033,227 |

Notes:

(i) During 2017, enterprises established in the PRC are normally subject to enterprise income tax ("EIT") at the rate of 25%, while certain subsidiaries enjoy preferential EIT at a rate of 15% as approved by the relevant tax authorities or due to their operations in designated areas with preferential EIT policies.

Two of the Group's subsidiaries are subject to Hong Kong profits tax at the rate of 16.5% on the estimated assessable profits arising in or derived from Hong Kong.

## 12. Taxation (continued)

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

| | 2017 Before tax RMB'000 | 2017 Tax (charge)/ credit RMB'000 | 2017 After tax RMB'000 | 2016 Before tax RMB'000 | 2016 Tax (charge)/ credit RMB'000 | 2016 After tax RMB'000 |
|---|---|---|---|---|---|---|
| Available-for-sale investments: | | | | | | |
| Changes in fair value | **(35,343)** | **8,836** | **(26,507)** | (10,151) | 2,538 | (7,613) |
| Remeasurement of post–employment benefit obligations | **13,105** | **(2,984)** | **10,121** | 12,495 | (2,385) | 10,110 |
| Share of other comprehensive loss of associates | **(645)** | **–** | **(645)** | (1,507) | – | (1,507) |
| Exchange differences | **16,235** | **–** | **16,235** | (17,839) | – | (17,839) |
| Other comprehensive (loss)/income | **(6,648)** | **5,852** | **(796)** | (17,002) | 153 | (16,849) |

## 13. Earnings per share

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent excluding the cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future as at the end of the reporting period and the weighted average number of ordinary shares of 2,767,095,000 (2016: 2,767,095,000) in issue during the year excluding restricted shares at the end of the year.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation and included the number of restricted shares expected to be unlocked in the future.

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

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Earnings | | |
| Profit attributable to ordinary equity holders of the parent | **5,283,091** | 4,647,344 |
| Less: Cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future | **(3,170)** | (12,143) |
| Profit attributable to equity holders of the parent used in the basic earnings per share calculation | **5,279,921** | 4,635,201 |

## 13. Earnings per share (continued)

| | Number of shares 2017 | 2016 |
|---|---|---|
| Shares | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation ('000) | **2,760,755** | 2,759,865 |
| Effect of dilution – Restricted shares ('000) | **6,340** | 7,230 |
| Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation ('000) | **2,767,095** | 2,767,095 |
| Basic earnings per share (RMB per share) | **1.91** | 1.68 |
| Diluted earnings per share (RMB per share) | **1.91** | 1.68 |

## 14. Prepaid land lease payments

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Cost | **1,627,401** | 1,574,481 |
| Accumulated amortisation | **(278,802)** | (245,926) |
| Net carrying amount | **1,348,599** | 1,328,555 |
| Opening carrying amount | **1,328,555** | 1,489,897 |
| Additions | **85,479** | 18,957 |
| Disposal of subsidiaries | **–** | (16,455) |
| Disposal in connection with assets restructuring | **–** | (94,721) |
| Disposal | **(29,692)** | (22,320) |
| Amortisation (Note 9) | **(35,743)** | (46,803) |
| Closing carrying amount | **1,348,599** | 1,328,555 |

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

## 14. Prepaid land lease payments (continued)

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

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Cost of sales | **2,068** | 2,272 |
| Administrative expenses | **33,675** | 44,531 |
| | **35,743** | 46,803 |

As at 31 December 2017, the prepaid land lease payments with a net carrying amount of approximately RMB56,374,000 (2016: RMB43,143,000) were pledged as collateral for the Group's bank borrowings (Note 31).

## 15. Investment properties

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Cost | **651,571** | 609,147 |
| Accumulated depreciation and impairment | **(250,450)** | (201,595) |
| Net carrying amount | **401,121** | 407,552 |
| Opening carrying amount | **407,552** | 393,872 |
| Additions | **782** | 359 |
| Transfer from property, plant and equipment (Note 16) | **22,817** | 36,785 |
| Transfer to property, plant and equipment (Note 16) | **(6,064)** | (6,247) |
| Disposal | **(711)** | (606) |
| Depreciation (Note 9) | **(23,255)** | (16,611) |
| Closing carrying amount | **401,121** | 407,552 |

## 15. Investment properties (continued)

Investment properties are located in Mainland China on land with the land use periods of 25 to 50 years (2016: 25 to 50 years).

As at 31 December 2017, investment properties with a carrying amount of approximately RMB74,000 (2016: RMB19,060,000) were pledged as collateral of the Group's bank borrowings (Note 31).

As at 31 December 2017, the fair value of the investment properties was estimated to be approximately RMB3,332,096,000 (2016: RMB3,280,825,000). The valuation was determined using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square metre.

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

| | **2017**<br>**RMB'000** | 2016<br>RMB'000 |
|---|---|---|
| Revenue (Note 6) | **159,952** | 164,591 |

## 16. Property, plant and equipment

| | Buildings RMB'000 | Plant and machinery RMB'000 | Furniture, fittings and equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **At 1 January 2016** | | | | | | |
| Cost | 6,054,034 | 2,191,050 | 1,259,004 | 648,599 | 732,969 | 10,885,656 |
| Accumulated depreciation and impairment | (1,291,335) | (852,521) | (732,844) | (366,460) | – | (3,243,160) |
| Net carrying amount | 4,762,699 | 1,338,529 | 526,160 | 282,139 | 732,969 | 7,642,496 |
| **At 1 January 2016, net of accumulated depreciation and impairment** | 4,762,699 | 1,338,529 | 526,160 | 282,139 | 732,969 | 7,642,496 |
| Acquisition of subsidiaries | – | 161 | 1,488 | 698 | – | 2,347 |
| Additions | 156,299 | 181,925 | 164,061 | 67,343 | 780,491 | 1,350,119 |
| Transfers | 676,070 | 307,164 | 25,180 | – | (1,008,414) | – |
| Transfer from investment properties (Note 15) | 6,247 | – | – | – | – | 6,247 |
| Transfer to investment properties (Note 15) | (36,785) | – | – | – | – | (36,785) |
| Disposals | (16,238) | (2,219) | (13,242) | (10,121) | (15,876) | (57,696) |
| Disposal in connection with assets restructuring | (734,214) | (340,031) | (20,096) | (3,417) | (103,285) | (1,201,043) |
| Disposal of subsidiaries | (99,078) | (37,963) | (57,340) | (1,216) | (1,901) | (197,498) |
| Depreciation (Note 9) | (286,402) | (246,448) | (156,413) | (66,460) | – | (755,723) |
| At 31 December 2016, net of accumulated depreciation and impairment | 4,428,598 | 1,201,118 | 469,798 | 268,966 | 383,984 | 6,752,464 |
| **At 31 December 2016** | | | | | | |
| Cost | 5,677,864 | 1,977,692 | 1,194,649 | 648,773 | 383,984 | 9,882,962 |
| Accumulated depreciation and impairment | (1,249,266) | (776,574) | (724,851) | (379,807) | – | (3,130,498) |
| Net carrying amount | 4,428,598 | 1,201,118 | 469,798 | 268,966 | 383,984 | 6,752,464 |

## 16. Property, plant and equipment (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 |
|---|---|---|---|---|---|---|
| **At 1 January 2017** | | | | | | |
| Cost | 5,677,864 | 1,977,692 | 1,194,649 | 648,773 | 383,984 | 9,882,962 |
| Accumulated depreciation and impairment | (1,249,266) | (776,574) | (724,851) | (379,807) | – | (3,130,498) |
| Net carrying amount | 4,428,598 | 1,201,118 | 469,798 | 268,966 | 383,984 | 6,752,464 |
| **At 1 January 2017, net of accumulated depreciation and impairment** | 4,428,598 | 1,201,118 | 469,798 | 268,966 | 383,984 | 6,752,464 |
| Acquisition of subsidiaries (Note 41) | 110,510 | 1,101 | 5,297 | 2,611 | 366 | 119,885 |
| Additions | 248,725 | 249,173 | 175,479 | 63,500 | 987,382 | 1,724,259 |
| Transfers | 137,906 | 42,521 | 14,132 | – | (194,559) | – |
| Transfer from investment properties (Note 15) | 6,064 | – | – | – | – | 6,064 |
| Transfer to investment properties (Note 15) | (22,817) | – | – | – | – | (22,817) |
| Impairment charge (Note 9) | – | (917) | – | – | – | (917) |
| Disposals | (35,922) | (10,682) | (11,107) | (3,788) | (316) | (61,815) |
| Deemed disposal of subsidiaries (Note 39) | (546) | – | (1,940) | (883) | – | (3,369) |
| Depreciation (Note 9) | (275,753) | (230,822) | (150,909) | (60,611) | – | (718,095) |
| At 31 December 2017, net of accumulated depreciation and impairment | 4,596,765 | 1,251,492 | 500,750 | 269,795 | 1,176,857 | 7,795,659 |
| **At 31 December 2017** | | | | | | |
| Cost | 6,091,757 | 2,251,068 | 1,351,735 | 678,427 | 1,176,857 | 11,549,844 |
| Accumulated depreciation and impairment | (1,494,992) | (999,576) | (850,985) | (408,632) | – | (3,754,185) |
| Net carrying amount | 4,596,765 | 1,251,492 | 500,750 | 269,795 | 1,176,857 | 7,795,659 |

## 16. Property, plant and equipment (continued)

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

| | **2017** | 2016 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Cost of sales | **80,110** | 137,036 |
| Selling and distribution expenses | **246,309** | 249,408 |
| Administrative expenses | **391,676** | 369,279 |
| | **718,095** | 755,723 |

As at 31 December 2017, property, plant and equipment with a net carrying amount of approximately RMB113,464,000 (2016: RMB76,690,000) were pledged as collateral of the Group's bank borrowings (Note 31).

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

| | **2017** | 2016 |
|---|---|---|
| Borrowing costs capitalised (Note 11) | **9,841** | 20,141 |
| Weighted average rate of borrowing costs | **4.26%** | 4.21% |

## 17. Intangible assets

| | Goodwill RMB'000 | Sales network RMB'000 | Trademarks and patent rights RMB'000 | Exclusive distribution rights RMB'000 | Software RMB'000 | Product development costs RMB'000 | Favourable leasing rights RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2016** | | | | | | | | |
| Cost | 4,108,991 | 2,662,767 | 274,733 | 280,802 | 425,041 | 57,528 | 93,242 | 7,903,104 |
| Accumulated amortisation and impairment | (109,134) | (684,031) | (173,262) | (49,140) | (159,866) | – | (4,946) | (1,180,379) |
| Net carrying amount | 3,999,857 | 1,978,736 | 101,471 | 231,662 | 265,175 | 57,528 | 88,296 | 6,722,725 |
| **At 1 January 2016, net of amortisation and impairment** | 3,999,857 | 1,978,736 | 101,471 | 231,662 | 265,175 | 57,528 | 88,296 | 6,722,725 |
| Additions | – | – | 552 | – | 46,663 | 16,974 | – | 64,189 |
| Acquisition of subsidiaries | 27,017 | – | – | – | 4,820 | – | – | 31,837 |
| Transfers | – | – | 3,600 | – | 1,401 | (5,001) | – | – |
| Disposal of subsidiaries | (28,210) | – | (171) | – | (4,453) | (15,844) | – | (48,678) |
| Disposal in connection with assets restructuring | (137,943) | (28,563) | (19,157) | – | (2,839) | (21,548) | – | (210,050) |
| Disposal | – | – | – | – | (2,777) | – | – | (2,777) |
| Amortisation (Note 9) | – | (147,632) | (11,338) | (28,081) | (56,628) | – | (4,945) | (248,624) |
| Impairment charge (Note 9) | (25,850) | – | – | – | – | – | – | (25,850) |
| At 31 December 2016, net of amortisation and impairment | 3,834,871 | 1,802,541 | 74,957 | 203,581 | 251,362 | 32,109 | 83,351 | 6,282,772 |
| **At 31 December 2016** | | | | | | | | |
| Cost | 3,957,111 | 2,569,287 | 156,172 | 280,802 | 456,879 | 32,109 | 93,242 | 7,545,602 |
| Accumulated amortisation and impairment | (122,240) | (766,746) | (81,215) | (77,221) | (205,517) | – | (9,891) | (1,262,830) |
| Net carrying amount | 3,834,871 | 1,802,541 | 74,957 | 203,581 | 251,362 | 32,109 | 83,351 | 6,282,772 |

## 17. Intangible assets (continued)

| | Goodwill RMB'000 | Sales network RMB'000 | Trademarks and patent rights RMB'000 | Exclusive distribution rights RMB'000 | Software RMB'000 | Product development costs RMB'000 | Favourable leasing rights RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2017** | | | | | | | | |
| Cost | 3,957,111 | 2,569,287 | 156,172 | 280,802 | 456,879 | 32,109 | 93,242 | 7,545,602 |
| Accumulated amortisation and impairment | (122,240) | (766,746) | (81,215) | (77,221) | (205,517) | - | (9,891) | (1,262,830) |
| Net carrying amount | 3,834,871 | 1,802,541 | 74,957 | 203,581 | 251,362 | 32,109 | 83,351 | 6,282,772 |
| At 1 January 2017, net of amortisation and impairment | 3,834,871 | 1,802,541 | 74,957 | 203,581 | 251,362 | 32,109 | 83,351 | 6,282,772 |
| Additions | - | 9,061 | 193 | - | 78,747 | 18,849 | - | 106,850 |
| Acquisition of subsidiaries (Note 41) | 292,415 | 171,823 | 26,372 | - | 1,377 | - | 34,244 | 526,231 |
| Transfers | - | - | 4,400 | - | - | (4,400) | - | - |
| Deemed disposal of subsidiaries (Note 39) | - | - | - | - | (2,708) | - | - | (2,708) |
| Disposal | - | - | - | - | (932) | - | - | (932) |
| Amortisation (Note 9) | - | (138,571) | (4,688) | (28,317) | (59,728) | - | (6,730) | (238,034) |
| At 31 December 2017, net of amortisation and impairment | 4,127,286 | 1,844,854 | 101,234 | 175,264 | 268,118 | 46,558 | 110,865 | 6,674,179 |
| **At 31 December 2017** | | | | | | | | |
| Cost | 4,249,526 | 2,750,411 | 187,137 | 280,802 | 533,861 | 46,558 | 127,486 | 8,175,781 |
| Accumulated amortisation and impairment | (122,240) | (905,557) | (85,903) | (105,538) | (265,743) | - | (16,621) | (1,501,602) |
| Net carrying amount | 4,127,286 | 1,844,854 | 101,234 | 175,264 | 268,118 | 46,558 | 110,865 | 6,674,179 |

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

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Selling and distribution expenses | 173,434 | 180,323 |
| Administrative expenses | 64,600 | 68,301 |
| | 238,034 | 248,624 |

## 17. Intangible assets (continued)

Impairment tests for goodwill:

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

| 2017 | Opening RMB'000 | Additions RMB'000 | Impairment RMB'000 | Disposal of subsidiaries RMB'000 | Closing RMB'000 |
|---|---|---|---|---|---|
| Pharmaceutical distribution | **3,108,210** | **262,125** | **–** | **–** | **3,370,335** |
| Retail pharmacy | **681,373** | **30,290** | **–** | **–** | **711,663** |
| Other business | **45,288** | **–** | **–** | **–** | **45,288** |
| Total | **3,834,871** | **292,415** | **–** | **–** | **4,127,286** |

| 2016 | Opening RMB'000 | Additions RMB'000 | Impairment RMB'000 | Disposal of subsidiaries RMB'000 | Closing RMB'000 |
|---|---|---|---|---|---|
| Pharmaceutical distribution | 3,134,060 | – | (25,850) | – | 3,108,210 |
| Retail pharmacy | 654,547 | 27,017 | – | (191) | 681,373 |
| Other business | 211,250 | – | – | (165,962) | 45,288 |
| Total | 3,999,857 | 27,017 | (25,850) | (166,153) | 3,834,871 |

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.

## 17. Intangible assets (continued)

The key assumptions, long-term growth rate and discount rates used for value-in-use calculations of significant CGUs in 2017 are as follows:

| | CGU1 | CGU2 | CGU3 | CGU4 | CGU5 |
|---|---|---|---|---|---|
| **Segment** | | | **Pharmaceutical distribution** | | |
| Goodwill (RMB'000) | 1,081,882 | 191,420 | 189,465 | 184,055 | 143,835 |
| Revenue growth rate in the budget period | 5.00%-13.54% | 10.00%-12.00% | 5.00%-15.00% | 6.30%-7.60% | 5.00%-8.00% |
| Gross margin | 6.92%-7.01% | 5.80% | 5.64% | 4.80%-4.90% | 6.60%-6.80% |
| Growth rate to extrapolate cash flows beyond the budget period | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Discount rate | 17.00% | 19.70% | 18.45% | 16.90% | 20.10% |

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

In 2017, by comparing the carrying value of the CGU containing the goodwill with the recoverable amount, the Group considered no additional impairment for goodwill was required.

## 18. Subsidiaries

The principal subsidiaries of the Company's are set out in Note 43.

### Material non-controlling interests

The total non-controlling interests as at 31 December 2017 amounted to RMB16,012,019,000 (31 December 2016: RMB12,721,508,000), of which RMB4,610,827,000 (2016 (restated): RMB3,016,595,000) was attributed to China National Medicines Corporation Ltd. ("National Medicines") and RMB4,646,166,000 (2016 (restated): RMB4,179,347,000) was attributed to China National Accord Medicines Co., Ltd. ("Sinopharm Accord"). The non-controlling interest in respect of each other subsidiaries is not material.

**Summarised financial information of subsidiaries with material non-controlling interests**

Set out below are the summarised financial information of each subsidiary that has non-controlling interests that are material to the Group.

## 18. Subsidiaries

**Material non-controlling interests** (continued)

**Summarised statement of financial position**

| | National Medicines | | Sinopharm Accord | |
|---|---|---|---|---|
| | **2017** | 2016 (Restated) | **2017** | 2016 (Restated) |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Current | | | | |
| Assets | **18,317,272** | 14,893,891 | **18,320,779** | 17,688,772 |
| Liabilities | **(10,465,057)** | (9,132,437) | **(12,130,238)** | (12,135,715) |
| Total current net assets | **7,852,215** | 5,761,454 | **6,190,541** | 5,553,057 |
| Non-current | | | | |
| Assets | **1,848,683** | 1,765,861 | **4,022,864** | 3,627,777 |
| Liabilities | **(244,455)** | (257,963) | **(285,903)** | (263,056) |
| Total non-current net assets | **1,604,228** | 1,507,898 | **3,736,961** | 3,364,721 |
| Net assets | **9,456,443** | 7,269,352 | **9,927,502** | 8,917,778 |

**Summarised statement of profit or loss**

| | National Medicines | | Sinopharm Accord | |
|---|---|---|---|---|
| | **2017** | 2016 (Restated) | **2017** | 2016 (Restated) |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Revenue | **36,284,746** | 34,610,563 | **41,263,629** | 41,248,342 |
| Profit before income tax | **1,740,695** | 1,571,137 | **1,466,029** | 1,600,153 |
| Income tax expense | **(401,496)** | (362,635) | **(309,290)** | (318,377) |
| Post-tax profit | **1,339,199** | 1,208,502 | **1,156,739** | 1,281,776 |
| Other comprehensive loss | **(26,507)** | (7,613) | **–** | – |
| Total comprehensive income | **1,312,692** | 1,200,889 | **1,156,739** | 1,281,776 |
| Total comprehensive income allocated to non-controlling interests | **688,729** | 522,978 | **563,741** | 521,365 |
| Dividends paid to non-controlling interests | **103,666** | 48,403 | **112,255** | 80,068 |

## 18. Subsidiaries (continued)

### Material non-controlling interests (continued)

**Summarised cash flows**

| | National Medicines | | Sinopharm Accord | |
|---|---|---|---|---|
| | **2017** | 2016 (Restated) | **2017** | 2016 (Restated) |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Cash flows from operating activities** | | | | |
| Cash generated from operations | **1,461,551** | 1,408,234 | **1,595,543** | 1,790,719 |
| Income tax paid | **(387,060)** | (365,566) | **(310,251)** | (318,377) |
| Net cash from operating activities | **1,074,491** | 1,042,668 | **1,285,292** | 1,472,342 |
| Net cash from/(used in) investing activities | **(102,903)** | 680,157 | **(286,181)** | (9,066) |
| Net cash from/(used in) financing activities | **1,621,707** | (1,052,999) | **(477,023)** | (476,243) |
| **Net increase in cash and cash equivalents** | **2,593,295** | 669,826 | **522,088** | 987,033 |
| Cash and cash equivalents at beginning of year | **2,746,427** | 2,076,601 | **3,150,915** | 2,164,444 |
| Effect of foreign exchange rate changes, net | **–** | – | **496** | (562) |
| Cash and cash equivalents at end of year | **5,339,722** | 2,746,427 | **3,673,499** | 3,150,915 |

The information above is the amount before inter-company eliminations.

