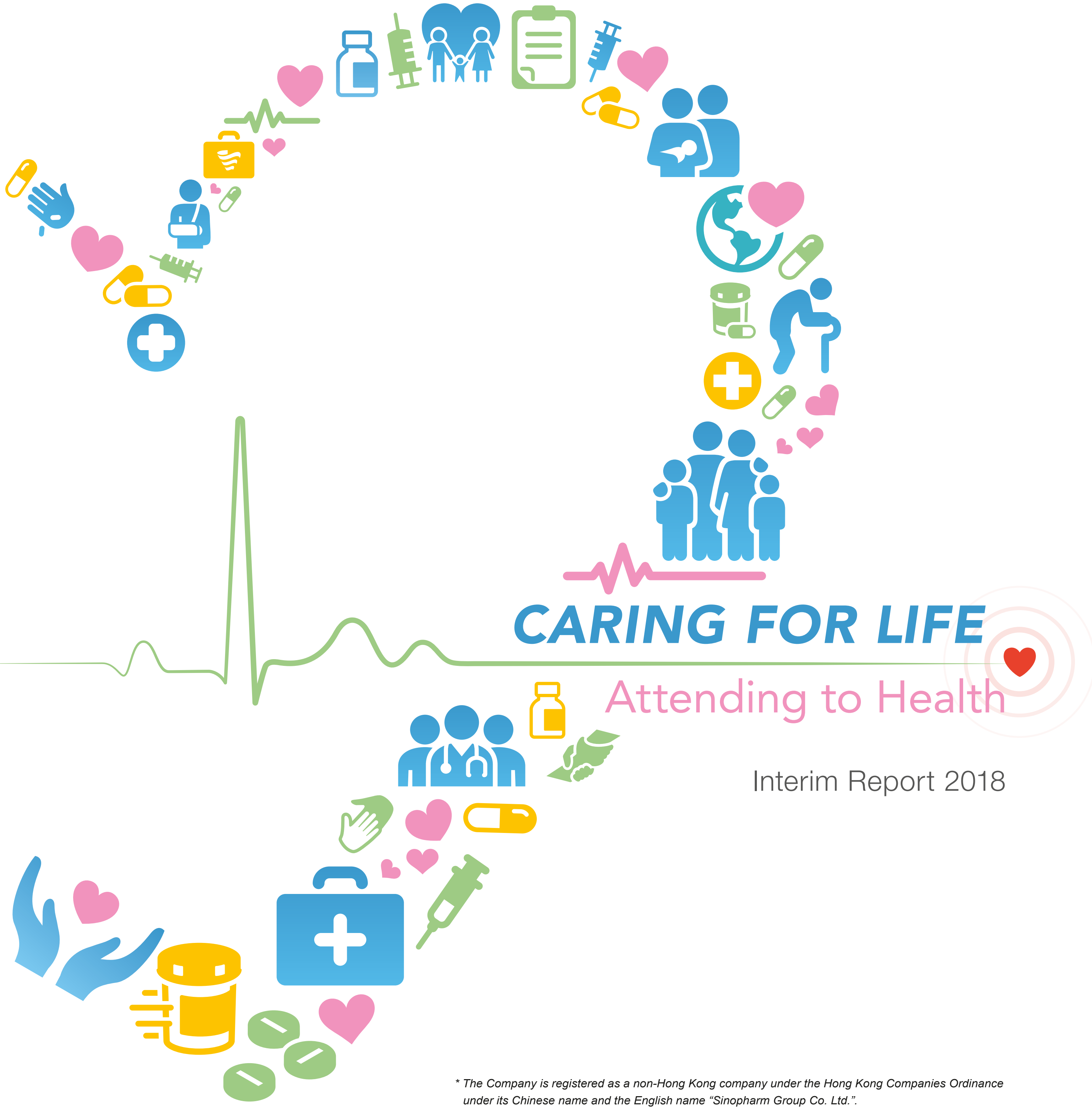
國藥控股股份有限公司
SINOPHARM GROUP CO. LTD.*

(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

Interim Report 2018

* 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.".

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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 manufacturers 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.

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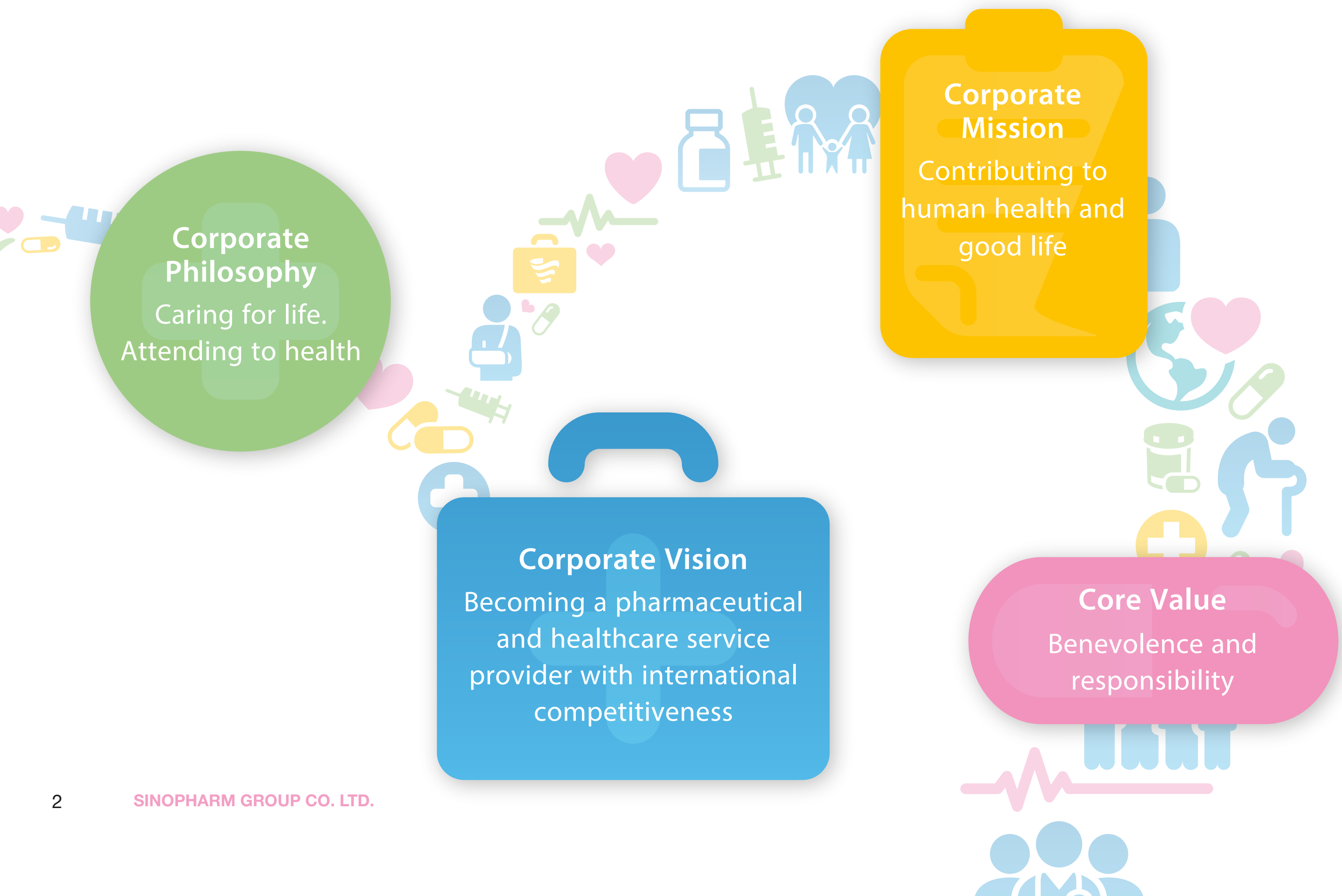