## 19. Investments in associates

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Share of net assets | 5,024,670 | 3,301,657 |
| Goodwill | 26,333 | 26,333 |
| | 5,051,003 | 3,327,990 |

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| At 1 January | 3,327,990 | 1,133,444 |
| Addition in connection with assets restructuring | – | 1,040,439 |
| Other additions | 44,000 | 276,050 |
| Reclassification from investments in subsidiaries upon cessation of control | 1,357,609 | 953,941 |
| Share of results | 431,470 | 232,190 |
| Unrealised loss on transactions with associates | 914 | – |
| Share of other comprehensive loss | (645) | (1,507) |
| Deemed disposal of investment in associates | 47,424 | – |
| Share of changes in equity other than comprehensive income/(loss) and distributions received from associates | 16,498 | (429) |
| Other changes in an investment in an associate | (2,027) | – |
| Dividends declared by associates attributable to the Group | (143,656) | (306,138) |
| Disposal of investment accounted for equity method | (17,799) | – |
| Reclassification to investments in subsidiaries upon transfer of control to the Group | (10,775) | – |
| At 31 December | 5,051,003 | 3,327,990 |

## 19. Investments in associates (continued)

Particulars of the material associate are as follows:

| Name | Particulars of issued shares held | Place of incorporation/ registration and business | Percentage of equity interest attributable to the Group | | Principal activity |
|---|---|---|---|---|---|
| | | | **2017** | 2016 | |
| Shanghai Modern Pharmaceutical Co., Ltd. (上海現代製藥股份有限公司)(i) | Ordinary shares of RMB1 each | Mainland China | **18.56%(ii)** | 18.57% | Pharmaceutical manufacturing |

(i) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

(ii) The Group's investment in this associate is accounted for under the equity method of accounting because the Group has significant influence over it by way of representation on the board of directors and participation in the policy-making process, despite the fact that the Group's equity interests in it were lower than 20% for the year ended 31 December 2017.

In 2016, the Company disposed of a 26% equity interest in Sinopharm Holding A-Think Pharmaceutical Co., Ltd. ("Sinopharm A-Think") and a 51% equity interest in China National Pharmaceutical Group Sanyi Pharmaceutical (Wuhu) Co., Ltd. ("Sanyi Pharmaceutical") to Shanghai Modern Pharmaceutical Co., Ltd. ("Modern Pharmaceutical") for an aggregate consideration of approximately RMB486,210,000, which shall be satisfied by issuance of 16,731,237 consideration shares in total at the issue price of RMB29.06 per consideration share by Modern Pharmaceutical to the Company. According to certain conditions stipulated by the supplementary agreements on the above transactions, the Company is required to compensate Modern Pharmaceutical in the form of consideration shares obtained in the above transactions based on the achievement of the profit targets of Sinopharm A-Think and Sanyi Pharmaceutical. As Sinopharm A-Think did not achieve the profit target during the current year, the Company shall compensate Modern Pharmaceutical 390,825 consideration shares. Then, the Company recognised a decrease in equity attributable to owners of the parent of RMB2,027,000.

Shanghai Modern Pharmaceutical Co., Ltd., which is considered a material associate of the Group, is a strategic partner of the Group mainly engaged in the manufacturing and distribution of pharmaceuticals and is accounted for using the equity method.

## 19. Investments in associates (continued)

The following table illustrates the summarised financial information of Shanghai Modern Pharmaceutical Co., Ltd. extracted from its financial statements, reconciled to the carrying amount in the consolidated financial statements:

| | 2017<br>RMB'000 |
|---|---|
| Current assets | 6,919,924 |
| Non-current assets | 8,250,667 |
| Current liabilities | (5,390,426) |
| Non-current liabilities | (2,132,391) |
| Non-controlling interests | (1,474,395) |
| Net assets | 6,173,379 |
| Less: Net assets not picked up | 29,144 |
| | 6,144,235 |
| Reconciliation to the Group's interest in the associate: | |
| Proportion of the Group's ownership | 18.56% |
| Carrying amount of the investment | 1,140,370 |
| Revenue | 8,517,754 |
| Profit for the year | 818,572 |
| Total comprehensive income for the year | 818,572 |
| Dividend declared | 26,819 |

## 19. Investments in associates (continued)

Set out below are the associates of the Group as at 31 December 2017. The associates listed below have share capital consisting solely of ordinary shares, which of these associates are held directly by the Group. The country of incorporation or registration is also the principal place of business.

### Investments in associates as at 31 December 2017

| Name of entity | Place of business/ country of incorporation | % of ownership interest | Nature of the relationship |
|---|---|---|---|
| Hubei Yuankang Pharmaceutical Co., Ltd. | Hubei, China | 30.00 | |
| Fosun Sinopharm (Hong Kong) Logistics Properties Management Co., Ltd. | Hong Kong, China | 45.00 | |
| Sinopharm Group Xinjiang Pharmaceutical Co., Ltd. | Xinjiang, China | 45.00 | Note (i) |
| Sichuan Kangdaxin Medical Co., Ltd. | Sichuan, China | 25.00 | Note (i) |
| Sinopharm Holding Yibin Pharmaceutical Co., Ltd. | Sichuan, China | 49.00 | Note (i) |
| Shanghai Dong's Pharmaceutical Information Co., Ltd. | Shanghai, China | 46.00 | |
| Sinopharm Holding (Tianjin) Health Consultancy Co., Ltd. | Tianjin, China | 35.00 | |
| Qinghai Pharmaceutical Group Co., Ltd. | Qinghai, China | 47.08 | Note (i) |
| Yichang Humanwell Pharmaceutical Co., Ltd. | Hubei, China | 20.00 | Note (i) |
| Sinopharm Holding Shanxi Xinzhou Co., Ltd. | Shanxi, China | 20.00 | |
| Shanghai Guoda Lingyun Drug Store Co., Ltd. | Shanghai, China | 51.00 | |
| Sinopharm Group Health (Anhui) Pharmaceutical Co., Ltd. | Anhui, China | 28.57 | |
| Wuxi Huihua Qiangsheng Pharmaceutical Chain Co., Ltd. | Jiangsu, China | 21.12 | |
| Shanghai Beiyi Guoda Pharmaceutical Co., Ltd. | Shanghai, China | 26.00 | |
| Shanghai Liyi Drug Store Co., Ltd. | Shanghai, China | 35.00 | |
| Shenzhen Main Luck Pharmaceutical Co., Ltd. | Guangdong, China | 35.20 | Note (i) |
| Sinopharm Group Zhijun (Suzhou) Pharmaceutical Co., Ltd. | Jiangsu, China | 33.00 | Note (i) |
| Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd. | Guangdong, China | 49.00 | Note (i) |
| Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd. | Guangdong, China | 49.00 | Note (i) |
| Shenzhen Zhijun Pharmaceutical Trade Co., Ltd. | Guangdong, China | 49.00 | |
| Shanghai Modern Pharmaceutical Co., Ltd. | Shanghai, China | 18.56 | Note (i) |
| Jilin Baiqi Pharmaceutical Co., Ltd. | Jilin, China | 35.00 | |
| Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Co., Ltd. | Shanghai, China | 49.00 | Note (i) |
| Sinopharm Holding Medical Investment Management Co., Ltd. | Shanghai, China | 45.00 | |
| Sinopharm Nutraceuticals (Shanghai) Co., Ltd. | Shanghai, China | 14.25 | |
| Sinopharm Guohua Network Technology Co., Ltd. | Beijing, China | 6.00 | |
| Sinopharm Health Online Co., Ltd. | Shanghai, China | 28.23 | |
| Sinopharm Holding A-Think Pharmaceutical Co., Ltd. | Jilin, China | 49.00 | Note (i) |
| China National Pharmaceutical Group Sanyi Pharmaceutical (Wuhu) Co., Ltd. | Anhui, China | 49.00 | Note (i) |
| Sinopharm Le-Ren-Tang Cloud Pharmacy Shijiazhuang Co., Ltd. | Hebei, China | 35.00 | |
| Sinopharm Group Guo-Yao-Tang (NanChang) Pharmacy Co., Ltd. | Jiangxi, China | 20.00 | |
| Sinopharm Jin-Qi (Shanghai) Chemical Reagent Co., Ltd. | Shanghai, China | 37.50 | |
| Sinopharm Holding (China) Finance Leasing Co.,Ltd. | Shanghai, China | 36.00 | |

Note (i): These companies are mainly engaged in pharmaceutical research, production and sales. They are vendors of the Group.

## 19. Investments in associates (continued)

### Summarised financial information of associates

Set out below is the aggregate financial information of the associates that are not individually material.

**Summarised statement of financial position**

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| **Current** | | |
| Cash and cash equivalents | 2,671,317 | 1,887,784 |
| Other current assets (excluding cash and cash equivalents) | 4,028,160 | 5,302,345 |
| Total current assets | 6,699,477 | 7,190,129 |
| Financial liabilities (excluding trade payables) | (238,786) | (899,364) |
| Other current liabilities (including trade payables) | (3,403,644) | (3,959,478) |
| Total current liabilities | (3,642,430) | (4,858,842) |
| **Non-current** | | |
| Assets | 4,974,423 | 4,173,645 |
| Liabilities | (243,720) | (250,881) |
| **Net assets** | 7,787,750 | 6,254,051 |

**Summarised statement of comprehensive income**

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| **Post-tax profit from continuing operations** | 1,203,790 | 857,242 |
| **Other comprehensive (loss)/income** | (1,433) | 4,551 |
| **Total comprehensive income** | 1,202,357 | 861,793 |
| Dividends declared from associates | 116,888 | 306,138 |

The information above reflects the amounts presented in the financial statements of the associates adjusted for the differences in accounting policies between the Group and the associates.

## 20. Financial instruments by category

| At 31 December 2017 | Loans and receivables RMB'000 | Available-for-sale investments RMB'000 | Total RMB'000 |
|---|---|---|---|
| Financial assets included in other non-current assets | 1,561,716 | 195,000 | 1,756,716 |
| Available-for-sale investments | – | 553,972 | 553,972 |
| Trade receivables | 75,528,859 | – | 75,528,859 |
| Financial assets included in other receivables | 4,366,919 | – | 4,366,919 |
| Pledged deposits and cash | 4,858,412 | – | 4,858,412 |
| Cash and cash equivalents | 29,011,436 | – | 29,011,436 |
| **Total** | 115,327,342 | 748,972 | 116,076,314 |

| | Financial liabilities at amortised cost RMB'000 | Total RMB'000 |
|---|---|---|
| Interest-bearing bank and other borrowings | 35,604,396 | 35,604,396 |
| Trade payables | 66,612,779 | 66,612,779 |
| Dividends payable | 54,892 | 54,892 |
| Financial liabilities included in accruals and other payables | 10,584,395 | 10,584,395 |
| Financial liabilities included in other non-current liabilities | 83,614 | 83,614 |
| **Total** | 112,940,076 | 112,940,076 |

## 20. Financial instruments by category (continued)

| At 31 December 2016 | Loans and receivables RMB'000 | Available-for-sale investments RMB'000 | Total RMB'000 |
|---|---|---|---|
| Financial assets included in other non-current assets | 1,653,931 | – | 1,653,931 |
| Available-for-sale investments | – | 467,448 | 467,448 |
| Finance lease receivables | 5,269,088 | – | 5,269,088 |
| Trade receivables | 69,245,421 | – | 69,245,421 |
| Financial assets included in other receivables | 2,888,289 | – | 2,888,289 |
| Pledged deposits and cash | 5,017,640 | – | 5,017,640 |
| Cash and cash equivalents | 25,572,759 | – | 25,572,759 |
| **Total** | 109,647,128 | 467,448 | 110,114,576 |

| | Financial liabilities at amortised cost RMB'000 | Total RMB'000 |
|---|---|---|
| Interest-bearing bank and other borrowings | 33,497,877 | 33,497,877 |
| Trade payables | 66,745,815 | 66,745,815 |
| Dividends payable | 93,770 | 93,770 |
| Financial liabilities included in accruals and other payables | 7,613,545 | 7,613,545 |
| Financial liabilities included in other non-current liabilities | 333,289 | 333,289 |
| **Total** | 108,284,296 | 108,284,296 |

## 21. Available-for-sale investments

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Listed equity investments, at fair value (i) | **33,084** | 74,000 |
| Unlisted equity investments | **345,790** | 244,627 |
| Asset-backed securities, at fair value (ii) | **175,098** | 148,821 |
| | **553,972** | 467,448 |
| Less: Current portion | **(516)** | (5,468) |
| | **553,456** | 461,980 |

Notes:

(i) During the year, the gross loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB35,343,000 (2016: loss of RMB10,151,000), of which none (2016: none) was reclassified from other comprehensive income to the statement of profit or loss for the year.

(ii) Please refer to Note 3 (3)(iii) for details of asset-back securities.

## 22. Finance lease receivables

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Finance lease receivables | **–** | 6,260,183 |
| Less: Unearned finance income | **–** | (938,135) |
| Net finance lease receivables | **–** | 5,322,048 |
| Less: Provision for impairment (a) | **–** | (52,960) |
| | **–** | 5,269,088 |
| Less: Current portion | **–** | (1,480,990) |
| | **–** | 3,788,098 |

The fair value of finance lease receivables approximates to their carrying amount.

In 2017, Sinopharm Holding (China) Financial Leasing Co., Ltd. ("Sinopharm Financial Leasing") accepted capital injection from certain independent third parties. Accordingly, the Company's equity interest in Sinopharm Financial Leasing decreased from 90% to 36%. Therefore, the Company lost its control over Sinopharm Financial Leasing on 31 December 2017 and Sinopharm Financial Leasing and its subsidiaries were deconsolidated from the date that control ceases.

## 22. Finance lease receivables (continued)

An ageing analysis of lease receivables, determined based on the age of the receivables since the effective dates of the relevant lease contracts, as at the end of the reporting period, is as follows:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Lease receivables: | | |
| Below 1 year | – | 5,333,194 |
| Between 1 and 2 years | – | 926,989 |
| | – | 6,260,183 |

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Net finance lease receivables | | |
| Below 1 year | – | 4,524,264 |
| Between 1 and 2 years | – | 797,784 |
| | – | 5,322,048 |

The table below illustrates the gross and net amounts of lease receivables the Group expects to receive in the following three consecutive accounting years:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Lease receivables: | | |
| Below 1 year | – | 1,538,871 |
| 1 to 2 years | – | 1,550,036 |
| 2 to 3 years | – | 1,412,125 |
| Over 3 years | – | 1,759,151 |
| | – | 6,260,183 |

## 22. Finance lease receivables (continued)

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Net finance lease receivables: | | |
| Below 1 year | – | 1,519,737 |
| 1 to 2 years | – | 1,362,482 |
| 2 to 3 years | – | 1,137,332 |
| Over 3 years | – | 1,302,497 |
| | – | 5,322,048 |

(a) Movement in provision for impairment of finance lease receivables is as follows:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| At 1 January | 52,960 | 19,214 |
| Provision for impairment (Note 9) | 40,450 | 33,746 |
| Deemed disposal of subsidiaries | (93,410) | – |
| At 31 December | – | 52,960 |

As at 31 December 2016, the carrying value of the finance lease receivables pledged or charged as security for the Group's bank borrowings amounted to RMB439,809,000 (Note 31).

## 23. Deferred income tax

The movements in deferred tax assets and liabilities are as follows:

### Deferred tax assets

| | Employee benefit obligations RMB'000 | Impairment provision for assets RMB'000 | Unrealised profits RMB'000 | Tax losses RMB'000 | Share-based payments RMB'000 | Sales rebates and others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2016 | 189,862 | 243,716 | 37,189 | 58,675 | – | 117,185 | 646,627 |
| Acquisition of subsidiaries | – | 187 | – | – | – | – | 187 |
| Credited/(charged) to the consolidated statement of profit or loss | 22,254 | 11,409 | (11,405) | 19,205 | 896 | 172,176 | 214,535 |
| Charged to other comprehensive income | (2,385) | – | – | – | – | – | (2,385) |
| Credited to capital surplus | – | – | – | – | 40 | – | 40 |
| Disposal of subsidiaries and disposals in connection with assets restructuring | (441) | (7,007) | – | (40,379) | – | (19,969) | (67,796) |
| At 31 December 2016 | 209,290 | 248,305 | 25,784 | 37,501 | 936 | 269,392 | 791,208 |
| Acquisition of subsidiaries (Note 41) | – | 5,263 | 835 | – | 3 | – | 6,101 |
| Credited/(charged) to the consolidated statement of profit or loss | 6,291 | 6,513 | (4,201) | 13,464 | 6,278 | 100,542 | 128,887 |
| Charged to other comprehensive income | (2,984) | – | – | – | – | – | (2,984) |
| Credited to capital surplus | – | – | – | – | 584 | – | 584 |
| Deemed disposal of subsidiaries (Note 39) | – | (24,344) | – | – | – | (62,941) | (87,285) |
| At 31 December 2017 | 212,597 | 235,737 | 22,418 | 50,965 | 7,801 | 306,993 | 836,511 |

## 23. Deferred income tax (continued)

**Deferred tax liabilities**

| | Fair value adjustments on assets relating to business combinations RMB'000 | Fair value gains on available-for-sale investments RMB'000 | Purchase rebates RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2016 | 642,039 | 21,551 | 21,940 | 7,089 | 692,619 |
| Acquisition of subsidiaries | 1,202 | – | – | – | 1,202 |
| Disposal of subsidiaries and disposals in connection with assets restructuring | (23,630) | – | – | (23) | (23,653) |
| (Credited)/charged to the consolidated statement of profit or loss | (67,004) | – | 1,523 | (821) | (66,302) |
| Credited to other comprehensive income | – | (2,538) | – | – | (2,538) |
| At 31 December 2016 | 552,607 | 19,013 | 23,463 | 6,245 | 601,328 |
| Acquisition of subsidiaries (Note 41) | **83,566** | **–** | **–** | **–** | **83,566** |
| (Credited)/charged to the consolidated statement of profit or loss | **(43,435)** | **–** | **33,068** | **1,181** | **(9,186)** |
| Credited to other comprehensive income | **–** | **(8,836)** | **–** | **–** | **(8,836)** |
| At 31 December 2017 | **592,738** | **10,177** | **56,531** | **7,426** | **666,872** |

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefits through future taxable profits is probable. Based on the above principle, the Group did not recognise deferred tax assets of approximately RMB42,872,000 (2016: RMB25,817,000) in respect of tax losses amounting to approximately RMB171,489,000 (2016: RMB106,379,000). As at 31 December 2017, these unrecognised tax losses amounting to RMB23,157,000, RMB20,353,000, RMB18,730,000, RMB54,586,000 and RMB54,663,000 will expire in 2018, 2019, 2020, 2021 and 2022 respectively.

## 24. Other non-current assets

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Long-term deposits | **1,555,383** | 1,378,956 |
| Payment for acquisition of subsidiaries | **86,931** | – |
| Prepayment for acquisition of industry investment funds | **195,000** | – |
| Continuing involvement assets (i) | **–** | 263,834 |
| Others | **184,900** | 165,522 |
| | **2,022,214** | 1,808,312 |

(i) Please refer to Note 3 (3) (iii) for details of continuing involvement assets.

## 25. Inventories

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Raw materials | **156,465** | 96,262 |
| Work in progress | **3,967** | 11,582 |
| Finished goods and trading merchandise | **26,732,318** | 25,742,389 |
| | **26,892,750** | 25,850,233 |
| Less: Provision for impairment | **(124,058)** | (90,708) |
| | **26,768,692** | 25,759,525 |

The cost of inventories recognised as expense and included in cost of sales amounted to RMB254,076,886,000 (2016: RMB236,827,158,000) (Note 9).