Corporate Information

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. Cai Maisong
Mr. Liu Wei

Strategy and Investment Committee

Mr. Li Zhiming *(Chairman)*
Mr. Liu Yong
Mr. Chen Qiyu
Mr. She Lulin
Mr. Wang Qunbin
Mr. Ma Ping
Mr. Deng Jindong
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. Wu Yijian
Mr. Yu Tze Shan Hailson

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. Cai Maisong

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

Corporate Information

At the date of this report

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 Co., Ltd. Shanghai Branch
China Minsheng Banking Corp., Ltd. Shanghai Branch
Industrial and Commercial Bank of China Co., Ltd. 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

Management Discussion and Analysis

Industry Overview

Stable economy with upward trend

During the first half of 2018, China's GDP grew by 6.8% which was slightly lower than that of 2017. The macro economy was performing in a reasonable range, demonstrating a stable pattern with upward trend, but still faces impact from certain domestic and international negative factors such as further slowdown in economic growth, further escalation of Sino-US trade dispute.

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 macroeconomic growth. The industry competition has become more intense, the pharmaceutical distribution and retail enterprises have accelerated the pace of merger, acquisition and expansion, the pace of industry consolidation has accelerated, highlighting the importance of scale advantage.

Opportunities and challenges co-existed

Policies such as "two-invoice system" have brought challenges to the industry, but we believe the impact will be short term, and in the long run they will contribute to facilitate the acceleration of the survival of the fittest and the consolidation of the industry. The concentration ratio of the industry is bound to increase in the future, enabling large-scale enterprises with superior control and management like us to get better development.

Driven by the aging of population, urbanization, increase in chronic diseases, rise in household income and the wider coverage of medical insurance, we have confidence in the outlook of China's healthcare industry. Enterprises like us, relying on leading network advantages, normative operations and superior corporate governance, will become the beneficiaries therein.

Business Review

Growth driven by direct sale with significant effect in structural adjustment

Faced with the challenging industry situation and negative impact from the performance results of the Group in the first quarter of this year, the Group focused on direct sale, deeply engaged end customers, enhanced product aggregation, deepened management and control, and promoted innovation, resulting in significant growth in the direct sale business, increase in the proportion of direct sale business, as well as large increase in gross profit margin. This promoted the recovery growth in the revenue and significant growth in the net profit during the second quarter of this year, further consolidating the leading position and advantages of the Group.

Management Discussion and Analysis

Solid leading position in the distribution business and visible growth in direct sale business

In the pharmaceutical distribution sector, the Group has built an integrated pharmaceutical supply chain, established an advanced supply chain management model, achieved steady adjustments in product structures, continuously optimized customer structure, continually expanded and integrated national distribution network. As at 30 June 2018, the Group's distribution network covered 31 provinces, municipalities and autonomous regions across China. The Group's direct customers included 15,118 hospitals (only referring to ranked hospitals, including 2,307 largest class-III hospitals with the highest rankings), 130,893 small end-customers (including primary health services institutions and others) and 95,971 retail pharmacies.

The Group continued its endeavors to promote integrated operation. Meanwhile, the Group continued to strengthen the construction of a national integrated logistics platform: as at 30 June 2018, the Group's national pharmaceutical distribution logistics network included 5 logistic hubs, 33 logistic centers at provincial level, 242 logistics outlets at municipal level, 26 retail logistics outlets, with a total number of logistics outlets reaching 306.

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 30 June 2018, Sinopharm Holding Guoda Drugstore 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 4,004, among which 2,965 were directly operated and 1,039 were operated by franchisees. The scale continued to lead the industry.

Stable advancement of "integrated wholesale-retail" strategy

The revenue of retail pharmacy grew rapidly, the number of retail outlets continued to increase. As at 30 June 2018, the Group's retail outlets covered 30 provinces, municipalities and autonomous regions and 194 municipal regions. The Group's competitive advantages in direct sale to retail business were enhanced through steadily advancing integrated B2B business platform and establishing comprehensive solution for distribution retail information service.

Vigorous development of medical device business

The Group actively seized the opportunities of rapid development of medical device industry and vigorously developed medical device distribution business. In the first half of 2018, the sales growth of the Group's medical device business exceeded 30%, leading to the increase in the Group's revenue growth and gross profit margin. The acquisition of 60% equity interest in China's largest medical device distributor China National Scientific Instruments and Materials Co., Ltd. was on track and is expected to close during this year. By then the Group's leading position in China's medical device industry will be further consolidated.

Management Discussion and Analysis

Active promotion of innovative businesses

The Group deeply pushed forward regional integration with continuous management innovation and improvement, and fully promoted and implemented "mature modules" such as procurement rebate, secondary price negotiation and sales rebate in regional integration plan. By leveraging our industry-leading position and strong brand influence combined with industry experience and market demand, the Group pushed forward supply chain financial service and established integrated financial solution based on cargo right and cash flow control. Through establishing a "full track & trace" vaccine tracking system and creating industry standards, the Group achieved the integration of tracking and business process, thereby further enhancing its innovative cold-chain logistics service capabilities.

Further improvement in headquarter service and management and control capabilities

The Group strengthened its headquarter service and management and control of finance, human resources, diversified financing, operations management, informatization and procurement, etc. As a result, the gross profit margin was further increased, the operating risks were further decreased, and the enterprise competitiveness was further enhanced.

Future Plan

Continue to solidify leading position in distribution business

The pharmaceutical distribution business will remain an important strategic sector of the Group. The Group will continue to promote the penetration of distribution network to lower-tier market and optimize its network layout, thereby further utilizing scale and network advantages to continuously consolidate its leading position in the industry. The Group will actively seize the policy opportunity to rapidly increase the market share in direct sale to hospitals. The Group will actively grasp the opportunity of organic growth and cooperative M&A to further accelerate the consolidation of industry resources surrounding main business. The Group will further advance regional integration with the aim to lay a foundation for a national integration.