Movements in provision for impairment of inventories are as follows:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| At 1 January | **90,708** | 116,413 |
| Acquisition of subsidiaries | **615** | – |
| Provision for the year (Note 9) | **41,935** | 8,586 |
| Write-off for the year | **(9,200)** | (7,427) |
| Credited to cost of sales when inventories were sold | **–** | (26,864) |
| At 31 December | **124,058** | 90,708 |

## 26. Trade receivables

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Accounts receivable | **64,443,680** | 60,688,999 |
| Notes receivable | **11,825,305** | 9,355,552 |
| Less: Provision for impairment | **(740,126)** | (799,130) |
| Trade receivables – net | **75,528,859** | 69,245,421 |

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

Retail sales at the Group's medicine chain stores are usually made in cash or by debit or credit cards. For medicine distribution and medicine manufacturing businesses, sales are made on credit terms normally ranging from 30 to 210 days. The ageing analysis of trade receivables (accounts receivable and notes receivable), based on the invoice date and net of provisions, as at the end of the reporting period, is as follows:

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Within 1 year | **75,217,475** | 68,910,172 |
| 1 to 2 years | **263,405** | 268,232 |
| Over 2 years | **47,979** | 67,017 |
| | **75,528,859** | 69,245,421 |

As at 31 December 2017, notes receivable of RMB658,333,000 (2016: RMB239,073,000) and accounts receivable of RMB373,924,000 (2016: RMB666,872,000) were pledged as collateral for the Group's bank borrowings (Note 31).

As at 31 December 2017, notes receivable of RMB235,345,000 (2016: RMB121,230,000) were pledged as collateral for the Group's notes payable.

As at 31 December 2017, outstanding accounts receivable of RMB20,164,459,000 (2016: RMB14,071,044,000) were derecognised under the accounts receivable factoring programs without recourse. The ageing of these derecognised accounts receivable was within one year. As at 31 December 2017, the collection of such accounts receivable on behalf of banks amounting to RMB2,566,588,000 (2016: RMB2,113,738,000) was recorded in other payables in Note 35.

The maximum exposure to credit risk as at 31 December 2017 was the carrying value of each category of receivables mentioned above and in Note 27.

## 27. Prepayments and other receivables

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Prepayments | **3,371,521** | 2,282,699 |
| Value-added tax recoverable | **632,405** | 408,783 |
| Deposits | **1,326,738** | 1,218,442 |
| Staff advances | **52,381** | 44,351 |
| Amounts due from related parties (Note 42) | | |
| – other receivables | **360,814** | 247,502 |
| – prepayments | **271,685** | 78,308 |
| Continuing involvement assets (i) | **175,098** | – |
| Purchase rebate | **1,202,203** | 458,196 |
| Other receivables | **1,444,720** | 1,070,539 |
| | **8,837,565** | 5,808,820 |
| Less: Provision for impairment | **(162,087)** | (130,904) |
| | **8,675,478** | 5,677,916 |

The fair value of prepayments and other receivables approximates to their carrying amount.

(i) Please refer to Note 3(3)(iii) for details of continuing involvement assets.

## 28. Pledged deposits and restricted cash, and cash and cash equivalents

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| **Pledged deposits and restricted cash** | | |
| Pledged bank deposits | **4,835,718** | 4,944,171 |
| Bank deposits with an initial term of over three months | **22,694** | 73,469 |
| | **4,858,412** | 5,017,640 |

## 28. Pledged deposits and restricted cash, and cash and cash equivalents (continued)

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| **Cash and cash equivalents** | | |
| – Cash on hand | **10,885** | 24,307 |
| – Cash at banks | **25,517,088** | 22,424,336 |
| – Cash in other financial institutions (Note 42) | **3,483,463** | 3,124,116 |
| | **29,011,436** | 25,572,759 |
| **Pledged deposits and restricted cash, and cash and cash equivalents** | | |
| Denominated in | | |
| – RMB | **33,817,290** | 30,527,086 |
| – USD | **14,240** | 55,950 |
| – HKD | **33,474** | 4,416 |
| – Others | **4,844** | 2,947 |
| | **33,869,848** | 30,590,399 |

Bank deposits are pledged as collateral for the following:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Collateral for bank acceptance notes | **4,756,403** | 4,857,547 |
| Collateral for borrowings | **59,464** | 31,256 |
| Collateral for letters of credit | **346** | 35,753 |
| Collateral for letters of guarantee | **4,368** | 8,480 |
| Others | **15,137** | 11,135 |
| | **4,835,718** | 4,944,171 |

The maximum exposure to credit risk as at 31 December 2017 and 2016 approximates to the carrying value of pledged deposits and restricted cash, and cash and cash equivalents.

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

## 28. Pledged deposits and restricted cash, and cash and cash equivalents (continued)

The effective interest rates of bank deposits in banks and other financial institutions are as follows:

| | **2017** | 2016 |
|---|---|---|
| Weighted average effective interest rate (per annum) | **1.00%** | 0.88% |

## 29. Share capital

| | **Number of shares** '000 | **Domestic shares with par value of RMB1 per share** RMB'000 | **H shares with par value of RMB1 per share** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|
| At 1 January 2016 | 2,767,095 | 1,574,284 | 1,192,811 | 2,767,095 |
| At 31 December 2016 | 2,767,095 | 1,574,284 | 1,192,811 | 2,767,095 |
| At 31 December 2017 | 2,767,095 | 1,574,284 | 1,192,811 | 2,767,095 |

The total number of authorised domestic shares and H shares was 2,767,095,000 (2016: 2,767,095,000) with a par value of RMB1 per share (2016: RMB1 per share). All issued shares were fully paid.

## 30. Reserves

| | Notes | Share premium RMB'000 | Statutory reserves RMB'000 | Revaluation of available-for-sale investments RMB'000 | Other reserves Note (c) RMB'000 | Retained earnings Note (b) RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2016 | | 18,077,173 | 558,190 | 33,993 | (1,408,524) | 10,082,383 | 27,343,215 |
| Profit for the year | | – | – | – | – | 4,647,344 | 4,647,344 |
| Revaluation of available-for-sale investments | | | | | | | |
| – gross | | – | – | (3,942) | – | – | (3,942) |
| – tax | | – | – | 591 | – | – | 591 |
| Remeasurement on post-employment benefit obligations | | | | | | | |
| – gross | | – | – | – | 7,946 | – | 7,946 |
| – tax | | – | – | – | (1,516) | – | (1,516) |
| Currency translation differences | | – | – | – | (17,918) | – | (17,918) |
| Share of other comprehensive income of associates | | – | – | – | (1,507) | – | (1,507) |
| Appropriation to statutory reserves | (a) | – | 157,679 | – | – | (157,679) | – |
| Dividend declared | | – | – | – | – | (1,134,509) | (1,134,509) |
| Effects of transactions with non-controlling interests | | – | – | – | (1,176,180) | – | (1,176,180) |
| Equity-settled share incentive scheme | | – | – | – | 3,359 | – | 3,359 |
| Assets restructuring | | – | – | – | (596,589) | – | (596,589) |
| Others | | – | – | – | (26,461) | – | (26,461) |
| At 31 December 2016 | | 18,077,173 | 715,869 | 30,642 | (3,217,390) | 13,437,539 | 29,043,833 |
| Profit for the year | | – | – | – | – | 5,283,091 | 5,283,091 |
| Revaluation of available-for-sale investments | | | | | | | |
| – gross | | – | – | (18,736) | – | – | (18,736) |
| – tax | | – | – | 4,684 | – | – | 4,684 |
| Remeasurement on post-employment benefit obligations | | | | | | | |
| – gross | | – | – | – | 9,443 | – | 9,443 |
| – tax | | – | – | – | (2,150) | – | (2,150) |
| Currency translation differences | | – | – | – | 16,313 | – | 16,313 |
| Share of other comprehensive income of associates | | – | – | – | (645) | – | (645) |
| Appropriation to statutory reserves | (a) | – | 163,831 | – | – | (163,831) | – |
| Dividend on shares released from the share incentive scheme | | – | – | – | – | 115 | 115 |
| Dividend declared | | – | – | – | – | (1,383,548) | (1,383,548) |
| Effects of transactions with non-controlling interests | 40 | – | – | – | (378,856) | – | (378,856) |
| Equity-settled share incentive scheme | 45 | – | – | – | 23,979 | – | 23,979 |
| Deemed disposal of subsidiaries | 40 | – | – | – | (3,210) | – | (3,210) |
| Share of changes in equity other than comprehensive income and distributions received from associates | | – | – | – | 16,498 | – | 16,498 |
| Other changes of an investment in an associate | | – | – | – | (2,027) | – | (2,027) |
| Deemed disposal of investments in associates | | – | – | – | 47,424 | – | 47,424 |
| Others | | – | – | – | 27,335 | – | 27,335 |
| At 31 December 2017 | | 18,077,173 | 879,700 | 16,590 | (3,463,286) | 17,173,366 | 32,683,543 |

## 30. Reserves (continued)

Notes:

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

(b) Retained earnings as at 31 December 2017 included the proposed final dividend of RMB1,577,244,000 (2016: RMB1,383,548,000).

(c) Other reserves mainly represent reserves for transactions with non-controlling interests, remeasurement on post-employment benefit obligations and equity-settled share incentive scheme.

## 31. Interest-bearing bank and other borrowings

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| **Non-current** | | |
| Secured bank borrowings | – | 531,100 |
| Unsecured bank borrowings | 420,000 | 2,614,283 |
| Unsecured borrowings from other financial institutions | 31,600 | – |
| Bond (i) | 4,989,888 | 7,989,916 |
| | 5,441,488 | 11,135,299 |
| **Current** | | |
| Secured bank borrowings | 1,044,602 | 3,015,119 |
| Unsecured bank borrowings | 21,906,406 | 13,229,011 |
| Unsecured borrowings from other financial institutions | 50,000 | 121,600 |
| Secured borrowings from other financial institutions | 162,993 | – |
| Bond (i) | 6,998,907 | 5,996,848 |
| | 30,162,908 | 22,362,578 |
| **Total borrowings** | 35,604,396 | 33,497,877 |
| The carrying amounts of the Group's borrowings are denominated in the following currencies: | | |
| – RMB | 35,604,396 | 33,466,622 |
| – USD | – | 18,080 |
| – HKD | – | 13,175 |
| | 35,604,396 | 33,497,877 |

## 31. Interest-bearing bank and other borrowings (continued)

Notes:

(i) On 13 March 2013, the Company completed the issuance of the first tranche of the corporate bonds with an aggregate nominal value of RMB4,000,000,000. The corporate bonds will expire on 13 March 2018, for a period of five years commencing from the issue date of 13 March 2013. The annual interest rate of the corporate bonds for the first three years is fixed at 4.54%. Interest is paid on an annual basis. As at 31 December 2017, the corporate bonds were reclassified as current liabilities.

On 9 March 2016, the Company issued 40,000,000 units of bonds at a total par value of RMB4,000,000,000. After deduction of the expenses of approximately RMB12,852,000 in relation to the issuance, the total net proceeds were approximately RMB3,987,148,000. The bonds will mature 5 years from the issue date (i.e., 9 March 2021), and the annual interest rate is 2.92%. The Company has the right for early redemption at the end of the third year, i.e., 9 March 2019. Interest is paid on an annual basis. As at 31 December 2017, the corporate bonds are classified as non-current liabilities.

On 6 June 2016, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000,000. After deduction of the expenses of approximately RMB3,446,000 in relation to the issuance, the total net proceeds were approximately RMB2,996,554,000. The bonds will mature 270 days from the issue date (i.e., 3 March 2017), and the annual interest rate was 2.98%. The bonds matured and were repaid in 2017.

On 12 September 2016, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000,000. After deduction of the expenses of approximately RMB3,614,000 in relation to the issuance, the total net proceeds were approximately RMB2,996,386,000. The bonds will mature 270 days from the issue date (i.e., 9 June 2017), and the annual interest rate was 2.86%. The bonds matured and were repaid in 2017.

On 19 June 2017, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000,000. After deduction of the expenses of approximately RMB3,659,000 in relation to the issuance, the total net proceeds were approximately RMB2,996,341,000. The bonds will mature 270 days from the issue date (i.e., 16 March 2018), and the annual interest rate was 4.77%. As at 31 December 2017, the corporate bonds were classified as current liabilities.

On 26 October 2017, the Company completed the issuance of the first tranche of the corporate bonds with an aggregate nominal value of RMB1,000,000,000. The corporate bonds will expire on 26 October 2022, for a period of five years commencing from the issue date of 26 October 2017. The Company has the right for early redemption at the end of the third year, i.e., 26 October 2020. The annual interest rate of the corporate bonds for the first three years is fixed at 4.80%. Interest is paid on an annual basis. As at 31 December 2017, the corporate bonds were classified as non-current liabilities.

## 31. Interest-bearing bank and other borrowings (continued)

The Group's borrowings were repayable as follows:

| | Borrowings from banks or other financial institutions As at 31 December | | Bonds As at 31 December | |
|---|---|---|---|---|
| | **2017** **RMB'000** | 2016 RMB'000 | **2017** **RMB'000** | 2016 RMB'000 |
| Within 1 year | **23,164,001** | 16,365,730 | **6,998,907** | 5,996,848 |
| Between 1 and 2 years | **250,000** | 1,211,151 | **3,993,862** | 4,000,000 |
| Between 2 and 5 years | **201,600** | 1,934,232 | **996,026** | 3,989,916 |
| | **23,615,601** | 19,511,113 | **11,988,795** | 13,986,764 |

All of the Group's borrowings from banks or other financial institutions are with floating rates, as follows:

| | **2017** | 2016 |
|---|---|---|
| Weighted average effective interest rate (per annum) | **4.36%** | 4.38% |

Interest rates of borrowings from banks or other financial institution are reset periodically according to HIBOR, LIBOR or the benchmark rates announced by the PBOC.

As at 31 December 2017, secured bank borrowings amounting to RMB72,286,000 were guaranteed by third parties (31 December 2016: RMB13,338,000). The collateral for the rest of the Group's secured bank borrowings is as follows:

| | **2017** **RMB'000** | 2016 RMB'000 |
|---|---|---|
| Cash and cash equivalents (Note 28) | **59,464** | 31,256 |
| Property, plant and equipment (Note 16) | **113,464** | 76,690 |
| Investment properties (Note 15) | **74** | 19,060 |
| Prepaid land lease payments (Note 14) | **56,374** | 43,143 |
| Notes receivable (Note 26) | **658,333** | 239,073 |
| Finance lease receivables (Note 22) | **–** | 439,809 |
| Accounts receivable (Note 26) | **373,924** | 666,872 |
| | **1,261,633** | 1,515,903 |

## 31. Interest-bearing bank and other borrowings (continued)

The fair value of the current borrowings approximates to their carrying amount. The carrying amounts and fair values of the non-current borrowings are as follows:

| | Carrying amount As at 31 December | | Fair value As at 31 December | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Borrowings from banks and other financial institutions | **451,600** | 3,145,383 | **493,807** | 3,200,474 |
| Bonds | **4,989,888** | 7,989,916 | **5,016,219** | 8,522,623 |

The fair value of the current borrowings equals to their carrying amount, as the impact of discounting is not significant. The fair values are based on discounted cash flows using a rate based on the borrowing rate of 4.36% (2016: 4.38%) and are within level 2 of the fair value hierarchy.

## 32. Post-employment benefit obligations

The table below outlines where the Group's post-employment amounts and activity are included in the financial statements.

| | **2017** | 2016 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Obligations for post-employment benefits in the consolidated statement of financial position | **358,895** | 518,353 |

| | **2017** | 2016 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Charge for post-employment benefits in the consolidated statement of profit or loss | **(94,736)** | 40,475 |
| Remeasurement gains recognised in other comprehensive income (Note 12) | **(13,105)** | (12,495) |
| Cumulative remeasurement losses recognised in other comprehensive income | **74,375** | 87,480 |

## 32. Post-employment benefit obligations (continued)

The amounts recognised in the consolidated statement of financial position are analysed as follows:

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Present value of funded obligations | **11,066** | 12,348 |
| Fair value of plan assets | **(56,572)** | (46,527) |
| Surplus of funded plans | **(45,506)** | (34,179) |
| Present value of unfunded post-employment benefit obligations | **404,401** | 552,532 |
| **Liability in the consolidated statement of financial position** | **358,895** | 518,353 |

The movements in the defined benefit liability during the year are as follows:

| | Present value of obligation RMB'000 | Fair value of plan assets RMB'000 | Total RMB'000 |
|---|---|---|---|
| **At 1 January 2016** | 591,928 | (38,016) | 553,912 |
| Current service cost | (28,032) | – | (28,032) |
| Past service cost | 53,525 | – | 53,525 |
| Interest expense/(income) (Note 11) | 16,224 | (1,242) | 14,982 |
| | 41,717 | (1,242) | 40,475 |
| **Remeasurements:** | | | |
| – Return on plan assets, excluding amounts included in interest income | – | 366 | 366 |
| – Gains from change in financial assumptions | (12,861) | – | (12,861) |
| | (12,861) | 366 | (12,495) |
| **Contributions:** | | | |
| – Employers | – | (8,412) | (8,412) |
| **Payments:** | | | |
| – Benefit payments | (55,904) | 777 | (55,127) |
| **At 31 December 2016** | 564,880 | (46,527) | 518,353 |

## 32. Post-employment benefit obligations (continued)

| | Present value of obligation RMB'000 | Fair value of plan assets RMB'000 | Total RMB'000 |
|---|---|---|---|
| **At 1 January 2017** | 564,880 | (46,527) | 518,353 |
| Current service cost | 5,779 | – | 5,779 |
| Past service cost | (116,781) | – | (116,781) |
| Interest expense/(income) (Note 11) | 17,868 | (1,602) | 16,266 |
| | (93,134) | (1,602) | (94,736) |
| **Remeasurements:** | | | |
| – Return on plan assets, excluding amounts included in interest income | – | (938) | (938) |
| – Gains from change in financial assumptions | (12,167) | – | (12,167) |
| | (12,167) | (938) | (13,105) |
| **Contributions:** | | | |
| – Employers | – | (8,289) | (8,289) |
| **Payments:** | | | |
| – Benefit payments | (44,112) | 784 | (43,328) |
| **At 31 December 2017** | 415,467 | (56,572) | 358,895 |

The significant actuarial assumptions are as follows:

| | 2017 | 2016 |
|---|---|---|
| Discount rate | 4.00% | 3.25% |
| Pension growth rate | 5.00% | 5.00% |

Mortality: Average life expectancy of residents in Mainland China.

## 32. Post-employment benefit obligations (continued)

The sensitivity of the defined benefit obligations to changes in the weighted principal assumptions is:

| | Impact on defined benefit obligations | | |
|---|---|---|---|
| | Change in assumption | Increase in assumption | Decrease in assumption |
| Discount rate | 0.25% | Decrease by 2.30% | Increase by 2.42% |
| Pension growth rate | 0.50% | Increase by 0.18% | Decrease by 0.17% |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions, the same method (present value of the defined benefit obligations calculated with the projected unit credit method at the end of the reporting period) has been used for calculating the defined benefit obligations recognised in the consolidated statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Expected maturity analysis of undiscounted post-employments benefits:

| At 31 December 2017 | Less than 1 year RMB'000 | Between 1 and 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Post-employment benefits | **43,653** | **134,085** | **562,101** | **739,839** |

## 33. Other non-current liabilities

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Medical reserve funds | | |
| – general (i) | **419,920** | 407,353 |
| – for H1N1 vaccines | **68,407** | 68,407 |
| Government grants for construction of logistic centers (ii) | **98,783** | 98,751 |
| Government grants for products development | **1,454** | 2,400 |
| Deferred revenue | **214,339** | 238,055 |
| Long-term deposit | **–** | 69,455 |
| Finance lease payables | **83,614** | – |
| Continuing involvement liabilities (iii) | **–** | 263,834 |
| Others | **39,298** | 38,560 |
| | **925,815** | 1,186,815 |

## 33. Other non-current liabilities (continued)

Notes:

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

The Group received general medical reserve funds of RMB14,200,000 during current year.

The Group will have to sell pharmaceutical products to specific customers at cost when there are any serious disasters, epidemics and other emergencies, and the relevant trade receivables from certain of these customers will be offset with the balance of the fund upon approval from CNPGC and the relevant PRC government authorities. RMB65,000 was used to offset trade receivables during the year ended 31 December 2017 (2016: RMB1,384,000 was used to offset trade receivables, and RMB12,216,000 was repaid to government). RMB1,568,000 was written-off with the government's approval due to the expiry of relevant medicines (2016: None). The Group is required to maintain certain inventories at a level of not less than 70% of the general reserve funds. The medical reserve funds are required to be utilised only for use as mentioned above.

(ii) Certain of the Group's subsidiaries received funds from local governments as subsidies for construction of logistics centers. As at 31 December 2017, the directors expect that the construction will not be completed within one year and therefore, the balance is recorded as other non-current liability.

(iii) Please refer to Note 3(3)(iii) for details of continuing involvement liabilities.

## 34. Trade payables

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Accounts payable | **51,634,332** | 50,257,200 |
| Notes payable | **14,978,447** | 16,488,615 |
| | **66,612,779** | 66,745,815 |

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

## 34. Trade payables (continued)

The ageing analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Below 3 months | **49,133,927** | 49,532,985 |
| Between 3 and 6 months | **11,665,398** | 12,878,192 |
| Between 6 months to 1 year | **3,945,713** | 2,938,441 |
| Between 1 and 2 years | **1,207,793** | 748,965 |
| Over 2 years | **659,948** | 647,232 |
| | **66,612,779** | 66,745,815 |

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

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| RMB | **66,320,920** | 66,276,986 |
| USD | **291,676** | 397,669 |
| HKD | **11** | 71,160 |
| JPY | **172** | – |
| | **66,612,779** | 66,745,815 |

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

During the year ended 31 December 2017, accounts payable of RMB3,381,485,000 (2016: RMB3,037,485,000) were repaid by the banks under this program with the equivalent amount drawn as borrowings. As at 31 December 2017, the balance of bank borrowings related to this program was RMB166,835,000 (2016:Nil).

## 35. Accruals and other payables

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Accrual of operating expenses | **1,504,935** | 1,219,076 |
| Collection of accounts receivable on behalf of banks under factoring programs (Note 26) | **2,235,864** | 2,099,693 |
| Collection of accounts receivable on behalf of related parties under factoring programs (Note 26) & (Note 42) | **330,724** | 14,045 |
| Salary and welfare payable | **1,405,477** | 1,007,626 |
| Advances from customers | **725,279** | 623,558 |
| Other deposits | **2,664,351** | 1,080,870 |
| Taxes payable other than income tax | **442,178** | 419,886 |
| Interest payable | **631,615** | 427,245 |
| Other payables due to related parties (Note 42) | **469,850** | 76,081 |
| Advances due from related parties (Note 42) | **2,463** | 14,970 |
| Payables arising from acquisition of subsidiaries and contingent consideration | **308,564** | 441,390 |
| Payables arising from acquisition of non-controlling interests | **768,687** | 632,637 |
| Collection on behalf of asset-backed securities | **185,669** | 281,335 |
| Continuing involvement liabilities (i) | **175,098** | – |
| Others | **1,309,038** | 1,341,173 |
| | **13,159,792** | 9,679,585 |

The fair value of financial liabilities included in accruals and other payables approximates to their carrying amount.

(i) Please refer to Note 3(3)(iii) for details of continuing involvement liabilities.

## 36. Dividends

The final dividend for year 2016 of RMB0.50 (tax inclusive) per share, amounting to RMB1,383,548,000 in total, was approved by the shareholders at the annual general meeting of the Company held on 30 June 2017. A final dividend for the year ended 31 December 2017 of RMB0.57 (tax inclusive) per ordinary share, totalling approximately RMB1,577,244,000 is to be proposed at the upcoming annual general meeting according to the resolution passed at the Board meeting held on 23 March 2018. These financial statements have not reflected this proposed dividend.

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Proposed final dividend | **1,577,244** | 1,383,548 |

## 37. Notes to the consolidated statement of cash flows

### (a) Cash generated from operations

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Profit before income tax | **10,173,004** | 8,924,822 |
| Adjustments for: | | |
| – Share of profits and losses of associates (Note 19) | **(431,470)** | (232,190) |
| – Share of profits and losses of a joint venture | **(9,953)** | – |
| – Asset impairment (Note 9) | **45,996** | 124,346 |
| – Depreciation (Note 9) | **741,350** | 772,334 |
| – Amortisation (Note 9) | **273,777** | 295,427 |
| – Gain on disposal of prepaid land lease payments, investment properties, property, plant and equipment and intangible assets (Note 8) | **(45,429)** | (255,934) |
| – Write-back of certain liabilities (Note 8) | **(100,124)** | (12,596) |
| – Negative goodwill (Note 41) | **(401)** | – |
| – Gain on disposal of available-for-sale investments (Note 8) | **(16,636)** | (470) |
| – Gain on fair value re-measurement of existing equity in a subsidiary disposed of (Note 8) | **–** | (35,080) |
| – Gain on fair value re-measurement of existing equity in business combinations not under common control (Note 8) | **(35,239)** | – |
| – Finance cost | **2,533,231** | 1,971,187 |
| – Gain on disposal of subsidiaries (Note 8) | **–** | (110,377) |
| – Gain on deemed disposal of subsidiaries and on fair value re-measurement of existing equity in the subsidiary (Note 8) | **(219,114)** | – |
| – Loss on disposal of an investment accounted for the equity method (Note 8) | **263** | – |
| – Fair value gains on available-for-sale investments | **1,589** | (37) |
| – Dividend from available-for-sale investments (Note 8) | **(18,164)** | (13,727) |
| – Equity-settled share incentive scheme expense (Note 45) | **26,949** | 3,833 |
| | **12,919,629** | 11,431,538 |
| – Inventories | **(697,059)** | (3,559,829) |
| – Trade receivables | **(5,401,937)** | (4,852,241) |
| – Prepayments, other receivables and other assets | **(7,883,282)** | (4,087,643) |
| – Trade payables | **1,995,230** | 11,207,895 |
| – Accruals, other payables and other liabilities | **3,143,345** | 1,164,140 |
| Cash generated from operations | **4,075,926** | 11,303,860 |

## 37. Notes to the consolidated statement of cash flows (continued)

### (b) Changes in liabilities arising from financing activities

| | Non-current Interest-bearing bank and other borrowings | Current Interest-bearing bank and other borrowings | Trade payables | Other liabilities | Other non-current assets | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|
| At 1 January 2017 | 11,135,299 | 22,362,578 | 66,745,815 | 12,935,462 | (1,808,312) | 12,721,508 | 124,092,350 |
| Total comprehensive income attributable to non-controlling interests | – | – | – | – | – | 2,575,380 | 2,575,380 |
| Interest expense | – | – | – | 2,621,705 | – | – | 2,621,705 |
| Capitalised interest expense | – | – | – | (9,841) | – | – | (9,841) |
| Interest paid classified as operating cash flows | – | – | – | (16,266) | – | – | (16,266) |
| Dividend on shares released from the share incentive scheme | – | – | – | (115) | – | – | (115) |
| Dividend declared | – | – | – | 1,383,548 | – | – | 1,383,548 |
| Treasury shares held for the share incentive scheme | – | – | – | 193,003 | – | – | 193,003 |
| Effects of transactions with non-controlling interests | – | – | – | 677,140 | – | (298,284) | 378,856 |
| Deemed disposal of subsidiaries | (5,280,944) | (3,963,115) | (23,609) | (935,066) | – | (115,974) | (10,318,708) |
| Business combinations not under common control | 1,650 | 331,601 | 1,276,828 | 339,515 | – | 108,063 | 2,057,657 |
| Accounts payable financing program | 3,381,485 | – | (3,381,485) | – | – | – | – |
| Changes from financing cash flows | (3,796,002) | 11,431,844 | – | (4,182,778) | (86,931) | 936,250 | 4,302,383 |
| Changes from operating, investing and non-cash activities | – | – | 1,995,230 | 3,045,892 | (126,971) | 85,076 | 4,999,227 |
| At 31 December 2017 | 5,441,488 | 30,162,908 | 66,612,779 | 16,052,199 | (2,022,214) | 16,012,019 | 132,259,179 |

## 38. Commitments

### (a) Capital commitments

Capital expenditures at the end of reporting period are as follows:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Property, plant and equipment: | | |
| – contracted but not provided for | **1,528,630** | 308,685 |

### (b) Operating lease commitments

**(i) The Group as lessee:**

The Group leases various land and buildings under non-cancellable operating lease agreements.

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

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Within 1 year | **816,749** | 736,498 |
| Later than 1 year and not later than 5 years | **1,545,697** | 1,684,421 |
| Later than 5 years | **931,495** | 820,650 |
| | **3,293,941** | 3,241,569 |

**(ii) The Group as lessor:**

The Group leases out certain investment properties under non-cancellable operating lease agreements.

The further aggregate minimum rental receivables under these leases are as follows:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Within 1 year | **15,456** | 18,649 |
| Later than 1 year and not later than 5 years | **73,415** | 41,764 |
| Later than 5 years | **35,249** | 13,322 |
| | **124,120** | 73,735 |

## 39. Deemed disposal of subsidiaries

In June 2017, Sinopharm Financial Leasing and its subsidiaries, former subsidiaries of the Company, accepted capital injection from an independent third party amounted to RMB110,679,000. Accordingly, the Company's equity interest in Sinopharm Financial Leasing decreased from 100% to 90%. In December 2017, Sinopharm Financial Leasing accepted capital injection from certain independent third parties amounted to RMB2,104,186,000. Accordingly, the Company's equity interest in Sinopharm Financial Leasing decreased from 90% to 36%. The Company lost its control over Sinopharm Financial Leasing after its equity interest in Sinopharm Financial Leasing been diluted on 31 December 2017 (the "Deemed Disposal"). Therefore, the investment in Sinopharm Financial Leasing and its subsidiaries has not been included in the investments in subsidiaries since 31 December 2017.

The Company had significant influence over Sinopharm Financial Leasing after the Deemed Disposal and its remaining equity interests in Sinopharm Financial Leasing and its subsidiaries were accounted for as investments in associates as at 31 December 2017.

Details of the net assets disposed of are as follows:

| | **At date of disposal** RMB'000 |
|---|---|
| Net assets disposed of: | |
| Cash and cash equivalents | 125,859 |
| Property, plant and equipment (Note 16) | 3,369 |
| Intangible assets (Note 17) | 2,708 |
| Deferred tax assets (Note 23) | 87,285 |
| Other non-current assets | 7,265,318 |
| Trade and other receivables | 3,983,191 |
| Trade and other payables | (627,771) |
| Interest-bearing bank and other borrowings | (9,244,059) |
| Other non-current liabilities | (330,904) |
| Net assets | 1,264,996 |
| Original net assets attributable to the Company | (10,527) |
| Non-controlling interests | (115,974) |
| Net assets attributable to the Company | 1,138,495 |
| Gain on deemed disposal of subsidiaries and gain on fair value re-measurement of existing equity in the subsidiary | 219,114 |
| Investments in an associate | 1,357,609 |
| Satisfied by: | |
| Cash | – |

## 39. Deemed disposal of subsidiaries (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

| | 2017 RMB'000 |
|---|---|
| Cash consideration | – |
| Cash and cash equivalents in the subsidiaries deemed disposed of | (125,859) |
| Net outflow of cash and cash equivalents in respect of the deemed disposal of subsidiaries | (125,859) |

## 40. Transactions with non-controlling interests

### (a) Acquisition of additional interests in subsidiaries

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

| Subsidiaries | Equity interests acquired % | Cash consideration RMB'000 |
|---|---|---|
| Sinopharm Group Southwest Medicine Co., Ltd. | 15.00% | 143,957 |
| Sinopharm Holding Zhejiang Co., Ltd. | 14.38% | 48,484 |
| Sinopharm Holding Anhui Co., Ltd. | 20.00% | 122,164 |
| Sinopharm Holding Shanxi Co., Ltd. | 30.00% | 214,395 |
| Sinopharm Holding Dalian Co., Ltd. | 5.00% | 12,030 |
| Sinopharm Holding Tieling Co., Ltd. | 10.00% | 3,000 |
| Sinopharm Holding Wuxi Co., Ltd. | 10.00% | 25,177 |
| Sinopharm Holding Henan Medical Instruments Co., Ltd. | 30.00% | 3,555 |
| Sinopharm Holding Suzhou Co., Ltd. | 20.00% | 104,378 |
| China National Medicines Corporation Ltd. (i) | 11.28% | – |
| | | 677,140 |

## 40. Transactions with non-controlling interests (continued)

### (a) Acquisition of additional interests in subsidiaries (continued)

**(i) Assets restructuring**

During the reporting period, the Company disposed of a 96% equity interest in Sinopharm Holding Beijing Co., Ltd. ("Sinopharm Beijing"), a 51% equity interest in Sinopharm Holding Beijing Huahong Co., Ltd. ("Beijing Huahong"), a 51% equity interest in Beijing Kangchen Bio-medicine Co., Ltd. ("Beijing Kangchen") and a 51% equity interest in Beijing Tianxingpuxin Bio-medicine Co., Ltd. ("Tianxingpuxin") held by the Company (collectively the "target companies") to National Medicines for an aggregate consideration of RMB5,339.69 million, which was satisfied by issuance of 214,445,565 consideration shares in total at the issue price of RMB24.90 per consideration share by National Medicines to the Company. While the other non-controlling shareholders also transferred 4% equity interest in Sinopharm Beijing, 9% equity interest in Beijing Huahong and 49% equity interest in Beijing Kangchen to National Medicines on equal conditions and obtained 32,322,681 consideration shares issued by National Medicines. National Medicines also issued 41,365,452 subscription shares by way of non-public offer to eight qualified designated investors at the issue price of RMB24.90 per subscription share to raise proceeds of approximately RMB1,030.00 million in aggregate, and such proceeds will be mainly used for hospital supply chain extension programs, community hospital pharmacy hosting projects, hospital cold-chain logistic system projects and information technology construction projects following the asset transfer.

Upon the completion of the above transactions, the Company's shareholding ratio in National Medicines increased from 44.01% to 55.43% and National Medicines continued to be a subsidiary of the Company. The carrying amount of non-controlling interests increased by RMB955,544,000. The Group recognised an increase in equity attributable to owners of the parent of RMB63,340,000.

According to certain conditions stipulated by the supplementary agreements on the above transactions, the Company and the non-controlling shareholders are required to compensate National Medicines in the form of consideration shares obtained in the above transactions based on the achievement of the profit targets of the target companies. As Tianxingpuxin did not achieve the profit target, the Company shall compensate National Medicines 2,529,307 consideration shares. Then, the Company recognised a decrease in equity attributable to owners of the parent of RMB11,845,000.

The effect of changes in the equity interests of these subsidiaries on the total equity attributable to owners of the parent during the year is summarised as follows:

| | **Effect on the total equity** RMB'000 |
|---|---|
| Carrying amount of non-controlling interests acquired | 239,628 |
| Consideration payable to non-controlling interests | 677,140 |
| Excess of consideration paid over the carrying amount acquired | 437,512 |

## 40. Transactions with non-controlling interests (continued)

### (b) Disposal of interest in subsidiaries without loss of control

During the period, Sinopharm Holding Dalian Co., Ltd. obtained capital injection from a non-controlling shareholder amounting to RMB60,155,000. The shareholding of the non-controlling interests in Sinopharm Holding Dalian Co., Ltd. increased by 20% and the carrying amount increased by RMB56,204,000. The Group recognised an increase in equity attributable to owners of the parent of RMB3,951,000.

In June 2017, Sinopharm Financial Leasing obtained a capital injection from a non-controlling shareholder amounting to RMB110,679,000. The shareholding of the non-controlling interests in Sinopharm Financial Leasing increased by 10% and the carrying amount increased by RMB107,469,000. The Group recognised an increase in equity attributable to owners of the parent of RMB3,210,000.

### (c) Effects of transactions with non-controlling interests on the equity attributable to owners of the parent for the year ended 31 December 2017

| | Effect on the total equity RMB'000 |
|---|---|
| Changes in equity attributable to owners of the parent arising from: | |
| – Acquisition of additional interests in subsidiaries | 437,512 |
| – Disposal of interests in subsidiaries without loss of control | (7,161) |
| – Assets restructuring | (51,495) |
| Net effect for transactions with non-controlling interests on equity attributable to owners of the parent | 378,856 |

## 41. Business combinations

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

Acquisitions during the year are as follows:

The Group acquired equity interests from third parties in certain subsidiaries which are mainly engaged in the distribution of medicines and pharmaceutical products and operations of pharmaceutical chain stores in order to extend the market share of the Group. The subsidiaries acquired by the Group during the year are as follows:

| Subsidiaries acquired from third parties | Month of acquisition | Acquired interests |
|---|---|---|
| Sinopharm Holding Zhuhai Co., Ltd. | January 2017 | 90.00% |
| Sinopharm Holding Dalian Pengrun Co., Ltd. | March 2017 | 53.71% |
| Sinopharm Holding ChangSha Co., Ltd. | March 2017 | 80.00% |
| Sinopharm Holding ChangSha Medical Instruments Co., Ltd. | March 2017 | 100.00% |
| Sinopharm Holding Maoming Co., Ltd. | May 2017 | 100.00% |
| Sinopharm Holding Fuyi Pharmacy Wenzhou Co., Ltd. | July 2017 | 70.00% |
| Sinopharm Holding Yingkou Co., Ltd. | October 2017 | 70.00% |
| Sinopharm Holding Heyuan Co., Ltd. | November 2017 | 70.00% |
| Sinopharm Holding Lianyungang Co., Ltd. | December 2017 | 70.00% |

## 41. Business combinations (continued)

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

The effect of the above acquisitions is summarised as follows:

| | RMB'000 |
|---|---|
| Purchase consideration | |
| – Contingent consideration (i) | 166,126 |
| – Cash paid | 311,129 |
| Total purchase consideration | 477,255 |

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

| | **Fair value at acquisition date** RMB'000 |
|---|---|
| Cash and cash equivalents | 71,448 |
| Property, plant and equipment (Note 16) | 8,206 |
| Intangible assets (Note 17) | |
| – Sales network | 171,823 |
| – Software | 381 |
| Deferred tax assets | 3,945 |
| Inventories | 233,652 |
| Trade and other receivables | 1,528,094 |
| Trade and other payables | (1,317,058) |
| Deferred tax liabilities | (42,958) |
| Interest-bearing bank and other borrowings | (298,251) |
| Net assets | 359,282 |
| Non-controlling interests (ii) | (108,063) |
| Goodwill (Note 17) | 226,437 |
| Negative Goodwill | (401) |
| Total purchase consideration | 477,255 |
| Less: contingent consideration (i) | (166,126) |
| | 311,129 |
| Less: non-cash settled consideration | (109,161) |
| Cash consideration paid in 2017 | 201,968 |
| Cash and cash equivalents in subsidiaries acquired | (71,448) |
| Cash outflow on acquisition | 130,520 |

## 41. Business combinations (continued)

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

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

Notes:

**(i) Contingent consideration**

Based on certain conditions stipulated by the agreements on acquisitions, the Group is required to pay a contingent consideration based on achievement of the profit targets of the acquirees. The maximum undiscounted contingent consideration payable is RMB166,126,000.

Based on the projected profit performance of the acquirees, the fair value of the contingent consideration arrangement was estimated to be RMB166,126,000. As at 31 December 2017, there was no adjustment to the contingent consideration arrangement.

**(ii) Non-controlling interests**

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

**(iii)** The revenue and net profit of these newly acquired subsidiaries from the respective acquisition dates to 31 December 2017 are summarised as follows:

| | From acquisition dates to 31 December 2017 RMB'000 |
|---|---|
| Revenue | 2,230,885 |
| Net profit | 52,523 |

**(iv)** The revenue and net profit of these newly acquired subsidiaries from 1 January 2017 to 31 December 2017 are summarised as follows:

| | From 1 January 2017 to 31 December 2017 RMB'000 |
|---|---|
| Revenue | 3,015,873 |
| Net profit | 69,386 |

## 41. Business combinations (continued)

### (b) Business combination under common control

CNPGC, the Company's ultimate controlling shareholder, completed the acquisition of a 100% equity interest in Shanghai Pudong New Area Medicines and Herbs Co., Ltd. (including its wholly-owned subsidiary Shanghai Yanghetang Pharmaceutical Chain Co., Ltd) ("Pudong Medicines and Herbs") on 28 February 2017. On 27 November 2017, the Company entered into the Equity Transfer Agreement with CNPGC in respect of the acquisition of a 100% equity interest in Pudong Medicines and Herbs at a cash consideration of RMB217,473,000. Upon completion of the acquisition, Pudong Medicines and Herbs became a wholly-owned subsidiary of the Company. Since both Pudong Medicines and Herbs and the Company are subsidiaries of CNPGC, the acquisition was a business combination under common control. The business combination under common control was accounted for in accordance with Accounting Guideline 5 – Merger Accounting for Common Control Combinations issued by the HKICPA. In applying merger accounting, financial statement items of the combining entity for the reporting period in which the common control combination occurs, and for any comparative periods disclosed, are included in the consolidated financial statements of the combined entity as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties.