Continue to promote rapid growth of retail business

The retail pharmacy business still remains a strategic sector for the structural adjustment of the Group. The Group will actively learn from and draw on 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 vigorously develop medical device business

The Group will take advantage of the development trend of medical device industry and further exert synergy and scale advantage so as to accelerate business layout, approach manufacturers and end customers, strive to increase the proportion of direct sale, and actively promote strategic cooperation.

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 explore supply chain service new model guided by demand. The Group will deeply push forward "integrated wholesale-retail" with "new retail" as a driver. The Group will continue to integrate logistics resources and build tracking platform. The Group will continue to improve and promote supply chain financial service to increase client loyalty.

Continue to optimize operation management capabilities and enhance management and control services

The Group will continue to optimize operation management capabilities and enhance management and control services through measures such as deeply solidifying integration construction, further advancing finance sharing, adopting innovative information technology, enhancing cash flow control, as well as manners such as enhancing internal audit, improving risk and compliance management so as to achieve healthier sustainable development.

Looking forward, there are still uncertainties in the policies and situation of the pharmaceutical distribution industry, but change represents opportunity. The Group will follow the concept of "high quality development" to guide operation management and innovation reform work, promote the "integrated wholesale-retail" strategy, 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 unaudited financial statements of the Group for the Reporting Period which were prepared in accordance with the Hong Kong Accounting Standard 34 *Interim Financial Reporting*.

During the Reporting Period, the Group recorded revenue of RMB147,486.19 million, representing an increase of RMB9,718.65 million or 7.05% as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded a net profit of RMB4,027.19 million, representing a decrease of RMB4.65 million or 0.12% as compared with the corresponding period of last year; profit attributable to owners of the parent amounted to RMB2,678.63 million, representing a decrease of RMB86.02 million or 3.11% as compared with the corresponding period of last year.

During the Reporting Period, basic earnings per share of the Company amounted to RMB0.97, representing a decrease of 3.00% as compared with the corresponding period of last year.

Management Discussion and Analysis

Unit: in millions of RMB unless otherwise stated

	Six months ended 30 June 2018	Six months ended 30 June 2017	Change
Operating result			
Revenue	147,486.19	137,767.54	9,718.65
Earnings before interest and tax	6,841.99	6,155.43	686.56
Profit attributable to owners of the parent	2,678.63	2,764.65	(86.02)
Profitability			
Gross margin	8.66%	7.91%	increased by 0.75 percentage point
Operating margin	4.38%	4.27%	increased by 0.11 percentage point
Net profit margin	2.73%	2.93%	decreased by 0.20 percentage point
Earnings per share – Basic (RMB)	0.97	1.00	(0.03)
Key operational indicators			
Trade receivables turnover ratio (days)	108	104	4
Inventory turnover ratio (days)	36	36	0
Trade payables turnover ratio (days)	93	98	(5)
Current ratio (times)	1.22	1.26	(0.04)

Unit: in millions of RMB unless otherwise stated

	30 June 2018	31 December 2017	Change
Asset position			
Total assets	191,826.13	169,539.03	22,287.10
Equity attributable to owners of the parent	36,309.09	35,257.64	1,051.45
Gearing ratio	72.14%	69.76%	increased by 2.38 percentage point
Cash and cash equivalents	23,353.71	29,011.44	(5,657.73)

Management Discussion and Analysis

Revenue

During the Reporting Period, the Group recorded revenue of RMB147,486.19 million, representing an increase of 7.05% as compared with RMB137,767.54 million for the six months ended 30 June 2017. This increase was due to the increase in revenue from the Group's pharmaceutical distribution business as well as retail pharmacy business.

- **Pharmaceutical distribution segment:** During the Reporting Period, the Group's revenue from pharmaceutical distribution was RMB139,926.14 million, representing an increase of 6.25% as compared with RMB131,700.23 million for the six months ended 30 June 2017, and accounting for 94.87% of the total revenue of the Group. Such increase was primarily due to the good development trend of the pharmaceutical distribution business and further expansion of the distribution network of the Group.

- **Retail pharmacy segment:** During the Reporting Period, the Group's revenue from retail pharmacy was RMB7,101.57 million, representing an increase of 24.57% as compared with RMB5,700.91 million for the six months ended 30 June 2017, and accounting for 4.82% of the total revenue of the Group. Such increase was primarily due to the growth in retail pharmacy market and the expansion of the Group's network of retail drug stores.

- **Other business segment:** During the Reporting Period, the Group's revenue from other business was RMB2,086.91 million, representing an increase of 15.91% as compared with RMB1,800.38 million for the six months ended 30 June 2017, primarily due to the growth from chemical reagent and pharmaceutical manufacturing businesses.

Cost of Sales

During the Reporting Period, the cost of sales of the Group was RMB134,718.61 million, representing an increase of 6.18% as compared with RMB126,875.48 million for the six months ended 30 June 2017, which was comparable with the growth rate of the sales revenue.

Gross Profit

The gross profit of the Group for the Reporting Period increased by 17.22% from RMB10,892.06 million for the six months ended 30 June 2017 to RMB12,767.58 million.

The gross profit margin of the Group for the six months ended 30 June 2018 was 8.66%, whilst the gross profit margin for the same period in 2017 was 7.91%, the increase in gross profit margin is mainly due to the fast increase in the proportion of direct sale business and rapid growth from high-margin businesses such as medical device and retail pharmacy.

Management Discussion and Analysis

Other Income

During the Reporting Period, other income of the Group was RMB146.30 million, representing a decrease of 30.89% as compared with RMB211.68 million for the six months ended 30 June 2017. The decrease in other income was primarily due to the decrease 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 RMB4,203.94 million, representing an increase of 26.96% as compared with RMB3,311.23 million for the six months ended 30 June 2017. The increase in selling and distribution expenses was primarily attributable to purchase of promotion services from third parties, the enlarged operation scale of the Group, the business exploration and the expansion of distribution network through new set-ups and acquisitions of companies and business, etc.

Administrative Expenses

During the Reporting Period, the administrative expenses of the Group were RMB2,257.00 million, representing an increase of 18.36% from RMB1,906.84 million for the same period in 2017.

During the Reporting Period, the proportion of the Group's administrative expenses to the total revenue of the Group increased to 1.53% from 1.38% for the six months ended 30 June 2017, which was due to the increase in employee benefits.

Operating Profit

The operating profit of the Group for the Reporting Period was RMB6,452.94 million, representing an increase of 9.64% from RMB5,885.67 million for the six months ended 30 June 2017.