The effect of the above acquisitions is summarised as follows:

| | RMB'000 |
|---|---|
| Purchase consideration | |
| – Cash paid | 217,473 |
| Total purchase consideration | 217,473 |

## 41. Business combinations (continued)

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

The details of the assets and liabilities acquired and cash flows relating to this acquisition is summarised as follows:

| | Fair value at acquisition date RMB'000 |
|---|---|
| Cash and cash equivalents | 51,854 |
| Property, plant and equipment (Note 16) | 111,679 |
| Intangible assets (Note 17) | |
| – Trademarks and patent rights | 26,372 |
| – Favourable leasing rights | 34,244 |
| – Software | 996 |
| Deferred tax assets | 2,156 |
| Inventories | 121,306 |
| Trade and other receivables | 94,215 |
| Trade and other payables | (215,685) |
| Deferred tax liabilities | (40,608) |
| Other non-current liabilities | (34) |
| Interest-bearing bank and other borrowings | (35,000) |
| Net assets | 151,495 |
| Goodwill (Note 17) | 65,978 |
| Total purchase consideration | 217,473 |
| Less: non-cash settled consideration | – |
| Cash consideration paid in 2017 | 217,473 |
| Cash and cash equivalents in subsidiaries acquired | (51,854) |
| Cash outflow on acquisition | 165,619 |

## 41. Business combinations (continued)

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

(i) The revenue and net profit of the newly acquired subsidiary from the acquisition date to 31 December 2017 are summarised as follows:

| | From the acquisition date to 31 December 2017 RMB'000 |
|---|---|
| Revenue | 586,802 |
| Net profit | 3,260 |

(ii) The revenue and net profit of the newly acquired subsidiary from 1 January 2017 to 31 December 2017 are summarised as follows:

| | From 1 January 2017 to 31 December 2017 RMB'000 |
|---|---|
| Revenue | 710,418 |
| Net profit | 4,318 |

## 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 which is the ultimate holding company of the Company. The Group's significant transactions with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government are a large portion of its sales of goods, purchase of goods, borrowings, interest fee paid, notes receivable discount, and guarantees provided to related parties. The Group's significant balances with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government are a large portion of its trade receivables, prepayments and other receivables, trade payables and other payables, borrowings, other non-current liabilities, cash and cash equivalents.

## 42. Significant related party transactions (continued)

Beside other PRC government-related entities, the Company's directors and the Group's management consider the following entities are principal related parties of the Group with which the Group had transactions during the year.

| Name of related party | Nature of relationship |
|---|---|
| China National Pharmaceutical Group Co., Ltd. | The ultimate holding company of the Company |
| Beijing Huamiao Traditional Chinese Medicine Technology and Project Development Centre | Controlled by CNPGC |
| National Vaccine and Serum Institute Co., Ltd. | Controlled by CNPGC |
| Beijing Huasheng Medicial Biotechnology Development Co., Ltd | Controlled by CNPGC |
| Beijing Tiantan Biological Products Co., Ltd. | Controlled by CNPGC |
| Beijing Bio-Institute Biological Products Co., Ltd. | Controlled by CNPGC |
| Beijing Huamiao Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| Chengdu Rongsheng Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| Chengdu Institute of Biological Products | Controlled by CNPGC |
| Sinopharm Dongfeng General Hospital | Controlled by CNPGC |
| China Pharmaceutical Group Kashi Medical Instrument Co., Ltd. | Controlled by CNPGC |
| Foshan Winteam Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| Fujian Pharmaceutical Equipment Co., Ltd. | Controlled by CNPGC |
| Guangdong Yifang Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| Sinopharm (Shanghai) International Medical Health Co., Ltd. | Controlled by CNPGC |
| Sinopharm (Tianjin) Northern Medical Equipment Co., Ltd. | Controlled by CNPGC |
| Sinopharm (Tianjin) Medical Devices Co., Ltd. | Controlled by CNPGC |
| Sinopharm Tianjin Medical Laboratory Science & Technology Co., Ltd. | Controlled by CNPGC |
| Sinopharm Group Anhui Medical Instrument Co., Ltd. | Controlled by CNPGC |
| Sinopharm Group Finance Co., Ltd. | Controlled by CNPGC |
| China Chengde Medicine Co., Ltd. | Controlled by CNPGC |
| Sinopharm Chuankang Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| Sinopharm Group Dezhong (Foshan) Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| Sinopharm Fengliaoxing (Foshan) Medicines Co., Ltd. | Controlled by CNPGC |
| China National Pharmaceutical Industry Co., Ltd. | Controlled by CNPGC |
| Guangdong Global Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| Sinopharm Henan Medical Devices Co., Ltd. | Controlled by CNPGC |
| Sinopharm Jiangxi Medical Instruments Co., Ltd. | Controlled by CNPGC |
| Anhui Jingfang Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| Guizhou Longlife Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| Sinopharm Group Combined Instrument Co., Ltd. | Controlled by CNPGC |
| Sinopharm Holding (Liaoning Province) Medical Instruments Co., Ltd. | Controlled by CNPGC |
| Shangdong Luya Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| Sinopharm Rongsheng Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| China National Pharmaceutical Group Sanyi Pharmaceutical (Wuhu) Co., Ltd. | Controlled by CNPGC |

## 42. Significant related party transactions (continued)

| Name of related party | Nature of relationship |
|---|---|
| Sinopharm Shanxi Ruifulai Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| Sinopharm Shantou Jinshi Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| China Pharmaceutical Group Shanghai Medical Instrument Co., Ltd. | Controlled by CNPGC |
| Guizhou Tongjitang Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| Sinopharm Weiqida Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| China Pharmaceutical Group Hunan Xiaoxiang Medical Instrument Co., Ltd. | Controlled by CNPGC |
| China Pharmaceutical Group Pingdingshan Medical Instrument Co., Ltd. | Controlled by CNPGC |
| China Pharmaceutical Group Xinjiang Medical Instrument Co., Ltd. | Controlled by CNPGC |
| China Pharmaceutical Group Xianjin (Shanghai) Medical Instrument Co., Ltd. | Controlled by CNPGC |
| China Pharmaceutical Zhongyuan (Henan) Medical Insurance Co., Ltd. | Controlled by CNPGC |
| Sinopharm Group Beijing Medical Instrument Co., Ltd. | Controlled by CNPGC |
| Sinopharm Group Xinjiang Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| Sinopharm Group Yunnan Medical Instrument Co., Ltd. | Controlled by CNPGC |
| Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| China National Scientific Instruments & Materials Shenzhen Co., Ltd. | Controlled by CNPGC |
| Sinopharm Vanda Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| Sinopharm Holding A-Think Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| Sinopharm Midland Hospital Management Co., Ltd. | Controlled by CNPGC |
| Huayi Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| Guizhou Zhongtai Biotechnology Co., Ltd. | Controlled by CNPGC |
| Jiangyin Tianjiang Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| Lanzhou Institute of Bio-products Co., Ltd. | Controlled by CNPGC |
| Lanzhou Lansheng Blood Products Co., Ltd. | Controlled by CNPGC |
| Lanzhou Biotechnology Development Co., Ltd. | Controlled by CNPGC |
| Sinopharm Shanxi Medical Devices Co., Ltd. | Controlled by CNPGC |
| Sinopharm Wuhan Blood Products Co., Ltd. | Controlled by CNPGC |
| Sinopharm Shanghai Blood Products Co., Ltd. | Controlled by CNPGC |
| Shanghai Institute of Bio-products Co., Ltd. | Controlled by CNPGC |
| Shanghai Techwell Biopharmaceutical Co., Ltd. | Controlled by CNPGC |
| Shanghai Modern Hasen (Shangqiu) Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| Shanghai Modern Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| Shydec Pharmaceutical Marketing Co., Ltd. | Controlled by CNPGC |
| Shanghai Institute of Pharmaceutical Industry | Controlled by CNPGC |
| Wuhan Institute of Biological Products Co., Ltd. | Controlled by CNPGC |
| Xinxiang Central Hospital | Controlled by CNPGC |
| Xinxiang City Second People's Hospital | Controlled by CNPGC |
| Xinxiang Maternity and Child Hospital | Controlled by CNPGC |
| Xinxiang Hospital of Traditional Chinese Medicine | Controlled by CNPGC |
| Changchun Institute of Biological Products | Controlled by CNPGC |
| China National Scientific Instruments and Materials Co., Ltd. | Controlled by CNPGC |

## 42. Significant related party transactions (continued)

| Name of related party | Nature of relationship |
|---|---|
| China Bio-Technology Co., Ltd. | Controlled by CNPGC |
| Sinopharm Shandong Medical Devices Co., Ltd. | Controlled by CNPGC |
| China National Pharmaceutical Foreign Trade Co., Ltd. | Controlled by CNPGC |
| China State Institute of Pharmaceutical Industry | Controlled by CNPGC |
| China National Pharmaceutical Industry Corporation | Controlled by CNPGC |
| Sino Pharmengin Corporation | Controlled by CNPGC |
| Sinopharm Chongqing Pharmaceutical and Medical Industry Design Institute | Controlled by CNPGC |
| China National Corp. of Traditional and Herbal Medicine | Controlled by CNPGC |
| Sinopharm (Guangdong) Medical Instruments Co., Ltd. | Controlled by CNPGC |
| Sinopharm Holding Shanxi Xinzhou Co., Ltd. | Controlled by CNPGC |
| China Medical Devices Co., Ltd. | Controlled by CNPGC |
| Shanghai Shangsheng Biological Products Co., Ltd. | Controlled by CNPGC |
| Qinghai Pu Lante Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| Sinopharm Yibin Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| China National Pharmaceutical Investment Co.,Ltd. | Controlled by CNPGC |
| Sinopharm Wuhan ZhongLianSiYao Pharmaceutical Co., Ltd. | Controlled by CNPGC |
| Sinopharm Fengliaoxing (Foshan) Herbal Pieces Co., Ltd. | Controlled by CNPGC |
| Sinopharm Dongfeng Huaguo Hospital | Controlled by CNPGC |
| Sinopharm Dongfeng Maojian Hospital | Controlled by CNPGC |
| Sinopharm Dongfeng Medical and Health Industry Co., Ltd. | Controlled by CNPGC |
| Changchun Keygen Biological Products Co., Ltd. | Controlled by CNPGC |
| Shanghai Shangsheng Huigu Biotechnology Park Co., Ltd. | Controlled by CNPGC |
| Sinopharm Group Health (Anhui) Pharmaceutical Co., Ltd. | Associate |
| Sinopharm Holding (China) Finance Leasing Co., Ltd. | Associate |
| Sinopharm Health Online Co., Ltd. | Associate |
| Sinopharm Nutraceuticals (Shanghai) Co., Ltd. | Associate |
| Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Co., Ltd. | Associate |
| Hubei Yuankang Pharmaceutical Co., Ltd. | Associate |
| Shanghai Beiyi Guoda Pharmaceutical Co., Ltd. | Associate |
| Shanghai Guoda Lingyun Drug Store Co., Ltd. | Associate |
| Shanghai Liyi Drug Store Co., Ltd. | Associate |
| Shenzhen Main Luck Pharmaceutical Co., Ltd. | Associate |
| Sichuan Kangdaxin Medical Co., Ltd. | Associate |
| Wuxi Huihua Qiangsheng Pharmaceutical Chain Co., Ltd. | Associate |
| Sinopharm Holding Yibin Pharmaceutical Co., Ltd. | Associate |
| Yichang Humanwell Pharmaceutical Co., Ltd. | Associate |
| Sinopharm Group Zhijun (Suzhou) Pharmaceutical Co., Ltd. | Associate |
| Sinopharm Holding Medical Finance and Commerce (Shanghai) Co., Ltd. | Subsidiary of an associate |
| Qinghai Pharmaceutical Co., Ltd. | Subsidiary of an associate |
| Shenzhen Wan Wei Pharmaceutical Trade Co., Ltd. | Subsidiary of an associate |

## 42. Significant related party transactions (continued)

| Name of related party | Nature of relationship |
|---|---|
| Beijing Zhonglian Pharmaceutical Chemical Industry Corporation | Associate of CNPGC |
| Sino-Swed Pharmaceutical Corporation Ltd. | Associate of CNPGC |
| China Otsuka Pharmaceutical Co., Ltd. | Associate of CNPGC |
| Shanghai Fosun Pharmaceutical (Group) Co., Ltd. ("Fosun Pharmaceutical") | The shareholder which has significant influence on the Company |
| Anhui Jimin Tumor Hospital | Subsidiary of Fosun Pharmaceutical |
| Foshan Chancheng Pharmaceutical Co., Ltd. | Subsidiary of Fosun Pharmaceutical |
| Foshan City Chancheng District Central Hospital Ltd. | Subsidiary of Fosun Pharmaceutical |
| Foshan City Chanyixing Medicine Development Co., Ltd. | Subsidiary of Fosun Pharmaceutical |
| Hebei Wanbang Fulin Pharmaceutical Co., Ltd. | Subsidiary of Fosun Pharmaceutical |
| Hunan Dongting Pharmaceutical Co., Ltd. | Subsidiary of Fosun Pharmaceutical |
| Jiangsu Wanbang Biochemical Pharmaceuticals Joint Stock Co., Ltd. | Subsidiary of Fosun Pharmaceutical |
| Jiangsu Wanbang Pharmaceutical Marketing Ltd. | Subsidiary of Fosun Pharmaceutical |
| Jiangsu Wanbang Pharmaceutical Technology Co., Ltd. | Subsidiary of Fosun Pharmaceutical |
| Jinzhou Aohong Pharmaceuticals Co., Ltd. | Subsidiary of Fosun Pharmaceutical |
| Shanghai Zhaohui Pharmaceutical Co., Ltd. | Subsidiary of Fosun Pharmaceutical |
| Shanghai Fosun Long March Medical Science Co., Ltd. | Subsidiary of Fosun Pharmaceutical |
| Shanghai Transfusion Technology Co., Ltd. | Subsidiary of Fosun Pharmaceutical |
| Shanghai Chemo Biological Pharmaceutical Co., Ltd. | Subsidiary of Fosun Pharmaceutical |
| Shenyang Hongqi Pharmaceutical Co., Ltd. | Subsidiary of Fosun Pharmaceutical |
| Sichuan Hexin Pharmaceutical Co., Ltd. | Subsidiary of Fosun Pharmaceutical |
| Suzhou Erye Pharmaceutical Co., Ltd. | Subsidiary of Fosun Pharmaceutical |
| Wenzhou Geriatric Hospital Limited Company | Subsidiary of Fosun Pharmaceutical |
| Tibet Yaopharma Pharmaceutical Co., Ltd. | Subsidiary of Fosun Pharmaceutical |
| Yueyang Guangji Hospital Co., Ltd. | Subsidiary of Fosun Pharmaceutical |
| Chongqing Haisiman Pharmaceuticals Co., Ltd. | Subsidiary of Fosun Pharmaceutical |
| Chongqing Yaoyou Pharmaceutical Co., Ltd. | Subsidiary of Fosun Pharmaceutical |
| Guilin Pharmaceutical Co., Ltd. | Subsidiary of Fosun Pharmaceutical |
| Heilongjiang Wanbang Pharmaceutical Co., Ltd. | Subsidiary of Fosun Pharmaceutical |

China National Pharmaceutical Group Corporation changed its name into China National Pharmaceutical Group Co., Ltd.

China National Pharmaceutical Foreign Trade Corporation changed its name into China National Pharmaceutical Foreign Trade Co., Ltd.

Sinopharm Group ChangSha Co., Ltd. and Sinopharm Holding Zhuhai Co., Ltd. were no longer associates of the Group in 2017.

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

## 42. Significant related party transactions (continued)

### (a) Significant related party transactions

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

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| **Sales of goods** | | |
| China National Pharmaceutical Group Co., Ltd. | 23 | 15 |
| Xinxiang Central Hospital | 384,974 | 416,143 |
| Wuxi Huihua Qiangsheng Pharmaceutical Chain Co., Ltd. | 257,696 | 226,797 |
| Sinopharm (Guangdong) Medical Instruments Co., Ltd. | 224,189 | – |
| Shanghai Beiyi Guoda Pharmaceutical Co., Ltd. | 123,109 | 103,845 |
| Hubei Yuankang Pharmaceutical Co., Ltd. | 100,594 | 80,352 |
| Xinxiang City Second People's Hospital | 71,820 | 68,962 |
| Foshan Chancheng Pharmaceutical Co., Ltd. | 69,635 | 66,158 |
| Sinopharm Holding Yibin Pharmaceutical Co., Ltd. | 59,590 | 32,467 |
| Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Co., Ltd. | 59,485 | 71,178 |
| Wenzhou Geriatric Hospital Limited Company | 34,616 | 18,499 |
| Beijing Bio-Institute Biological Products Co., Ltd. | 32,989 | – |
| Wuhan Institute of Biological Products Co., Ltd. | 27,736 | 22,664 |
| Sinopharm Dongfeng General Hospital | 24,970 | – |
| China Pharmaceutical Group Kashi Medical Instrument Co., Ltd. | 22,319 | – |
| Sichuan Kangdaxin Medical Co., Ltd. | 17,653 | 33,050 |
| Hebei Wanbang Fulin Pharmaceutical Co., Ltd. | 12,205 | 1,538 |
| Xinxiang Maternity and Child Hospital | 10,367 | 12,569 |
| China National Pharmaceutical Foreign Trade Co., Ltd. | 8,832 | – |
| Beijing Huamiao Pharmaceutical Co., Ltd. | 8,097 | – |
| Xinxiang Hospital of Traditional Chinese Medicine | 8,025 | 6,782 |
| Foshan City Chancheng District Central Hospital Ltd. | 7,787 | 7,292 |
| Sinopharm Group ChangSha Co., Ltd. | – | 39,633 |
| China Pharmaceutical Group Xinjiang Medical Instrument Co., Ltd. | 6,669 | – |
| China Chengde Medicine Co., Ltd. | 5,787 | 5,048 |
| Sinopharm Group Beijing Medical Instrument Co., Ltd. | 5,577 | – |
| Shanghai Liyi Drug Store Co., Ltd. | 5,085 | 1,200 |
| Shanghai Institute of Bio-products Co., Ltd. | 4,255 | 4,783 |
| Lanzhou Institute of Bio-products Co., Ltd. | 3,453 | 5,112 |
| Shanghai Chemo Biological Pharmaceutical Co., Ltd. | 3,337 | – |
| China National Corp. of Traditional and Herbal Medicine | 3,292 | 18,225 |
| Fujian Pharmaceutical Equipment Co., Ltd. | 3,215 | – |
| Chengdu Rongsheng Pharmaceutical Co., Ltd. | 3,086 | 5,417 |
| Foshan City Chanyixing Medicine Development Co., Ltd. | 2,882 | 2,807 |
| China Pharmaceutical Group Pingdingshan Medical Instrument Co., Ltd. | 2,729 | – |

## 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)

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| **Sales of goods** (continued) | | |
| China Pharmaceutical Group Hunan Xiaoxiang Medical Instrument Co., Ltd. | 2,276 | – |
| Anhui Jimin Tumor Hospital | 2,202 | 1,858 |
| China Pharmaceutical Group Xianjin (Shanghai) Medical Instrument Co., Ltd. | 2,000 | – |
| China Pharmaceutical Zhongyuan (Henan) Medical Insurance Co.Ltd | 1,978 | – |
| Chengdu Institute of Biological Products | 1,888 | 1,421 |
| Yueyang Guangji Hospital Co., Ltd. | 1,858 | – |
| Sinopharm Henan Medical Devices Co., Ltd. | 1,808 | – |
| Sinopharm (Shanghai) International Medical Health Co., Ltd. | 1,740 | 1,426 |
| China Pharmaceutical Group Shanghai Medical Instrument Co., Ltd. | 1,739 | – |
| Chongqing Yaoyou Pharmaceutical Co., Ltd. | 1,714 | – |
| Shanghai Guoda Lingyun Drug Store Co., Ltd. | 1,638 | 3,681 |
| Sinopharm Shantou Jinshi Pharmaceutical Co., Ltd. | 1,578 | – |
| Sinopharm Fengliaoxing (Foshan) Medicines Co., Ltd. | 1,538 | 1,026 |
| National Vaccine and Serum Institute Co., Ltd. | 1,005 | 1,708 |
| China Otsuka Pharmaceutical Co., Ltd. | 154 | – |
| Sino-Swed Pharmaceutical Corporation Ltd. | 123 | – |
| Sinopharm Holding Zhuhai Co., Ltd. | – | 2,357 |
| Sinopharm Holding (Liaoning Province) Medical Instruments Co., Ltd. | – | 9,230 |
| Sinopharm Jiangxi Medical Instruments Co., Ltd. | – | 5,273 |
| Beijing Huamiao Traditional Chinese Medicine Technology and Project Development Centre | – | 4,510 |
| Sinopharm Midland Hospital Management Co., Ltd. | – | 4,364 |
| Jiangyin Tianjiang Pharmaceutical Co., Ltd. | – | 3,773 |
| China National Pharmaceutical Industry Corporation | – | 2,518 |
| Sino Pharmengin Corporation | – | 2,499 |
| Sinopharm Shandong Medical Devices Co., Ltd. | – | 1,851 |
| Jiangsu Wanbang Biochemical Pharmaceuticals Joint Stock Co., Ltd. | – | 1,514 |
| Others | 21,420 | 26,387 |
| | 1,662,737 | 1,325,932 |

## 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)

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| **Purchases of goods** | | |
| Yichang Humanwell Pharmaceutical Co., Ltd. | 1,840,567 | 1,442,489 |
| Sino-Swed Pharmaceutical Corporation Ltd. | 908,014 | 946,514 |
| Jiangsu Wanbang Pharmaceutical Marketing Ltd. | 694,769 | 632,500 |
| Lanzhou Institute of Bio-products Co., Ltd. | 596,108 | 451,136 |
| Chengdu Rongsheng Pharmaceutical Co., Ltd. | 489,467 | 486,080 |
| Chongqing Yaoyou Pharmaceutical Co., Ltd. | 411,873 | 308,788 |
| Shenzhen Main Luck Pharmaceutical Co., Ltd. | 239,535 | 304,591 |
| Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Co., Ltd. | 223,736 | 215,127 |
| Jinzhou Aohong Pharmaceuticals Co., Ltd. | 173,280 | – |
| Guizhou Tongjitang Pharmaceutical Co., Ltd. | 156,140 | 156,067 |
| China Otsuka Pharmaceutical Co., Ltd. | 147,228 | 170,704 |
| Shydec Pharmaceutical Marketing Co., Ltd. | 137,403 | 153,801 |
| Sinopharm Wuhan Blood Products Co., Ltd. | 116,255 | – |
| Chongqing Haisiman Pharmaceuticals Co., Ltd. | 101,220 | 107,435 |
| Shenzhen Wan Wei Pharmaceutical Trade Co., Ltd. | 92,672 | 60,353 |
| Foshan Winteam Pharmaceutical Co., Ltd. | 90,218 | 73,044 |
| China National Pharmaceutical Industry Co., Ltd. | 76,071 | 45,033 |
| China National Pharmaceutical Foreign Trade Co., Ltd. | 61,909 | 113,274 |
| Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd. | 61,539 | 42,553 |
| Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd. | 50,077 | 25,952 |
| Hunan Dongting Pharmaceutical Co., Ltd. | 43,304 | 18,864 |
| Anhui Jingfang Pharmaceutical Co., Ltd. | 42,921 | 30,987 |
| Sinopharm Shanghai Blood Products Co., Ltd. | 41,180 | – |
| Sichuan Hexin Pharmaceutical Co., Ltd. | 36,450 | 21,671 |
| Sinopharm (Tianjin) Medical Devices Co., Ltd. | 31,523 | 10,404 |
| Shanghai Modern Pharmaceutical Co., Ltd. | 31,281 | 590 |
| Sinopharm Henan Medical Devices Co., Ltd. | 24,274 | 14,691 |
| Sinopharm Vanda Pharmaceutical Co., Ltd. | 24,240 | 16,985 |
| Shanghai Modern Hasen (Shangqiu) Pharmaceutical Co., Ltd. | 24,100 | 10,066 |
| Wuhan Institute of Biological Products Co., Ltd. | 23,657 | 65,332 |
| Suzhou Erye Pharmaceutical Co., Ltd. | 23,159 | 4,003 |
| Sinopharm Chuankang Pharmaceutical Co., Ltd. | 19,021 | 11,714 |
| Sinopharm Rongsheng Pharmaceutical Co., Ltd. | 18,299 | 5,524 |

## 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)

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| **Purchases of goods** (continued) | | |
| China National Scientific Instruments and Materials Co., Ltd. | 17,707 | 8,947 |
| Sinopharm Group Xinjiang Pharmaceutical Co., Ltd. | 17,308 | 16,554 |
| Sinopharm Holding A-Think Pharmaceutical Co., Ltd. | 15,827 | – |
| China National Corp. of Traditional and Herbal Medicine | 14,644 | 5,680 |
| Shangdong Luya Pharmaceutical Co., Ltd. | 12,608 | 3,426 |
| China Medical Devices Co., Ltd. | 12,451 | – |
| Shenyang Hongqi Pharmaceutical Co., Ltd. | 11,036 | 8,056 |
| Heilongjiang Wanbang Pharmaceutical Co., Ltd. | 10,836 | – |
| Sichuan Kangdaxin Medical Co., Ltd. | 10,519 | 30,336 |
| Qinghai Pharmaceutical Co., Ltd. | 9,839 | – |
| Sinopharm Group ChangSha Co., Ltd. | – | 10,709 |
| Shanghai Shangsheng Biological Products Co., Ltd. | 8,855 | 1,540 |
| Tibet Yaopharma Pharmaceutical Co., Ltd. | 8,024 | – |
| China Pharmaceutical Group Shanghai Medical Instrument Co., Ltd. | 7,804 | 3,422 |
| Guangdong Global Pharmaceutical Co., Ltd. | 7,264 | 7,683 |
| Beijing Huamiao Pharmaceutical Co., Ltd. | 7,160 | – |
| Jiangyin Tianjiang Pharmaceutical Co., Ltd. | 6,615 | 5,413 |
| Huayi Pharmaceutical Co., Ltd. | 5,786 | 3,364 |
| Shanghai Zhaohui Pharmaceutical Co., Ltd. | 5,321 | 5,243 |
| Sinopharm Shantou Jinshi Pharmaceutical Co., Ltd. | 5,078 | 2,416 |
| Jiangsu Wanbang Biochemical Pharmaceuticals Joint Stock Co., Ltd. | 5,077 | 4,235 |
| China Pharmaceutical Group Xinjiang Medical Instrument Co., Ltd. | 5,067 | – |
| China Pharmaceutical Group Xianjin (Shanghai) Medical Instrument Co., Ltd. | 4,914 | – |
| Sinopharm Weiqida Pharmaceutical Co., Ltd. | 4,762 | 6,593 |
| Guizhou Zhongtai Biotechnology Co., Ltd. | 4,650 | – |
| Lanzhou Lansheng Blood Products Co., Ltd. | 3,825 | – |
| Qinghai Pu Lante Pharmaceutical Co., Ltd. | 3,651 | – |
| Beijing Zhonglian Pharmaceutical Chemical Industry Corporation | 3,513 | 4,778 |
| Beijing Huasheng Medical Biotechnology Development Co., Ltd | 3,356 | 1,180 |
| Guangdong Yifang Pharmaceutical Co., Ltd. | 3,173 | 3,425 |

## 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)

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| **Purchases of goods** (continued) | | |
| Changchun Institute of Biological Products | 2,796 | – |
| China National Pharmaceutical Group Sanyi Pharmaceutical (Wuhu) Co., Ltd. | 2,567 | 1,674 |
| Guizhou Longlife Pharmaceutical Co., Ltd. | 2,539 | 1,773 |
| Sinopharm Shanxi Ruifulai Pharmaceutical Co., Ltd. | 2,472 | 2,047 |
| Shanghai Fosun Long March Medical Science Co., Ltd. | 2,343 | – |
| Sinopharm Yibin Pharmaceutical Co., Ltd. | 2,318 | 2,657 |
| Sinopharm Holding Yibin Pharmaceutical Co., Ltd. | 2,277 | 6,802 |
| Lanzhou Biotechnology Development Co., Ltd. | 2,220 | – |
| China National Pharmaceutical Investment Co.,Ltd. | 2,211 | – |
| Sinopharm Wuhan ZhongLianSiYao Pharmaceutical Co., Ltd. | 2,091 | 1,154 |
| Shanghai Transfusion Technology Co., Ltd. | 1,990 | – |
| Sinopharm Group Anhui Medical Instrument Co., Ltd. | 1,840 | 1,858 |
| Sinopharm (Tianjin) Northern Medical Equipment Co., Ltd. | 1,741 | – |
| Sinopharm Fengliaoxing (Foshan) Herbal Pieces Co., Ltd. | 1,702 | – |
| China Chengde Medicine Co., Ltd. | 1,612 | – |
| Sinopharm Holding Medical Finance and Commerce (Shanghai) Co., Ltd. | 1,547 | – |
| Sinopharm Group Dezhong (Foshan) Pharmaceutical Co., Ltd. | 1,527 | – |
| Sinopharm Group Beijing Medical Instrument Co., Ltd. | 1,250 | – |
| Sinopharm Tianjin Medical Laboratory Science & Technology Co., Ltd. | 1,240 | 1,293 |
| Shanghai Institute of Bio-products Co., Ltd. | 1,127 | 23,190 |
| Sinopharm Group Zhijun (Suzhou) Pharmaceutical Co., Ltd. | 478 | 64,332 |
| China National Scientific Instruments & Materials Shenzhen Co., Ltd. | – | 26,884 |
| China National Pharmaceutical Industry Corporation | – | 14,223 |
| Beijing Huamiao Traditional Chinese Medicine Technology and Project Development Centre | – | 3,479 |
| Sinopharm Group Yunnan Medical Instrument Co., Ltd. | – | 2,240 |
| Others | 15,200 | 26,741 |
| | 7,343,248 | 6,259,619 |

## 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)

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| **Interest fee paid for other financial services** | | |
| China National Pharmaceutical Group Co., Ltd. | 2,018 | – |
| Sinopharm Group Finance Co., Ltd. | 111,796 | 54,077 |
| Sino Pharmengin Corporation | 956 | – |
| China National Pharmaceutical Foreign Trade Co., Ltd. | – | 1,371 |
| | 114,770 | 55,448 |

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| **Notes receivable discount** | | |
| Sinopharm Group Finance Co., Ltd. | 2,008,348 | 1,651,712 |

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| **Borrowings** | | |
| Sinopharm Group Finance Co., Ltd. | 797,716 | 699,000 |
| Sinopharm Holding (China) Finance Leasing Co,. Ltd. | 98,318 | – |
| China National Pharmaceutical Group Co., Ltd. | 31,600 | – |
| Sinopharm Health Online Co., Ltd. | 31,460 | – |
| China National Pharmaceutical Foreign Trade Co., Ltd. | – | 20,000 |
| | 959,094 | 719,000 |

The above related party transactions were carried out on terms mutually agreed between the parties. In the opinion of the Company's directors and the Group's management, these transactions were conducted in the ordinary course of business of the Group.

#### (ii) Key management compensation

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Salaries and other short-term employee benefits | 22,766 | 30,940 |
| Share incentive scheme expenses | 869 | 438 |
| Post-employment benefits | – | – |
| Other long-term benefits | – | – |
| | 23,635 | 31,378 |

#### (iii) Guarantees provided to related parties

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Sinopharm Holding (China) Finance Leasing Co., Ltd. | 6,659,373 | – |

## 42. Significant related party transactions (continued)

### (b) Balances with related parties

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

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| **Cash in other financial institution** | | |
| Sinopharm Group Finance Co., Ltd. | **3,483,463** | 3,124,116 |

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| **Trade receivables due from** | | |
| Sinopharm Dongfeng General Hospital | **87,134** | – |
| Foshan ChanCheng Pharmaceutical Co., Ltd. | **21,954** | 26,665 |
| Xinxiang Central Hospital | **20,028** | 68,197 |
| Shanghai Beiyi Guoda Pharmaceutical Co., Ltd. | **17,897** | 27,157 |
| Hubei Yuankang Pharmaceutical Co., Ltd. | **16,727** | 11,069 |
| Wuxi Huihua Qiangsheng Pharmaceutical Chain Co., Ltd. | **14,903** | 20,868 |
| Xinxiang City Second People's Hospital | **14,797** | 63,361 |
| Wenzhou Geriatric Hospital Limited Company | **12,842** | 9,978 |
| Sinopharm Dongfeng Huaguo Hospital | **10,729** | – |
| Sinopharm Health Online Co., Ltd. | **9,887** | – |
| Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Co., Ltd. | **8,219** | 22,812 |
| Sinopharm Dongfeng Maojian Hospital | **7,865** | – |
| Xinxiang Maternity and Child Hospital | **7,025** | 5,736 |
| Xinxiang Hospital of Traditional Chinese Medicine | **6,259** | 4,947 |
| Beijing Bio-Institute Biological Products Co., Ltd. | **5,971** | – |
| Sinopharm Group ChangSha Co., Ltd. | **–** | 1,466 |
| Wuhan Institute of Biological Products Co., Ltd. | **5,358** | 2,697 |
| China Pharmaceutical Group Kashi Medical Instrument Co., Ltd. | **4,825** | – |
| Sinopharm Holding Shanxi Xinzhou Co., Ltd. | **4,468** | – |
| Foshan City Chancheng District Central Hospital Ltd. | **2,537** | 3,248 |
| Sinopharm Holding Medical Finance and Commerce (Shanghai) Co., Ltd. | **2,207** | – |
| Shanghai Institute of Bio-products Co., Ltd. | **2,189** | 1,591 |
| China Pharmaceutical Group Xinjiang Medical Instrument Co., Ltd. | **1,716** | – |
| Sinopharm Holding Yibin Pharmaceutical Co., Ltd. | **1,680** | 10,967 |
| China Pharmaceutical Zhongyuan (Henan) Medical Insurance Co., Ltd. | **1,371** | – |
| Sichuan Kangdaxin Medical Co., Ltd. | **1,369** | 7,054 |

## 42. Significant related party transactions (continued)

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

**(iii) Significant balances with related parties except for other PRC government-related entities** (continued)

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| **Trade receivables due from** (continued) | | |
| China Pharmaceutical Group Xianjin (Shanghai) Medical Instrument Co., Ltd. | 1,077 | – |
| Lanzhou Institute of Bio-products Co., Ltd. | 1,021 | 324 |
| Anhui Jimin Tumor Hospital | 774 | 869 |
| National Vaccine and Serum Institute Co., Ltd. | 732 | – |
| Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd. | 724 | – |
| Foshan City Chanyixing Medicine Development Co., Ltd. | 686 | 805 |
| Chengdu Rongsheng Pharmaceutical Co., Ltd. | 374 | 1,583 |
| Yueyang Guangji Hospital Co., Ltd. | 362 | – |
| Shanghai Chemo Biological Pharmaceutical Co., Ltd. | 330 | – |
| Shanghai Guoda Lingyun Drug Store Co., Ltd. | 270 | 466 |
| Shanghai Fosun Long March Medical Science Co., Ltd. | 252 | – |
| Sino-Swed Pharmaceutical Corporation Ltd. | 42 | 68 |
| China National Corp. of Traditional and Herbal Medicine | 29 | 9,057 |
| China National Pharmaceutical Group Co., Ltd. | – | 18 |
| Beijing Tiantan Biological Products Co., Ltd. | – | 3,202 |
| China ChengDe Medicine Co., Ltd. | – | 1,203 |
| Others | 6,215 | 5,178 |
| | 302,845 | 310,586 |
| **Other receivables due from** | | |
| Sinopharm Dongfeng Medical and Health Industry Co., Ltd. | 153,500 | – |
| Shanghai Modern Pharmaceutical Co., Ltd. | 125,185 | 137,241 |
| Sinopharm Group Zhijun (Suzhou) Pharmaceutical Co., Ltd. | 44,000 | – |
| China National Pharmaceutical Group Sanyi Pharmaceutical (Wuhu) Co., Ltd. | 26,015 | 52,000 |
| Sinopharm Midland Hospital Management Co., Ltd. | 5,115 | 34,820 |
| Sinopharm Holding Medical Finance and Commerce (Shanghai) Co., Ltd. | 1,500 | – |
| Sinopharm Health Online Co., Ltd. | 1,079 | 1,890 |
| Sinopharm Holding A-Think Pharmaceutical Co., Ltd. | 800 | 809 |
| China Bio-Technology Co., Ltd. | 750 | 1,800 |
| Shanghai Shangsheng Huigu Biotechnology Park Co., Ltd. | 484 | – |

## 42. Significant related party transactions (continued)

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

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

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| **Other receivables due from** (continued) | | |
| Jiangsu Wanbang Pharmaceutical Marketing Ltd. | 416 | – |
| Chengdu Institute of Biological Products | 278 | – |
| Shanghai Institute of Bio-products Co., Ltd. | 239 | – |
| Changchun Keygen Biological Products Co., Ltd. | 181 | – |
| Wuhan Institute of Biological Products Co., Ltd. | 97 | – |
| Sino-Swed Pharmaceutical Corporation Ltd. | 52 | 7 |
| Jiangsu Wanbang Biochemical Pharmaceuticals Joint Stock Co., Ltd. | 33 | 775 |
| China Otsuka Pharmaceutical Co., Ltd. | 29 | – |
| Sinopharm Group Finance Co., Ltd. | 1 | 14,861 |
| Sino Pharmengin Corporation | – | 1,157 |
| Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd. | – | 1,101 |
| Others | 1,060 | 1,041 |
| | 360,814 | 247,502 |
| **Prepayments due from** | | |
| Jinzhou Aohong Pharmaceuticals Co., Ltd. | 122,111 | 8,864 |
| Chengdu Rongsheng Pharmaceutical Co., Ltd. | 49,085 | 4,474 |
| Foshan Winteam Pharmaceutical Co., Ltd. | 15,101 | 1,169 |
| Sino Pharmengin Corporation | 12,852 | – |
| Guizhou Tongjitang Pharmaceutical Co., Ltd. | 11,639 | 5,018 |
| Chongqing Yaoyou Pharmaceutical Co., Ltd. | 8,054 | 7,353 |
| Sino-Swed Pharmaceutical Corporation Ltd. | 8,030 | 7,089 |
| Anhui Jingfang Pharmaceutical Co., Ltd. | 6,510 | 897 |
| Sinopharm Shanghai Blood Products Co., Ltd. | 4,675 | – |
| Lanzhou Lansheng Blood Products Co., Ltd. | 2,915 | – |
| Shydec Pharmaceutical Marketing Co., Ltd. | 2,686 | 1,500 |
| Sinopharm Holding Medical Finance and Commerce (Shanghai) Co., Ltd. | 2,575 | – |
| Guangdong Global Pharmaceutical Co., Ltd. | 2,003 | 1,708 |
| Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd. | 1,991 | – |
| Wuhan Institute of Biological Products Co., Ltd. | 1,974 | 29,640 |

## 42. Significant related party transactions (continued)

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

**(iii) Significant balances with related parties except for other PRC government-related entities** (continued)

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| **Prepayments due from** (continued) | | |
| Shanghai Modern Hasen (Shangqiu) Pharmaceutical Co., Ltd. | 1,950 | – |
| Sinopharm Weiqida Pharmaceutical Co., Ltd. | 1,617 | – |
| Lanzhou Institute of Bio-products Co., Ltd. | 1,542 | 504 |
| China Otsuka Pharmaceutical Co., Ltd. | 1,281 | – |
| Shanghai Shangsheng Biological Products Co., Ltd. | 1,271 | – |
| Shenzhen Wan Wei Pharmaceutical Trade Co., Ltd. | 1,102 | – |
| Sinopharm Holding A-Think Pharmaceutical Co., Ltd. | 973 | 1,654 |
| Qinghai Pu Lante Pharmaceutical Co., Ltd. | 969 | – |
| Shanghai Modern Pharmaceutical Co., Ltd. | 950 | – |
| Sinopharm Rongsheng Pharmaceutical Co., Ltd. | 720 | 887 |
| Shenzhen Main Luck Pharmaceutical Co., Ltd. | 8 | 300 |
| Sinopharm Chongqing Pharmaceutical and Medical Industry Design Institute | – | 2,652 |
| Shanghai Institute of Pharmaceutical Industry | – | 700 |
| China National Scientific Instruments and Materials Co., Ltd. | – | 411 |
| Others | 7,101 | 3,488 |
| | 271,685 | 78,308 |
| **Trade payables due to** | | |
| Yichang Humanwell Pharmaceutical Co., Ltd. | 483,950 | 294,472 |
| Sino-Swed Pharmaceutical Corporation Ltd. | 143,864 | 116,795 |
| Jiangsu Wanbang Pharmaceutical Marketing Ltd. | 138,469 | 110,468 |
| Chongqing Yaoyou Pharmaceutical Co., Ltd. | 74,287 | 51,570 |
| Shenzhen Main Luck Pharmaceutical Co., Ltd. | 51,266 | 47,748 |
| Guizhou Tongjitang Pharmaceutical Co., Ltd. | 23,350 | 16,818 |
| Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Co., Ltd. | 23,003 | 38,887 |
| Sinopharm (Tianjin) Medical Devices Co., Ltd. | 21,468 | 7,799 |
| China Otsuka Pharmaceutical Co., Ltd. | 19,278 | 2,418 |
| Shenzhen Wan Wei Pharmaceutical Trade Co., Ltd. | 18,397 | 17,359 |
| China National Pharmaceutical Foreign Trade Co., Ltd. | 17,157 | 32,636 |
| Foshan Winteam Pharmaceutical Co., Ltd. | 15,432 | 13,639 |
| Jinzhou Aohong Pharmaceuticals Co., Ltd. | 14,460 | 1,331 |