Other Gains – Net

The other net gains of the Group increased by RMB21.61 million from RMB29.57 million for the six months ended 30 June 2017 to RMB51.18 million for the Reporting Period, primarily contributed by gain on changes in fair value of financial assets at fair value through profit and loss.

Finance Costs – Net

During the Reporting Period, the finance costs of the Group were RMB1,678.15 million, representing an increase of RMB680.03 million as compared with RMB998.12 million for the six months ended 30 June 2017. The increase was primarily due to the increase in interest expenses of the Group.

Share of Profits and Losses of Associates and a Joint Venture

During the Reporting Period, the Group's share of profits and losses of associates and a joint venture was RMB337.87 million, representing an increase of 40.66% as compared with RMB240.20 million for the six months ended 30 June 2017, mainly because Sinopharm Holding (China) Financial Leasing Co., Ltd. ("**Sinopharm Financial Leasing**") changed from a subsidiary to an associate in 2017.

Income Tax Expense

The Group's income tax expense increased by 0.99% from RMB1,125.47 million for the six months ended 30 June 2017 to RMB1,136.65 million for the Reporting Period. Such increase was primarily due to the increase in income tax expenses corresponding to the increase in the profit of the Group. The Group's effective income tax rate increased from 21.82% for the six months ended 30 June 2017 to 22.01% for the six months ended 30 June 2018.

Profit for the Reporting Period

As a result of the above-mentioned factors, the profit of the Group for the Reporting Period was RMB4,027.19 million, representing a decrease of 0.12% from RMB4,031.84 million for the six months ended 30 June 2017.

Profit Attributable to Owners of the Parent

During the Reporting Period, profit attributable to owners of the parent was RMB2,678.63 million, representing a decrease of 3.11%, or RMB86.02 million, from RMB2,764.65 million for the six months ended 30 June 2017. The Group's net profit margin for the Reporting Period and for the corresponding period of 2017 was 1.82% and 2.01%, respectively.

Profit Attributable to Non-controlling Interests

Profit attributable to non-controlling interests for the Reporting Period was RMB1,348.56 million, representing an increase of 6.42% from RMB1,267.19 million for the six months ended 30 June 2017.

Cash Flow

The cash of the Group is primarily used for financing working capital, repaying credit interest and principal due, financing acquisitions and providing funds for capital expenditures, the facilities of the Company and the business growth and expansion.

Net cash used in operating activities

The Group's cash outflow from operations primarily derives from payments for the purchase of material and services in its pharmaceutical distribution, retail pharmacy and other business segments. During the Reporting Period, the Group's net cash used in operating activities amounted to RMB9,175.73 million. The net cash used in operating activities of the Group was RMB11,104.93 million for the six months ended 30 June 2017. The decrease was primarily attributed to the change of Sinopharm Financial Leasing from a subsidiary to an associate in 2017.

Net cash used in investment activities

During the Reporting Period, the net cash used in investment activities of the Group was RMB2,877.67 million, representing an increase of RMB1,638.18 million as compared with RMB1,239.49 million for the six months ended 30 June 2017. Such increase was primarily due to the increase in the expenditure on the purchase of property, plant and equipment.

Net cash generated from financing activities

During the Reporting Period, the net cash generated from financing activities of the Group was RMB6,397.76 million, representing a decrease of RMB437.62 million as compared with RMB6,835.38 million for the six months ended 30 June 2017. Such decrease was primarily due to the repayment of the borrowings and expired bonds by the Group.

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. The Group had successfully issued super short-term commercial papers in an aggregate amount of RMB12 billion in the first half of 2018 for the purposes of expanding financing channels and reducing finance costs to repay bank loans as well as to replenish working capital.

The Group's borrowings are all denominated in Renminbi.

As of 30 June 2018, the cash and cash equivalents of the Group were mainly denominated in Renminbi, with certain amount denominated in Hong Kong Dollars ("**HKD**") and small amount denominated in USD ("**USD**") and Euro ("**EUR**") and AUD ("**AUD**").

Indebtedness

As of 30 June 2018, among the Group's total borrowings, RMB46,531.64 million will be due within one year and RMB1,448.43 million will be due after one year. During the Reporting Period, the Group did not experience any difficulties in renewing the bank loans with its lenders.

Gearing ratio

As of 30 June 2018, the Group's gearing ratio was 72.14% (31 December 2017: 69.76%), which was calculated based on the total liabilities divided by the total assets as at 30 June 2018.

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 circumstances, including cash and cash equivalents, borrowings from banks and other financial institutions and trade payables denominated in foreign currencies, the majority of which are USD, HKD and EUR. During the Reporting Period, the Group had no corresponding hedging arrangements.

Pledge of Assets

As of 30 June 2018, part of the Group's borrowings and notes payable were secured by bank deposits of RMB5,597.86 million (unaudited), prepaid land lease payments with book value of RMB55.25 million (unaudited), investment properties with book value of RMB5.49 million (unaudited), properties, plant and equipment with book value of RMB251.63 million (unaudited), and trade receivables with book value of RMB1,358.85 million (unaudited).

Capital Expenditure

The Group's capital expenditures were primarily utilised 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 for the Reporting Period amounted to RMB2,135.88 million, representing an increase of RMB670.38 million as compared with RMB1,465.50 million for the six months ended 30 June 2017, mainly due to the increase in the expenditure on the purchase of property, plant and equipment.

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

Management Discussion and Analysis

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 30 June 2018, the Group neither had any material contingent liabilities, nor had any material litigations.

Major Investment

During the Reporting Period, the Group did not make any major investment or have any plan for major investment or purchase of capital asset.

Major Acquisitions and Disposals

During the Reporting Period, the Company did not conduct any material acquisition and disposal with respect to subsidiaries, associates and joint ventures.

Human Resources

As of 30 June 2018, the Group had a total of 64,413 employees. In order to meet the development needs and to 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 specialised 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 the efficiency of the employees. 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.

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 Medicines 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 Co., Ltd., Sinopharm Holding Guoda Drugstores Co., Ltd. and Sinopharm Group Xinjiang Medicines 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 and Deputy Secretary of Party Committee. Mr. Liu joined the Group in January 2003, he has served as the Group's president since November 2017, executive director since December 2017 and deputy secretary of party committee since January 2018. 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, joint company secretary and authorised representative of the Company from October 2016 to August 2018, and has served as chief legal advisor of the Company from January 2014 to December 2017. Mr. Liu is also the director of Sinopharm Industrial Investment Co., Ltd., Sinopharm Holding Guoda Drugstores Co., Ltd. and Sinopharm Holding Hong Kong Co., Ltd., and chairman of Sinopharm Lerentang Pharmaceutical Co., Ltd. and China National Accord Medicines Co., Ltd.

Biographies of Directors, Supervisors and Senior Management

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 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 Co., Ltd. from December 1998 to January 2001.