## 42. Significant related party transactions (continued)

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

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

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| **Trade payables due to** (continued) | | |
| Shydec Pharmaceutical Marketing Co., Ltd. | **14,024** | 31,152 |
| Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd. | **13,780** | 11,142 |
| Hunan Dongting Pharmaceutical Co., Ltd. | **12,291** | 4,150 |
| China National Pharmaceutical Industry Co., Ltd. | **12,217** | 7,312 |
| China Medical Devices Co., Ltd. | **10,474** | – |
| Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd. | **9,625** | 5,580 |
| Anhui Jingfang Pharmaceutical Co., Ltd. | **9,191** | 4,589 |
| Qinghai Pharmaceutical Co., Ltd. | **9,154** | – |
| Sichuan Hexin Pharmaceutical Co., Ltd. | **9,120** | 7,464 |
| Tibet Yaopharma Pharmaceutical Co., Ltd. | **8,839** | – |
| Suzhou Erye Pharmaceutical Co., Ltd. | **7,761** | 1,040 |
| Sinopharm Holding A-Think Pharmaceutical Co., Ltd. | **6,976** | – |
| Sinopharm Vanda Pharmaceutical Co., Ltd. | **6,513** | 4,452 |
| Chongqing Haisiman Pharmaceuticals Co., Ltd. | **6,291** | 17,534 |
| Sinopharm Henan Medical Devices Co., Ltd. | **5,710** | 5,512 |
| Sinopharm Group Xinjiang Pharmaceutical Co., Ltd. | **4,263** | 3,595 |
| Huayi Pharmaceutical Co., Ltd. | **4,258** | – |
| Sinopharm Rongsheng Pharmaceutical Co., Ltd. | **3,911** | – |
| China Pharmaceutical Group Xianjin (Shanghai) Medical Instrument Co., Ltd. | **3,645** | – |
| Guangdong Yifang Pharmaceutical Co., Ltd. | **3,529** | 2,201 |
| Shanghai Modern Hasen (Shangqiu) Pharmaceutical Co., Ltd. | **3,502** | 1,448 |
| Sinopharm Chuankang Pharmaceutical Co., Ltd. | **3,013** | 807 |
| Shangdong Luya Pharmaceutical Co., Ltd. | **2,845** | 2,829 |
| China Pharmaceutical Group Shanghai Medical Instrument Co., Ltd. | **2,619** | 1,533 |
| Chengdu Rongsheng Pharmaceutical Co., Ltd. | **2,543** | 971 |
| Shenyang Hongqi Pharmaceutical Co., Ltd. | **2,330** | 2,970 |
| Sinopharm Group ChangSha Co., Ltd. | **–** | 8,095 |
| Shanghai Fosun Long March Medical Science Co., Ltd. | **1,657** | – |
| Sichuan Kangdaxin Medical Co., Ltd. | **1,527** | 8,152 |
| Jiangyin Tianjiang Pharmaceutical Co., Ltd. | **1,473** | 2,926 |
| Guangdong Global Pharmaceutical Co., Ltd. | **1,461** | 574 |

## 42. Significant related party transactions (continued)

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

**(iii) Significant balances with related parties except for other PRC government-related entities** (continued)

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| **Trade payables due to** (continued) | | |
| Sinopharm Tianjin Medical Laboratory Science & Technology Co., Ltd. | 1,385 | 1,224 |
| Sinopharm Fengliaoxing (Foshan) Herbal Pieces Co., Ltd. | 1,380 | – |
| Sinopharm Group Anhui Medical Instrument Co., Ltd. | 1,380 | 1,274 |
| Lanzhou Lansheng Blood Products Co., Ltd. | 1,283 | – |
| Shanghai Transfusion Technology Co., Ltd. | 1,235 | – |
| Sinopharm Shanxi Ruifulai Pharmaceutical Co., Ltd. | 1,208 | 792 |
| China Pharmaceutical Group Xinjiang Medical Instrument Co., Ltd. | 985 | 1,216 |
| Sinopharm Group Combined Instrument Co., Ltd. | 941 | 150 |
| Sinopharm (Tianjin) Northern Medical Equipment Co., Ltd. | 920 | 761 |
| Beijing Huamiao Pharmaceutical Co., Ltd. | 819 | – |
| China National Pharmaceutical Group Sanyi Pharmaceutical (Wuhu) Co., Ltd. | 748 | – |
| Sinopharm Group Dezhong (Foshan) Pharmaceutical Co., Ltd. | 732 | 275 |
| Beijing Zhonglian Pharmaceutical Chemical Industry Corporation | 694 | 1,778 |
| Guizhou Longlife Pharmaceutical Co., Ltd. | 118 | 1,063 |
| Lanzhou Institute of Bio-products Co., Ltd. | 16 | 54,598 |
| China National Pharmaceutical Industry Corporation | – | 4,352 |
| Sinopharm Jiangxi Medical Instruments Co., Ltd. | – | 2,211 |
| Shanghai Institute of Bio-products Co., Ltd. | – | 1,708 |
| Beijing Huamiao Traditional Chinese Medicine Technology and Project Development Centre | – | 872 |
| China National Scientific Instruments & Materials Shenzhen Co., Ltd. | – | 599 |
| Sinopharm Group Yunnan Medical Instrument Co., Ltd. | – | 539 |
| Others | 10,188 | 8,288 |
| | 1,252,955 | 969,668 |

## 42. Significant related party transactions (continued)

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

**(iii) Significant balances with related parties except for other PRC government-related entities** (continued)

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| **Other payables due to** | | |
| Sinopharm Group Finance Co., Ltd. | 330,724 | 14,045 |
| Sinopharm Group Health (Anhui) Pharmaceutical Co., Ltd. | 239,000 | – |
| Sinopharm Holding (China) Finance Leasing Co., Ltd. | 134,815 | – |
| Sinopharm Health Online Co., Ltd. | 47,734 | 1,740 |
| China State Institute of Pharmaceutical Industry | 15,600 | 16,500 |
| China National Pharmaceutical Foreign Trade Co., Ltd. | 13,262 | 30,860 |
| Sino Pharmengin Corporation | 13,110 | 5,307 |
| China National Pharmaceutical Group Co., Ltd. | 1,320 | 1,520 |
| Shanghai Beiyi Guoda Pharmaceutical Co., Ltd. | 497 | 497 |
| Suzhou Erye Pharmaceutical Co., Ltd. | 72 | – |
| Sinopharm Nutraceuticals (Shanghai) Co., Ltd. | – | 500 |
| China National Pharmaceutical Group Sanyi Pharmaceutical (Wuhu) Co., Ltd. | – | 16,274 |
| China National Corp. of Traditional and Herbal Medicine | – | 1,300 |
| Jinzhou Aohong Pharmaceuticals Co., Ltd. | – | 96 |
| Others | 4,440 | 1,487 |
| | 800,574 | 90,126 |
| **Advanced from** | | |
| China Otsuka Pharmaceutical Co., Ltd. | 1,804 | – |
| China Chengde Medicine Co., Ltd. | 490 | – |
| Guilin Pharmaceutical Co., Ltd. | 39 | – |
| Jiangsu Wanbang Pharmaceutical Technology Co., Ltd. | 29 | – |
| Chongqing Yaoyou Pharmaceutical Co., Ltd. | 11 | – |
| Shanghai Techwell Biopharmaceutical Co., Ltd. | – | 563 |
| Sinopharm Shanxi Medical Devices Co., Ltd. | – | 463 |
| Sinopharm Shantou Jinshi Pharmaceutical Co., Ltd. | – | 253 |
| Xinxiang Central Hospital | – | 191 |
| China National Pharmaceutical Industry Corporation | – | 117 |
| Beijing Zhonglian Pharmaceutical Chemical Industry Corporation | – | 7,055 |
| Jiangsu Wanbang Biochemical Pharmaceuticals Joint Stock Co., Ltd. | – | 4,083 |
| Shanghai Chemo Biological Pharmaceutical Co., Ltd. | – | 2,106 |
| Others | 90 | 139 |
| | 2,463 | 14,970 |

## 42. Significant related party transactions (continued)

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

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

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| **Borrowings due to** | | |
| Sinopharm Group Finance Co., Ltd. | **197,716** | 121,600 |
| China National Pharmaceutical Group Co., Ltd. | **31,600** | – |
| Sinopharm Holding (China) Finance Leasing Co., Ltd. | **15,277** | – |
| | **244,593** | 121,600 |

Borrowings from the above related parties bear interest at rates from 3.80% to 5.30% (2016: from 4.07% to 4.82%). The borrowings form China National Pharmaceutical Group Co., Ltd. have repayment terms over 1 year. The borrowings from the other two related parties have repayment terms within 1 year.

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| **Other non-current liabilities** | | |
| China National Pharmaceutical Group Co., Ltd. | **354,494** | 321,786 |
| Sinopharm Holding (China) Finance Leasing Co., Ltd. | **83,614** | – |
| China National Corp. of Traditional and Herbal Medicine | **6,905** | 6,905 |
| | **445,013** | 328,691 |

## 43. Principal subsidiaries

As at 31 December 2017, particulars of the Company's principal subsidiaries are as follows:

| 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 Shanghai Co., Ltd. (國藥集團上海有限公司) | PRC, 24 July 1988 | 40,237 | 100 | – | Property rental in the PRC |
| China National Pharmaceutical Group Chemical Reagent Co., Ltd. (國藥集團化學試劑有限公司) | PRC, 24 October 2003 | 450,000 | 90 | 10 | Distribution of chemical reagents in the PRC |
| Beijing Sinopharm Tianyuan Real Estate & Property Management Co., Ltd. (北京國藥天元物業管理有限公司) | PRC, 28 December 1981 | 36,130 | 100 | – | Property rental in the PRC |
| Sinopharm Holding Tianjin Co., Ltd. (國藥控股天津有限公司) | PRC, 12 December 2003 | 1,300,000 | 90 | 10 | Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC |
| Sinopharm Holding Shenyang Co., Ltd. (國藥控股瀋陽有限公司) | PRC, 27 November 2003 | 800,000 | 90 | 10 | Distribution of pharmaceutical products, laboratory supplies and chemical reagents; provision of pharmaceutical logistics services in the PRC |
| Sinopharm Holding Shaanxi Co., Ltd. (國藥控股陝西有限公司) | PRC, 30 May 2001 | 100,000 | 60 | – | Distribution of pharmaceutical and healthcare products, logistics services in the PRC |
| Sinopharm Pharmaceutical Logistics Co., Ltd. (國藥集團醫藥物流有限公司) | PRC, 18 December 2002 | 300,000 | 100 | – | Provision of pharmaceutical logistics services in the PRC |
| China National Medicines Corporation Ltd. (國藥集團藥業股份有限公司) | PRC, 21 December 1999 | 766,930 | 55 | – | Distribution of pharmaceutical products and laboratory supplies in the PRC |
| Shanghai Tongyu Information Technology Co., Ltd. (上海統御信息科技有限公司) | PRC, 27 December 2005 | 41,000 | 100 | – | Information technology development and medicine consulting in the PRC |
| Sinopharm Holding Distribution Center Co., Ltd. (國藥控股分銷中心有限公司) | PRC, 30 January 2002 | 2,000,000 | 100 | – | Distribution of pharmaceutical and healthcare products in the PRC |
| Sinopharm Holding Fuzhou Co., Ltd. (國藥控股福州有限公司) | PRC, 15 September 1998 | 40,000 | 70 | – | Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC |

## 43. 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 Henan Co., Ltd. (國藥控股河南股份有限公司) | PRC, 11 December 2006 | 680,310 | 80 | – | Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC |
| Sinopharm Holding Fujian Co., Ltd. (國藥控股福建有限公司) | PRC, 20 January 2010 | 434,000 | 70 | – | Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC |
| Sinopharm Holding Hong Kong Co., Ltd. (國藥控股股份香港有限公司) | PRC, 14 August 2009 | US$9.5 million | 100 | – | Investment; distribution of pharmaceutical and healthcare products; medicine chain store; and provision of pharmaceutical logistics services in the PRC |
| Sinopharm Holding Shandong Co., Ltd. (國藥控股山東有限公司) | PRC, 12 April 2006 | 70,000 | 67 | – | Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC |
| Sinopharm Group Xinjiang New & Special Pharmaceutical Co., Ltd. (國藥集團新疆新特藥業有限公司) | PRC, 30 June 2003 | 780,637 | 80 | – | Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC |
| Sinopharm Holding Hubei Co., Ltd. (國藥控股湖北有限公司) | PRC, 19 March 2001 | 844,444 | 82 | – | Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC |
| China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd. (國藥集團上海立康醫藥有限公司) | PRC, 27 July 1994 | 70,000 | 100 | – | Distribution of pharmaceutical products, healthcare products, laboratory supplies and chemical reagents in the PRC |
| Sinopharm Holding Medical Instruments Co., Ltd. (國藥控股醫療器械有限公司) | PRC, 27 July 2006 | 320,000 | 100 | – | Distribution of medical instruments in the PRC |
| Sinopharm Holding Anhui Co., Ltd. (國藥控股安徽有限公司) | PRC, 29 December 2008 | 357,160 | 87 | – | Distribution of pharmaceutical products and chemical reagents in the PRC |
| Sinopharm Holding Zhejiang Co., Ltd. (國藥控股浙江有限公司) | PRC, 9 October 1995 | 40,000 | 84 | – | Distribution of pharmaceutical products |

## 43. 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 Hunan Co., Ltd. (國藥控股湖南有限公司) | PRC, 21 June 2001 | 520,000 | 97 | – | Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC |
| Sinopharm Holding Chongqing Co., Ltd. (國藥控股重慶有限公司) | PRC, 8 May 2010 | 30,000 | 67 | – | Distribution of pharmaceutical products and chemical reagents |
| Sinopharm Holding Jiangsu Co., Ltd. (國藥控股江蘇有限公司) | PRC, 12 October 2001 | 1,500,690 | 100 | – | Distribution of pharmaceutical products, healthcare products 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 | 163,948 | 90 | – | Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC |
| China National Accord Medicines Co., Ltd. (國藥集團一致藥業股份有限公司) | PRC, 2 August 1986 | 428,130 | 56 | – | Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC |
| Sinopharm Holding Shanxi Co., Ltd. (國藥控股山西有限公司) | PRC, 17 January 2004 | 250,000 | 90 | – | Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC |
| Sinopharm Holding Inner Mongolia Co., Ltd. (國藥控股內蒙古有限公司) | PRC, 14 May 2010 | 300,000 | 100 | – | Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC |
| Sinopharm Group Southwest Medicine Co., Ltd. (國藥集團西南醫藥有限公司) | PRC, 19 November 1997 | 63,390 | 82 | 3 | Distribution of pharmaceutical and healthcare products in the PRC |
| Sinopharm Lingyun Biopharmaceutical (Shanghai) Co., Ltd. (國藥控股淩雲生物醫藥(上海)有限公司) | PRC, 3 February 1992 | 50,000 | 55 | – | Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC |
| Sinopharm Holding Changzhou Co., Ltd. (國藥控股常州有限公司) | PRC, 5 August 2005 | 140,000 | 65 | – | Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC |
| Sinopharm Holding Jiangxi Co., Ltd. (國藥控股江西有限公司) | PRC, 13 October 2009 | 100,000 | 67 | – | Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC |

## 43. 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 Gansu Co., Ltd. (國藥控股甘肅有限公司) | PRC, 14 January 2010 | 60,000 | 70 | – | Distribution of pharmaceutical products and chemical reagents in the PRC |
| Sinopharm Holding Jilin Co., Ltd. (國藥控股吉林有限公司) | PRC, 9 July 1999 | 50,000 | 70 | – | Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC |
| Sinopharm Holding Ningxia Co., Ltd. (國藥控股寧夏有限公司) | PRC, 21 November 2008 | 97,620 | 73 | – | Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC |
| Sinopharm Holding Guizhou Co., Ltd. (國藥控股貴州有限公司) | PRC, 1 April 2010 | 50,000 | 70 | – | Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC |
| Sinopharm Lerentang Pharmaceutical Co., Ltd. (國藥樂仁堂醫藥有限公司) | PRC, 29 September 2009 | 175,000 | 60 | – | Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC |
| Sinopharm Holding Hainan Co., Ltd. (國藥控股海南有限公司) | PRC, 10 July 2000 | 40,000 | 68 | – | Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC |
| Sinopharm Holding Huzhou Co., Ltd. (國藥控股湖州有限公司) | PRC, 14 August 1978 | 30,000 | 69 | – | Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC |
| Sinopharm Holding Qinghai Co., Ltd. (國藥控股青海有限公司) | PRC, 24 January 2003 | 20,000 | 70 | – | Distribution of pharmaceutical products, healthcare products, laboratory supplies and chemical reagents in the PRC |
| Sinopharm Holding Shangluo Co., Ltd. (國藥控股商洛有限公司) | PRC, 21 February 2012 | 10,000 | 70 | – | Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC |
| Sinopharm Holding Xingsha Pharmaceutical (Xiamen) Co., Ltd. (國藥控股星鯊製藥(廈門)有限公司) | PRC, 30 December 1998 | 95,000 | 60 | – | Medicine manufacture, distribution of chemical, reagents, import and export of goods and technology, business consulting, etc |

## 43. 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 Donghong Medical (Shanghai) Co., Ltd. (國藥控股東虹醫藥(上海)有限公司) | PRC, 15 August 1992 | 12,000 | 85 | – | Distribution of pharmaceutical products, healthcare products, laboratory supplies and chemical reagents in the PRC |
| Sinopharm Health Solutions (Shanghai) Co., Ltd. (國藥控股健康發展(上海)有限公司) | PRC, 19 January 2004 | 31,500 | 100 | – | Health consultation, medical consulting, market information consulting and investigation, convention and exhibition services |
| Shanghai Meiluo Medical Co., Ltd. (上海美羅醫藥有限公司) | PRC, 27 May 2002 | 60,000 | 100 | – | Distribution of pharmaceutical products, medical equipments and chemical reagents, import and export of goods and technology in the PRC |
| Sinopharm Holding Wenzhou Co., Ltd. (國藥控股溫州有限公司) | PRC, 31 March 1995 | 50,000 | 58 | – | Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC |
| China National Pharmaceutical Group Shanxi Co., Ltd. (國藥集團山西有限公司) | PRC, 14 April 2011 | 1,000,000 | 80 | – | Distribution of pharmaceutical products, laboratory supplies and healthcare products in the PRC |
| Sinopharm Holding Lingshang Hospital Management Service. Co., Ltd. (國藥控股菱商醫院管理服務(上海)有限公司) | PRC, 5 July 2013 | 80,000 | 60 | – | Distribution of medical equipment and goods, information technology services in the PRC |
| Sinopharm Holding Yanan Co., Ltd. (國藥控股延安有限公司) | PRC, 25 October 2013 | 10,000 | 90 | – | Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC |
| Sinopharm Holding Heilongjiang Co., Ltd. (國藥控股黑龍江有限公司) | PRC, 11 October 2010 | 99,000 | 65 | – | Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC |
| Sinopharm Holding Chongqing Taimin Pharmaceutical Co., Ltd. (國藥控股重慶泰民醫藥有限公司) | PRC, 17 August 2012 | 20,000 | 60 | – | Distribution of pharmaceutical products, medical instruments and chemical reagents in the PRC |

## 43. 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 Bio-pharmaceutical Co., Ltd. (國藥控股上海生物醫藥有限公司) | PRC, 3 December 2009 | 20,000 | 70 | – | Distribution of pharmaceutical products, healthcare products, medical instruments and chemical reagents in the PRC |
| Sichuan Pharmaceutical Group Co., Ltd. of CNPGC (國藥四川醫藥集團有限公司) | PRC, 2 September 2001 | 65,744 | 66 | – | Management of medical project investment, consulting and technology training in PRC |
| Sinopharm Holding Dalian Hecheng Co., Ltd. (國藥控股大連和成有限公司) | PRC, 17 January 1994 | 50,000 | 80 | – | Distribution of pharmaceutical products, Chinese herbal medicine, antibiotics, biological products, chemical reagents and medical instruments in the PRC |
| Sinopharm Holding Chuangke Medical Technology (Shanghai) Co., Ltd. (國藥控股創科醫療技術(上海)有限公司) | PRC, 21 October 2015 | 5,455 | 55 | – | Distribution of medical instruments in the PRC |
| Sinopharm Holdong Hongrun Medical Business Service (Shanghai) Co., Ltd. (國藥控股虹潤醫藥商務服務(上海)有限公司) | PRC, 22 August 2016 | 60,000 | 60 | – | Health consultation, medical consulting, distribution of medical equipment, import and export services |
| Sinopharm Holding GuoDa Drug Store Co., Ltd. (國藥控股國大藥房有限公司) | PRC, 23 March 2004 | 1,010,000 | – | 100 | Distribution of pharmaceutical and healthcare products in the PRC |
| Sinopharm Holding Changsha Co., Ltd. (國藥控股長沙有限公司) | PRC, 27 April 2015 | 100,000 | 80 | – | Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC |
| Sinopharm Holding Chuangfu Medical Technology (Shanghai) Co., Ltd. (國藥控股創服醫療技術(上海)有限公司) | PRC, 18 November 2016 | 3,000 | 51 | – | Distribution of medical instruments in the PRC |
| Shanghai Pudong New Area Medicines and Herbs Co., Ltd. (上海浦東新區醫藥藥材有限公司) | PRC, 11 June 1993 | 20,620 | 100 | – | Distribution of pharmaceutical and healthcare products, in the PRC |

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

China National Accord Medicines Co., Ltd., China National Medicines Corporation Ltd. and Sinopharm Holding Henan Co., Ltd. are joint stock limited companies. Except for the above mentioned companies, other principal subsidiaries of the Company are limited liability companies.

## 44. Statement of financial position and movements in reserves of the Company

### Statement of financial position of the Company

| | Note | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment properties | | 25,687 | 26,202 |
| Property, plant and equipment | | 670,346 | 79,023 |
| Intangible assets | | 252,129 | 291,519 |
| Investments in subsidiaries | | 24,013,160 | 22,463,344 |
| Investments in associates | | 2,073,577 | 1,145,133 |
| Investment in a joint venture | | 12,893 | 2,940 |
| Available-for-sale investments | | 338,334 | 234,522 |
| Deferred tax assets | | 60,473 | 45,619 |
| Other non-current assets | | 176,931 | – |
| Total non-current assets | | 27,623,530 | 24,288,302 |
| **Current assets** | | | |
| Inventories | | 1,007,251 | 834,522 |
| Trade receivables | | 2,689,030 | 2,789,731 |
| Prepayments and other receivables | | 13,008,344 | 12,329,710 |
| Cash and cash equivalents | | 9,680,575 | 13,470,727 |
| Total current assets | | 26,385,200 | 29,424,690 |
| **Total assets** | | 54,008,730 | 53,712,992 |
| **EQUITY** | | | |
| Share capital | | 2,767,095 | 2,767,095 |
| Treasury shares held for share incentive scheme | | (193,003) | – |
| Reserves | (i) | 20,558,103 | 20,230,186 |
| **Total equity** | | 23,132,195 | 22,997,281 |

## 44. Statement of financial position and movements in reserves of the Company (continued)

### Statement of financial position of the Company (continued)

| | Note | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Interest-bearing bank and other borrowings | | 4,989,888 | 7,989,916 |
| Deferred tax liabilities | | 2,468 | 2,468 |
| Post-employment benefit obligations | | 27,441 | 35,453 |
| Other non-current liabilities | | 196,880 | 233,753 |
| Total non-current liabilities | | 5,216,677 | 8,261,590 |
| **Current liabilities** | | | |
| Trade payables | | 2,487,372 | 3,689,338 |
| Accruals and other payables | | 13,365,920 | 12,736,976 |
| Dividend payable | | 2,690 | – |
| Tax payable | | 4,969 | 30,959 |
| Interest-bearing bank and other borrowings | | 9,798,907 | 5,996,848 |
| Total current liabilities | | 25,659,858 | 22,454,121 |
| **Total liabilities** | | 30,876,535 | 30,715,711 |
| **Total equity and liabilities** | | 54,008,730 | 53,712,992 |

The financial statements were approved by the Board of Directors on 23 March 2018 and were signed on its behalf by

**Li Zhiming**
Director

**Tan Wee Seng**
Director

## 44. Statement of financial position and movements in reserves of the Company (continued)

### (i) Movements in reserves of the Company

| | Share premium RMB'000 | Statutory reserves RMB'000 | Revaluation of available-for-sale investments RMB'000 | Other reserves RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2016 | 18,065,998 | 558,190 | 7,404 | (67,011) | 1,215,048 | 19,779,629 |
| Profit for the year | – | – | – | – | 1,482,697 | 1,482,697 |
| Appropriation to statutory reserves | – | 148,180 | – | – | (148,180) | – |
| Disposal of subsidiaries | – | (603) | – | – | (5,424) | (6,027) |
| Assets restructuring | – | 10,102 | – | 5,565 | 90,914 | 106,581 |
| Equity-settled share incentive scheme | – | – | – | 1,207 | – | 1,207 |
| Remeasurement on post-employment benefit obligations | | | | | | |
| – gross | – | – | – | 904 | – | 904 |
| – tax | – | – | – | (226) | – | (226) |
| Dividend declared | – | – | – | – | (1,134,509) | (1,134,509) |
| Others | – | – | – | (70) | – | (70) |
| As at 31 December 2016 | 18,065,998 | 715,869 | 7,404 | (59,631) | 1,500,546 | 20,230,186 |
| Profit for the year | – | – | – | – | 1,638,307 | 1,638,307 |
| Appropriation to statutory reserves | – | 163,831 | – | – | (163,831) | – |
| Deemed disposal of subsidiaries | – | 1,844 | – | 2,691 | 16,592 | 21,127 |
| Deemed disposal of investments in associates | – | – | – | 36,885 | – | 36,885 |
| Equity-settled share incentive scheme | – | – | – | 7,292 | – | 7,292 |
| Remeasurement on post-employment benefit obligations | | | | | | |
| – gross | – | – | – | (159) | (903) | (1,062) |
| – tax | – | – | – | 39 | 226 | 265 |
| Dividend on shares released from the share incentive scheme | – | – | – | – | 115 | 115 |
| Dividend declared | – | – | – | – | (1,383,548) | (1,383,548) |
| Share of changes in equity other than comprehensive income and distributions received from associates | – | – | – | 10,563 | – | 10,563 |
| Other changes of an investment in an associate | – | – | – | (2,027) | – | (2,027) |
| As at 31 December 2017 | 18,065,998 | 881,544 | 7,404 | (4,347) | 1,607,504 | 20,558,103 |

## 45. Share incentive scheme

The Company operates a share incentive scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme (the "Scheme Participants") include the Company's directors, senior management and mid-level management and other employees of the Group who, in the opinion of the Company's directors, shall be awarded. The Scheme became effective on 18 October 2016 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Pursuant to the Scheme, the Board of Directors (the "Board") shall select the Scheme Participants and determine the number of shares to be awarded (the "Restricted Shares"). An independent trustee appointed by the Board (the "Trustee") shall purchase from the market such number of H Shares to be awarded as specified by the Board. In each grant of such Restricted Shares to the Scheme Participants, the exercise price to be funded by each of the Scheme Participants shall be no less than 50% of the grant reference price and no less than the most recent audited net assets value per share of the Company, and the remaining balance will be funded by the Company.

The maximum total number of Restricted Shares to be granted under the Scheme shall not exceed 10% of the total issued share capital of the Company as at the effective date of the Scheme. The number of Restricted Shares to be awarded to a Scheme Participant will be subject to the criteria specified in the rules of the Scheme. The total number of Restricted Shares granted or to be granted to any Scheme Participant shall not exceed 1% of the total issued share capital of the Company as at the effective date of the Scheme.

On 16 November 2016, the Board resolved to approve the initial grant of the Restricted Shares (the "Initial Grant") under the Scheme to the Scheme participants, pursuant to which Restricted Shares of 7.23 million, representing approximately 0.2613% of the issued share capital of the Company as at 16 November 2016, shall be granted to 190 selected Scheme Participants on 16 November 2016 at the grant reference price of HKD35.46 per Restricted Share (the "Grant Reference Price"). The exercise price under the Initial Grant is HKD17.73 per Restricted Share, being 50% of the Grant Reference Price and no less than the most recent audited net assets value per share of the Company. The exercise price shall be funded by the selected Scheme Participants at his/her own cost, and the remaining balance for purchasing each of the Restricted Shares under the Initial Grant will be funded by the Company.

175 out of 190 of the Scheme Participants have accepted and subscribed the Restricted Shares with their own funds under the Scheme. In June 2017, a total number of 6,570,000 shares of the Company were purchased by the Trustee of the Scheme at a cost of RMB203,290,000 from the market out of cash contributed by the Group and the Scheme Participants and be held in trust for the relevant Scheme Participants until such shares are vested with the Scheme Participants in accordance with the provisions of the Scheme. The Restricted Shares granted and held by the Trustee until vesting are referred to as the treasury shares held under share incentive scheme and each treasury share shall represent one ordinary share of the Company.

## 45. Share incentive scheme (continued)

In August and September 2017, due to resignation of certain Scheme Participants, a total number of 230,000 relevant Restricted Shares were sold by the Trustee to the market. Proceeds from the sale of those Restricted Shares were used to pay back the funds paid by those Scheme Participants and the Company to subscribe these Restricted Shares.

### Conditions for unlocking the Initial Grant

Pursuant to the approval from the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC"), unlocking of the Restricted Shares under the Initial Grant shall be conditional upon fulfilment of the following conditions by the Company and shall be carried out in accordance with the unlocking arrangement as stipulated in the scheme of the Initial Grant:

| Unlocking Period | Performance Assessment Target | Proportion of unlocking shares |
|---|---|---|
| **First unlocking period** | The weighted average return on equity ("ROE") for 2017 shall be not lower than 12.7% and not lower than the 75 percentile of benchmarking enterprises;<br><br>On the basis of the net profit in 2015, the compound growth rate of net profit for 2017 shall be not lower than 12% and not lower than the 75 percentile of benchmarking enterprises;<br><br>On the basis of the economic value added ("EVA") in 2015, the compound growth rate of EVA for 2017 shall be not lower than the specified objectives determined by the Board. | 33% |
| **Second unlocking period** | The weighted average ROE for 2018 shall be not lower than 12.7% and not lower than the 75 percentile of benchmarking enterprises;<br><br>On the basis of the net profit in 2015, the compound growth rate of net profit for 2018 shall be not lower than 12% and not lower than the 75 percentile of benchmarking enterprises;<br><br>On the basis of the EVA in 2015, the compound growth rate of EVA for 2018 shall be not lower than the specified objectives determined by the Board. | 33% |
| **Third unlocking period** | The weighted average ROE for 2019 shall be not lower than 12.8% and not lower than the 75 percentile of benchmarking enterprises;<br><br>On the basis of the net profit in 2015, the compound growth rate of net profit for 2019 shall be not lower than 12% and not lower than the 75 percentile of benchmarking enterprises;<br><br>On the basis of the EVA in 2015, the compound growth rate of EVA for 2019 shall be not lower than the specified objectives determined by the Board. | 34% |

## 45. Share incentive scheme (continued)

Particulars and movements in the share incentive scheme are as follows:

| Date of grant | As at 1 January 2017 | Granted | Vesting | Bonus issue | Forfeited | Lapsed/ expired | As at 31 December 2017 |
|---|---|---|---|---|---|---|---|
| 16 November 2016 | 7,230,000 | – | – | – | (230,000) | (660,000) | 6,340,000 |

The fair value of the Restricted Shares granted was calculated based on the market prices of the Company's shares at the respective grant dates. The Group recognised expenses relating to the Scheme of approximately RMB26,949,000 in the consolidated statement of profit or loss during the year.

The fair value of the Restricted Shares granted was estimated as at the date of grant, using the Asian Options Model, taking into account the terms and conditions upon which the shares were granted. This value is inherently subjective and uncertain due to the assumptions made and the limitation of the valuation model used. The following table lists the inputs to the model:

| Date of grant | 16 November 2016 | | | | |
|---|---|---|---|---|---|
| Batch | 1 | 1 | 2 | 3 | 4 |
| | Mid-level management/ other employees | Senior management | | | |
| Share price at the date of grant (HKD) | 35.45 | 35.45 | 35.45 | 35.45 | 35.45 |
| Dividend yield (%) | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Historical volatility (%) | 37.57% | 37.57% | 34.82% | 34.51% | 34.96% |
| Risk-free interest rate (%) | 0.79% | 0.79% | 1.06% | 1.10% | 1.13% |
| Number of unlocking shares as at 31 December 2017 ('000) | 5,670 | 167.50 | 167.50 | 167.50 | 167.50 |
| Lock-up period (year) | 2 | 2 | 3 | 4 | 5 |
| Fair value at the date of grant (HKD) | 13.5886 | 13.5886 | 13.1593 | 12.6182 | 12.0383 |

## 46. Directors', supervisors' and chief executives remuneration

Directors', supervisors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383 (1)(a),(b),(c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

### (a) Directors', supervisors' and chief executive's remuneration

| 2017 | Salaries RMB'000 | Discretionary bonuses RMB'000 | Housing allowance RMB'000 | Estimated value of other benefits RMB'000 | Employer's contribution to a retirement benefit scheme RMB'000 | Remunerations paid or receivable in respect of accepting office as director RMB'000 | Share incentive scheme expense RMB'000 | Incentive bonus RMB'000 |
|---|---|---|---|---|---|---|---|---|
| Executive directors | | | | | | | | |
| Mr. Wei Yulin (i) | 463 | 1,900 | - | 3 | 18 | - | - | 4,188 |
| Mr. Li Zhiming (ii) | 1,950 | 2,043 | - | 5 | 105 | - | 1,076 | 4,188 |
| Mr. Liu Yong (ix) | 1,344 | 1,243 | - | 5 | 105 | - | 869 | 2,310 |
| Non-executive directors | | | | | | | | |
| Mr. She Lulin | - | - | - | - | - | - | - | - |
| Mr. Wang Qunbin | - | - | - | - | - | - | - | - |
| Mr. Deng Jindong | - | - | - | - | - | - | - | - |
| Mr. Chen Qiyu | - | - | - | - | - | - | - | - |
| Mr. Li Dongjiu (xv) | - | - | - | - | - | - | - | - |
| Mr. Lian Wanyong (vi) | - | - | - | - | - | - | - | - |
| Mr. Wu Yijian (vii) | - | - | - | - | - | - | - | - |
| Mr. Ma Ping (viii) | - | - | - | - | - | - | - | - |
| Mr. Wen Deyong (xi) | - | - | - | - | - | - | - | - |
| Ms. Rong Yan (xiii) | - | - | - | - | - | - | - | - |
| Independent non–executive directors | | | | | | | | |
| Ms. Li Ling | 300 | - | - | - | - | - | - | - |
| Mr. Liu Zhengdong | 300 | - | - | - | - | - | - | - |
| Mr. Tan Wee Seng | 300 | - | - | - | - | - | - | - |
| Mr. Yu Tze Shan Hailson | 300 | - | - | - | - | - | - | - |
| Mr. Zhuo Fumin (x) | 300 | - | - | - | - | - | - | - |
| Supervisors | | | | | | | | |
| Mr. Zhang Hong Yu (xvi) | - | - | - | - | - | - | - | - |
| Mr. Yao Fang | - | - | - | - | - | - | - | - |
| Mr. Yang Jun (xii) | 968 | 1,267 | - | 5 | 131 | - | - | - |
| Ms. Jin Yi | 429 | 99 | - | 41 | 122 | - | - | - |
| Mr. Tao Wuping | 300 | - | - | - | - | - | - | - |
| Ms. Li Xiaojuan (xiv) | - | - | - | - | - | - | - | - |
| | 6,954 | 6,552 | - | 59 | 481 | - | 1,945 | 10,686 |

## 46. Directors', supervisors' and chief executives remuneration (continued)

### (a) Directors', supervisors' and chief executive's remuneration (continued)

| 2016 | Salaries RMB'000 | Discretionary bonuses RMB'000 | Housing allowance RMB'000 | Estimated value of other benefits RMB'000 | Employer's contribution to a retirement benefit scheme RMB'000 | Remunerations paid or receivable in respect of accepting office as director RMB'000 | Share incentive scheme expense RMB'000 | Incentive bonus RMB'000 |
|---|---|---|---|---|---|---|---|---|
| Executive directors | | | | | | | | |
| Mr. Wei Yulin (i) | 1,850 | 2,112 | – | 8 | 100 | – | – | 4,078 |
| Mr. Li Zhiming (ii) | 1,700 | 2,225 | – | 8 | 100 | – | 136 | 4,078 |
| Non-executive directors | | | | | | | | |
| Mr. She Lulin | – | – | – | – | – | – | – | – |
| Mr. Wang Qunbin | – | – | – | – | – | – | – | – |
| Mr. Liu Hailiang (iii) | – | – | – | – | – | – | – | – |
| Mr. Deng Jindong | – | – | – | – | – | – | – | – |
| Mr. Zhou Bin (iv) | – | – | – | – | – | – | – | – |
| Mr. Chen Qiyu | – | – | – | – | – | – | – | – |
| Mr. Li Dongjiu (xv) | – | – | – | – | – | – | – | – |
| Mr. Li Yuhua (v) | – | – | – | – | – | – | – | – |
| Mr. Lian Wanyong (vi) | – | – | – | – | – | – | – | – |
| Mr. Wu Yijian (vii) | – | – | – | – | – | – | – | – |
| Mr. Ma Ping (viii) | – | – | – | – | – | – | – | – |
| Independent non-executive directors | | | | | | | | |
| Ms. Li Ling | 300 | – | – | – | – | – | – | – |
| Mr. Liu Zhengdong | 300 | – | – | – | – | – | – | – |
| Mr. Tan Wee Seng | 300 | – | – | – | – | – | – | – |
| Mr. Yu Tze Shan Hailson | 300 | – | – | – | – | – | – | – |
| Mr. Zhuo Fumin (x) | 250 | – | – | – | – | – | – | – |
| Supervisors | | | | | | | | |
| Mr. Lian Wanyong (vi) | – | – | – | – | – | – | – | – |
| Mr. Yao Fang | – | – | – | – | – | – | – | – |
| Mr. Yang Jun (xii) | 935 | 1,096 | – | 8 | 122 | – | – | – |
| Ms. Jin Yi | 381 | 131 | – | 47 | 100 | – | – | – |
| Mr. Tao Wuping | 300 | – | – | – | – | – | – | – |
| Ms. Li Xiaojuan (xiv) | – | – | – | – | – | – | – | – |
| | 6,616 | 5,564 | – | 71 | 422 | – | 136 | 8,156 |

## 46. Directors', supervisors' and chief executives remuneration (continued)

### (a) Directors', supervisors' and chief executive's remuneration (continued)

Notes:

(i) Resigned on 24 March 2017 as the Chairman of the Board and the executive director of the Company.

(ii) Mr. Li Zhiming is the chief executive and effected on 24 March 2017 as the Chairman of the Board. Mr. Li Zhiming resigned as the chief executive on 18 December 2017.

(iii) Resigned on 16 June 2016.

(iv) Resigned on 4 January 2016.

(v) Resigned on 18 October 2016.

(vi) Resigned as a supervisor on 29 January 2016, appointed as an independent non-executive director on 29 January 2016, and resigned on 18 December 2017.

(vii) Appointed on 16 June 2016, resigned on 20 September 2017 and appointed on 9 March 2018.

(viii) Appointed on 18 October 2016.

(ix) Appointed as the chief executive and executive director on 18 December 2017.

(x) Appointed on 8 March 2016.

(xi) Appointed on 20 September 2017.

(xii) Appointed on 18 June 2015 and resigned on 12 January 2018.

(xiii) Appointed on 9 March 2018.

(xiv) Appointed on 29 January 2016.

(xv) Resigned on 12 January 2018.

(xvi) Appointed on 12 January 2018.

**(b)** Except the contribution to a retirement benefit scheme, no other retirement benefits were paid to any director during the year ended 31 December 2017.

**(c)** No termination benefits were paid to any director during the year ended 31 December 2017.

**(d)** No consideration paid to third parties for directors' services during the year ended 31 December 2017.

## 46. Directors', supervisors' and chief executives remuneration (continued)

**(e)** No loans, quasi-loans or other dealings were entered into by the Company or subsidiary undertaking of the Company, where applicable, in favour of directors of the Company and of the holding company of the Company, or bodies corporate controlled by such directors, or entities connected with such directors, also include a shadow director of that director.

**(f)** No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## 47. Events after the reporting period

On 12 January 2018, the Board resolved to propose the issue of the corporate bonds with an issue size of no more than RMB10 billion (inclusive) in the PRC. The above proposed issue of corporate bonds was duly passed at the extraordinary general meeting of the Company held on 9 March 2018 as a special resolution.

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