Biographies of Directors, Supervisors and Senior Management

Mr. Wang Qunbin, aged 49, non-executive Director, joined the Group in January 2003, and has been a non-executive Director since then. He has around 27 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. Mr. Wang has served as a director of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. since May 1995, during which time he was its chairman of the board of directors from October 2007 to June 2010, and has been its non-executive director since October 2012. Mr. Wang was a director of Shanghai Fosun High Technology (Group) Co., Ltd. from November 1994 to November 2017, and has served as an executive director of Fosun International Limited (a company listed on the Hong Kong Stock Exchange) since August 2005. Mr. Wang has served as directors of Tianjin Pharmaceutical Holdings Ltd., Sinopharm Industrial Investment Co., Ltd. and Henan Lingrui Pharmaceutical Company Ltd.

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 and currently serves as an external director of CNPGC. 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.

Biographies of Directors, Supervisors and Senior Management

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 in December 2007. 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 depratmnet 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. Ms. Rong has over 26 years' working experience, is currently the director of Finance Department of CNPGC. 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.

Biographies of Directors, Supervisors and Senior Management

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 a director of Sinopharm Industrial Investment Co., Ltd.

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.

Biographies of Directors, Supervisors and Senior Management

Mr. Yu Tze Shan Hailson, aged 62, independent non-executive Director, has served as an independent non-executive Director of the Company 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. Mr. Yu currently is a Charted Engineer in United Kingdom, 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 an independent non-executive Director of the Company 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 Health and Happiness (H&H) 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) and Shineroad 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 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 and has been serving as a lawyer. Mr. Liu co-founded Shanghai Junyue Law Firm with other partners in October 1998 and has been serving as chief partner and 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 non-executive Director of the Company 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 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 a 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 from Shanghai Stock Exchange), 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 served in Shanghai Fosun Pharmaceutical (Group) Co., Ltd. since of the Company April 2010, and currently serves as its executive director and co-president.

Mr. Tao Wuping, aged 63, Supervisor, has been a Supervisor since June 2015, was an independent non-executive Director of the Compay from 22 September 2008 to 20 September 2014. Mr. Tao is a lawyer and has over 34 years of working experience as a 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 served as the independent director of Shanghai Film Co., Ltd. from May 2013 to August 2018 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.

Biographies of Directors, Supervisors and Senior Management

Mr. Zhang Hongyu, aged 56, employee representative Supervisor, has served as an employee representative Supervisor of the Company since January 2018. Mr. Zhang has over 32 years of working experience, has been serving as the secretary of Discipline Inspection Commission and deputy chairman of Labour Union 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 of Human Resource Department and an engineer of the Shanghai Branch of Chinese Academy of Sciences from July 1985 to September 1992. Mr. Zhang Hongyu 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-devision-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 from September 2010 to January 2018, and 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.

Biographies of Directors, Supervisors and Senior Management

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. Cai Maisong, one of the joint company secretaries, is also a vice president of the Company. Please refer to the section headed "Senior Management" for Mr. Cai's biography.

Dr. Liu Wei, is currently a partner 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. 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., Sinopharm-CICC (Shanghai) Medical & Healthcare Investment Management Co., Ltd. and West China Dental 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 a 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) Corporation 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 Co., 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 Co., 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 China National Pharmaceutical Group Shanghai Corporation and Beijing Sinopharm Tianyuan Real Estate & Property Management Co., Ltd.

Biographies of Directors, Supervisors and Senior Management

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 Group from December 2008 to January 2011 and from January 2016 to January 2018. He served as a Supervisor of the Group 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., China National Medicines Co., Ltd., China National Accord Medicines Co., Ltd. and Sinopharm-CICC (Shanghai) Medical & Healthcare Investment Management 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, and has been serving as secretary to the Board, joint company secretary and authorised representative since August 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 of 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, the director of Sinopharm Holding Medical Investment Management 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.

Biographies of Directors, Supervisors and Senior Management

Mr. Li Dongjiu, aged 53, joined the Group as vice president and chief legal advisor since January 2018. 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. Mr. Li 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 (Group) 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 director of China National Medicines Co., Ltd., China National Accord Medicines Co., Ltd. and Sinopharm Group Chemical Reagent Co., Ltd., and 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.

Biographies of Directors, Supervisors and Senior Management

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 director of Sinopharm Holding Jiangsu Co., Ltd. and Sinopharm Holding Changzhou Co., Ltd., the executive director of Sinopharm Holding Distribution Center Co., Ltd. and Shanghai Tongyu Information Technology 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 May 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 man-ager 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.

Other Information

Changes of Directors and Supervisor

Mr. Lian Wanyong and Mr. Li Dongjiu resigned on 12 January 2018 from the position as non-executive Directors and members of the respective committees under the Board. Ms. Rong Yan and Mr. Wu Yijian were elected as non-executive Directors at the extraordinary general meeting of the Company held on 8 March 2018, and since the date of their election as non-executive Directors, Ms. Rong Yan also serves as a member of the Audit Committee and Mr. Wu Yijian also serves as a member of the Audit Committee, a member of the Remuneration Committee and a member of the Strategy and Investment Committee.

Mr. Yang Jun resigned from the position as an employee representative Supervisor on 12 January 2018. Mr. Zhang Hongyu was elected as an employee representative Supervisor at the 10th meeting of the 2nd session of employee representatives of the Company held on the same day.

For details, please refer to the announcement of the Company dated 12 January 2018.

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 30 June 2018, 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 and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**"), Chapter 571 of the Laws of Hong Kong) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the requirements in the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**"), 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 total number of H shares in issue of the Company (%)	Long position/ short position/ shares available for lending
Mr. Li Zhiming	H shares	Beneficial owner	260,000	0.01	0.02	Long position
Mr. Liu Yong	H shares	Beneficial owner	210,000	0.01	0.02	Long position
Ms. Jin Yi	H shares	Beneficial owner	1,200	0.00	0.00	Long position

Save as disclosed above, as at 30 June 2018, 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 Stock Exchange pursuant to the requirements of the Model Code.

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

As at 30 June 2018, 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
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	–
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	–

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
BlackRock, Inc.	H shares	Interest of controlled corporation (Note 9)	70,557,170	2.55	5.92	Long position
			2,415,200	0.02	0.20	Short position
JPMorgan Chase & Co.	H shares	Beneficial owner	14,291,445	0.52	1.20	Long position
			2,666,599	0.10	0.22	Short position
		Investment manager	12,050,852	0.44	1.01	Long position
		Approved lending agent (Note 10)	248,296,791	8.97	20.82	Long position
Oppenheimer Developing Markets Fund	H shares	Beneficial owner	167,530,000	6.05	14.04	Long position
Matthews International Capital Management, LLC	H shares	Investment manager	71,724,400	2.59	6.01	Long position

Notes:

The information was disclosed based on the data available on the HKExnews website of the 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) Shanghai Fosun Pharmaceutical (Group) Co., Ltd. ("**Fosun Pharma**") is the beneficial owner of 49% equity interest in Sinopharm Investment and, therefore it 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 it 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 it 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 71.70% equity interest in Fosun Company and, therefore it 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 it 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) BlackRock, Inc. is interested in long positions of 70,557,170 and short positions of 2,415,200 H shares of the Company indirectly through a series of controlled corporations.

(10) JPMorgan Chase & Co. is interested, as beneficial owner, investment manager, and approved lending agent, in an aggregate of long positions of 274,639,088 H shares (of which 248,296,791 are H shares available for lending) and short positions of 2,666,599 H shares of the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2018, 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.

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2018, except that the trustee of the share award scheme effective on 18 October 2016 (the "**Scheme**"), pursuant to the rules of the Scheme, sold on the open market a total of 200,000 shares of the Company at a total consideration of approximately HKD7.2 million.

Dividends

Pursuant to the relevant resolution passed at the 2017 annual general meeting of the Company convened on 28 June 2018, the Company will pay the final dividend for the year ended 31 December 2017 to the shareholders of the Company on 28 August 2018, totaling approximately RMB1,577,244,201.

The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2018.

Other Information

Amendments to the Articles of Association and Rules of Procedure of the Board of Directors

On 23 March 2018 and 26 April 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 were duly approved at the annual general meeting of the Company held on 28 June 2018 as special resolutions. For details, please refer to the announcements of the Company published on the websites of the Company and the Hong Kong Stock Exchange on 23 March 2018, 26 April 2018 and 28 June 2018.

Establishment of Legal and Compliance Committee

On 23 March 2018, the Board 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 Bonds

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 (the "**Proposed Issue of Corporate Bonds**"). The Proposed Issue of Corporate Bonds was duly approved 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. As at 30 June 2018, the corporate bonds have not been issued.

Entry into Factoring Services Framework Agreement

On 23 March 2018, the Company entered into the factoring services framework agreement with Sinopharm Puxin Commercial Factoring Company Limited (the "**Factoring Company**"), a subsidiary of the Company's 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.

Audit Committee

As at the date of this report, the audit committee of the Company consists of three independent non-executive Directors, namely Mr. Tan Wee Seng (Chairman), Mr. Liu Zhengdong and Mr. Zhuo Fumin, and two non-executive Directors, namely Ms. Rong Yan and Mr. Wu Yijian. The audit committee has reviewed the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 and agreed on the accounting treatment adopted by the Company.

Other Information

Compliance with the Corporate Governance Code Set out in Appendix 14 to the Listing Rules

The Company has adopted all the code provisions contained in the Corporate Governance Code (the "**Code**") as set out in Appendix 14 to the Listing Rules as the Company's code on corporate governance. During the Reporting Period, the Company had complied with the code provisions set out in the Code.

Securities Transactions by Directors and Supervisors

The Company has adopted the Model Code as the code of conduct of the Company regarding the transactions of the listed securities of the Company by the Directors and Supervisors. Having made specific enquiry of all the Directors and Supervisors, all of them confirmed that they had complied with the required standard regarding securities transactions by the Directors and Supervisors as set out in the Model Code during the Reporting Period.

Subsequent Events

On 11 July 2018, the Company and CNPGC entered into an agreement on asset purchase by issue of shares (the "**Asset Purchase Agreement**"), pursuant to which the Company agreed to acquire, and CNPGC agreed to sell the 60% equity interest in China National Scientific Instruments and Materials Co. Ltd. (the "**Target Company**") held by CNPGC, at a consideration of RMB5,107,890,720, which will be satisfied by issue of 204,561,102 domestic shares by the Company to CNPGC under general mandate at the issue price of RMB24.97 per consideration share. Upon completion of the acquisition, the Target Company will become a subsidiary of the Company. The Company will convene an extraordinary general meeting on 21 September 2018 for the purpose of, among other things, obtaining the independent shareholders' approval for the Asset Purchase Agreement as well as the transactions contemplated thereunder. 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 July 2018.

On 24 August 2018, the Board resolved to propose to make certain amendments to the articles of association of the Company. The proposed amendments to the articles of association of the Company are subject to the approval by the shareholders at the general meeting 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 24 August 2018.

Disclosure of Information

This report will be despatched to the shareholders of the Company and published on the websites of the Company (http://www.ir.sinopharmgroup.com.cn) and the Hong Kong Stock Exchange (http://www.hkexnews.hk).

Report on Review of Interim Condensed Consolidated Financial Statements

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TO THE SHAREHOLDERS OF SINOPHARM GROUP CO. LTD.
(Established in the People's Republic of China with limited liability)

Introduction

We have reviewed the interim condensed consolidated financial statements set out on pages 37 to 86, which comprise the condensed consolidated statement of financial position of Sinopharm Group Co. Ltd. (the "**Company**") and its subsidiaries as at 30 June 2018, and the related condensed consolidated statement of profit or loss, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed consolidated financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("**HKAS 34**") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong

24 August 2018

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue	6	**147,486,194**	137,767,540
Cost of sales	9	**(134,718,614)**	(126,875,479)
Gross profit		**12,767,580**	10,892,061
Other income	7	**146,303**	211,681
Selling and distribution expenses	9	**(4,203,940)**	(3,311,234)
Administrative expenses	9	**(2,257,001)**	(1,906,842)
Operating profit		**6,452,942**	5,885,666
Other gains – net	8	**51,182**	29,566
Finance income		**145,475**	152,326
Finance costs		**(1,823,629)**	(1,150,449)
Finance costs – net	11	**(1,678,154)**	(998,123)
Share of profits and losses of:			
Associates		**328,654**	238,460
A joint venture		**9,212**	1,735
		337,866	240,195
Profit before tax		**5,163,836**	5,157,304
Income tax expense	12	**(1,136,651)**	(1,125,467)
Profit for the period		**4,027,185**	4,031,837
Attributable to:			
Owners of the parent		**2,678,626**	2,764,650
Non-controlling interests		**1,348,559**	1,267,187
		4,027,185	4,031,837
Earnings per share attributable to ordinary equity holders of the parent (expressed in RMB per share)			
– Basic	13	**0.97**	1.00
– Diluted	13	**0.97**	1.00

The notes on pages 45 to 86 form an integral part of the interim condensed consolidated financial statements.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period	**4,027,185**	4,031,837
Other comprehensive (loss)/income:		
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods		
Remeasurements of post-employment benefit obligations	**(7,864)**	9,003
Fair value losses on financial asset, net of tax	**(4,592)**	–
Net other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods	**(12,456)**	9,003
Other comprehensive loss to be reclassified to profit or loss in subsequent periods		
Fair value losses on available-for-sale financial asset, net of tax	**–**	(12,326)
Exchange differences	**(2,084)**	7,205
Share of other comprehensive (loss)/income of associates	**(2,145)**	2,843
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(4,229)**	(2,278)
Other comprehensive (loss)/income for the period, net of tax	**(16,685)**	6,725
Total comprehensive income for the period	**4,010,500**	4,038,562
Attributable to:		
Owners of the parent	**2,665,131**	2,775,619
Non-controlling interests	**1,345,369**	1,262,943
	4,010,500	4,038,562

The notes on pages 45 to 86 form an integral part of the interim condensed consolidated financial statements.

Condensed Consolidated Statement of Financial Position

30 June 2018

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
ASSETS			
Non-current assets			
Prepaid land lease payments	15	1,324,150	1,348,599
Investment properties	15	388,650	401,121
Property, plant and equipment	15	9,228,504	7,795,659
Intangible assets	15	6,829,966	6,674,179
Investment in a joint venture		22,105	12,893
Investments in associates	16	5,198,243	5,051,003
Available-for-sale investments		–	553,456
Financial assets at fair value through other comprehensive income		29,452	–
Financial assets at fair value through profit or loss		734,406	–
Deferred tax assets	20	903,426	836,511
Other non-current assets		2,006,407	2,022,214
Total non-current assets		26,665,309	24,695,635
Current assets			
Inventories		27,357,090	26,768,692
Trade receivables	17	99,690,091	75,528,859
Prepayments and other receivables		9,161,653	8,675,478
Available-for-sale investments		–	516
Financial assets at fair value through profit or loss		418	–
Pledged deposits and restricted cash		5,597,863	4,858,412
Cash and cash equivalents		23,353,710	29,011,436
Total current assets		165,160,825	144,843,393
Total assets		191,826,134	169,539,028
Current liabilities			
Trade payables	23	72,824,837	66,612,779
Contract liabilities		813,606	–
Accruals and other payables		12,477,367	13,159,792
Dividends payable		1,623,940	54,892
Tax payable		737,645	885,933
Interest-bearing bank and other borrowings	19	46,531,643	30,162,908
Total current liabilities		135,009,038	110,876,304
Net current assets		30,151,787	33,967,089
Total assets less current liabilities		56,817,096	58,662,724

The notes on pages 45 to 86 form an integral part of the interim condensed consolidated financial statements.

Condensed Consolidated Statement of Financial Position

30 June 2018

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Non-current liabilities			
Interest-bearing bank and other borrowings	19	**1,448,426**	5,441,488
Deferred tax liabilities	20	**655,601**	666,872
Post-employment benefit obligations	21	**350,273**	358,895
Contract liabilities		**27,933**	–
Other non-current liabilities	22	**890,416**	925,815
Total non-current liabilities		**3,372,649**	7,393,070
Net assets		**53,444,447**	51,269,654
EQUITY			
Equity attributable to owners of the parent			
Share capital	18	**2,767,095**	2,767,095
Treasury shares held for share incentive scheme	28	**(183,415)**	(193,003)
Reserves		**33,725,405**	32,683,543
		36,309,085	35,257,635
Non-controlling interests		**17,135,362**	16,012,019
Total equity		**53,444,447**	51,269,654

The notes on pages 45 to 86 form an integral part of the interim condensed consolidated financial statements.

Li Zhiming
Director

Tan Wee Seng
Director

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

		Unaudited					
		Attributable to owners of the parent					
	Notes	Share capital RMB'000	Treasury shares held for share incentive scheme RMB'000	Reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2018		2,767,095	(193,003)	32,683,543	35,257,635	16,012,019	51,269,654
Total comprehensive income		–	–	2,665,131	2,665,131	1,345,369	4,010,500
Effects of transaction with non-controlling interests	24	–	–	(76,020)	(76,020)	(41,503)	(117,523)
Capital injection from non-controlling shareholders of subsidiaries		–	–	–	–	204,154	204,154
Acquisition of subsidiaries	25	–	–	–	–	139,091	139,091
Dividend on shares held by share incentive scheme		–	3,614	–	3,614	–	3,614
Release of shares from the share incentive scheme		–	6,188	–	6,188	–	6,188
Dividend on shares released from the share incentive scheme		–	(214)	214	–	–	–
Equity-settled share incentive scheme		–	–	11,860	11,860	1,444	13,304
Share of changes in equity other than comprehensive income and distributions received from associates		–	–	27,789	27,789	20,158	47,947
Other changes of an investment in an associate		–	–	(10,132)	(10,132)	(7,941)	(18,073)
Dividend paid to non-controlling interests		–	–	–	–	(537,601)	(537,601)
Dividend declared		–	–	(1,577,244)	(1,577,244)	–	(1,577,244)
Others		–	–	264	264	172	436
As at 30 June 2018		2,767,095	(183,415)	33,725,405	36,309,085	17,135,362	53,444,447

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Unaudited					
	Attributable to owners of the parent					
	Share capital RMB'000	Treasury shares held for share incentive scheme RMB'000	Reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2017	2,767,095	–	29,043,833	31,810,928	12,721,508	44,532,436
Total comprehensive income	–	–	2,775,619	2,775,619	1,262,943	4,038,562
Effects of transaction with non-controlling interests	–	–	(124,214)	(124,214)	(187,634)	(311,848)
Capital injection from non-controlling shareholders of subsidiaries	–	–	–	–	1,415,514	1,415,514
Acquisition of subsidiaries	–	–	–	–	64,436	64,436
Purchase of shares for share incentive scheme	–	(203,290)	–	(203,290)	–	(203,290)
Dividend on shares held by share incentive scheme	–	3,285	–	3,285	–	3,285
Equity-settled share incentive scheme	–	–	13,254	13,254	1,882	15,136
Dividend paid to non-controlling interests	–	–	–	–	(303,854)	(303,854)
Dividend declared	–	–	(1,383,548)	(1,383,548)	–	(1,383,548)
As at 30 June 2017	2,767,095	(200,005)	30,324,944	32,892,034	14,974,795	47,866,829

The notes on pages 45 to 86 form an integral part of the interim condensed consolidated financial statements.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Notes	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
		For the six months ended 30 June	
Cash flows from operating activities:			
Cash used in operations		**(7,777,313)**	(9,772,694)
Income tax paid		**(1,398,419)**	(1,332,233)
Net cash used in operating activities		**(9,175,732)**	(11,104,927)
Cash flows from investing activities:			
Proceeds from disposal of intangible assets		**183**	386
Proceeds from disposal of prepaid land lease payments		**1,779**	–
Proceeds from disposal of property, plant and equipment		**50,568**	25,846
Proceeds from disposal of available-for-sale investments		**–**	6,712
Proceeds from disposal of financial assets at fair value through profit or loss		**11,503**	–
Proceeds from disposal of other non-current assets		**5,900**	–
Interest received from long-term deposits		**32,048**	31,769
Dividends received from associates		**199,480**	64,726
Dividends received from available-for-sale investments		**–**	8,592
Dividends received from financial assets at fair value through other comprehensive income		**330**	–
Dividends received from financial assets at fair value through profit or loss		**10,032**	–
Payments of prepaid land lease payments		**(3,220)**	(3,897)
Purchase of property, plant and equipment		**(1,866,471)**	(1,190,737)
Purchase of intangible assets		**(26,055)**	(48,677)
Purchase of investment properties		**(1,240)**	(1,409)
Increase in long-term deposits		**(58,280)**	(141,597)
Acquisition of industry investment funds		**–**	(195,000)
Acquisition of available-for-sale investments		**–**	(550)
Acquisition of financial assets at fair value through other comprehensive income		**(200)**	–
Acquisition of financial assets at fair value through profit or loss		**(238,063)**	–
Acquisition of subsidiaries, net of cash acquired	25	**(16,188)**	(130,332)
Consideration paid for prior year acquisition of subsidiaries		**(220,325)**	(236,413)
Acquisition of associates		**(20,000)**	(36,750)
(Increase)/decrease in restricted cash		**(739,451)**	607,837
Net cash used in investing activities		**(2,877,670)**	(1,239,494)

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Cash flows from financing activities:			
Proceeds from borrowings from banks		**27,865,832**	25,613,585
Proceeds from borrowings from related parties		**18,867**	54,000
Proceeds from borrowings from other financial institution		**1,282,348**	480,000
Repayments of borrowings from banks		**(24,008,430)**	(15,346,220)
Repayments of borrowings from related parties		**(145,677)**	(23,965)
Repayments of borrowings from other financial institution		**(1,027,077)**	(390,000)
Repayments of bonds		**(7,000,000)**	(6,000,000)
Proceeds from issue of bonds		**11,987,996**	2,996,341
Capital injections from non-controlling shareholders of subsidiaries		**204,154**	1,355,358
Dividends paid to non-controlling shareholders of subsidiaries		**(545,583)**	(364,847)
Acquisition of non-controlling interests		**(561,782)**	(183,578)
Advance from employees for purchase of shares under share incentive scheme		**–**	103,018
Release/(purchase) of shares under share incentive scheme		**2,833**	(203,290)
Interest paid		**(1,675,721)**	(1,255,025)
Net cash from financing activities		**6,397,760**	6,835,377
Decrease in cash and cash equivalents		**(5,655,642)**	(5,509,044)
Cash and cash equivalents at beginning of period		**29,011,436**	25,572,759
Effect of foreign exchange rate changes, net		**(2,084)**	7,205
Cash and cash equivalents at end of period		**23,353,710**	20,070,920

The notes on pages 45 to 86 form an integral part of the interim condensed consolidated financial statements.

1. General information

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

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

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

The Company and its subsidiaries (together, the "**Group**") 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, production and sale of pharmaceutical products.

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

These interim condensed consolidated financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand, unless otherwise stated. These interim condensed consolidated financial statements have not been audited. These interim condensed consolidated financial statements were approved for issue by the Board of Directors on 24 August 2018.

2. Basis of preparation and changes in accounting policies

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with HKAS 34 *Interim financial reporting* and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's audited financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants.

2. Basis of preparation and changes in accounting policies (continued)

2.2 Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those in the Group's annual financial statements for the year ended 31 December 2017, except for the adoption of the new and revised standards and interpretations effective on 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group has adopted the following new standards, interpretations and amendments for the first time for the financial year beginning on 1 January 2018.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	*Amendments to HKFRS 1 and HKAS 28*

Other than as further explained below, the adoption of other new standards, interpretations and amendments do not have a material impact on the interim condensed consolidated financial statements of the Group.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

2. Basis of preparation and changes in accounting policies (continued)

2.2 Changes in accounting policies (continued)

HKFRS 15 Revenue from Contracts with Customers (continued)

The Group adopted HKFRS 15 using the modified retrospective method of adoption. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus the comparative figures have not been restated.

Other than the impact of HKFRS 15 as disclosed in the Group's financial statements in the Group's annual report for the year ended 31 December 2017, the Group expects that the adoption of the above new and revised standard will have no significant impact on these financial statements.

Presentation and disclosure requirements

As required for the condensed consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

Impact on the financial statements

Impact on the condensed consolidated statement of financial position as at 1 January 2018:

	31 December 2017 RMB'000	Adjustments RMB'000	1 January 2018 RMB'000
Non-current liabilities			
Other non-current liabilities (i)	925,815	(28,357)	897,458
Contract liabilities (i)	–	28,357	28,357
Total non-current liabilities	925,815	–	925,815
Current liabilities			
Accruals and other payables-advances from customers and related parties	13,159,792	(727,742)	12,432,050
Contract liabilities	–	727,742	727,742
Total current liabilities	13,159,792	–	13,159,792
Total liabilities	14,085,607	–	14,085,607

2. Basis of preparation and changes in accounting policies (continued)

2.2 Changes in accounting policies (continued)

HKFRS 15 Revenue from Contracts with Customers (continued)

Impact on the financial statements *(continued)*

(i) Sale of goods

The Group's contracts with customers for pharmaceutical distribution, retail pharmacy and other business generally include one performance obligation. The Group has concluded that revenue from pharmaceutical distribution, retail pharmacy and other business should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of medicines, medical instruments and related products. Therefore, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition.

Customer loyalty programs

The Group's retail pharmacy operates a customer loyalty programs in Mainland China, which allows customers to accumulate award points when they purchase the Group's products. The points can be redeemed for free products, subject to a minimum number of points obtained. Prior to adoption of HKFRS 15, the customer loyalty programs offered by the Group resulted in the allocation of a portion of the transaction price to the customer loyalty programs using the fair value of award points issued and recognition of the deferred revenue in relation to award points issued but not yet redeemed or expired. The Group concluded that under HKFRS 15 the award points give rise to a separate performance obligation because they provide a material right to the customer and allocated a portion of the transaction price to the loyalty points awarded to customers based on the relative stand-alone selling price. The Group determined that, considering the relative stand-alone selling prices, the amount allocated to the loyalty programme should be same compared to the previous accounting policy. The Other non-current liabilities related to this award points was reclassified to Contract liabilities.

HKFRS 9 Financial Instruments

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied HKFRS 9 retrospectively, with the initial application date of 1 January 2018 and not adjusting the comparative information for the period beginning 1 January 2017.

2. Basis of preparation and changes in accounting policies (continued)

2.2 Changes in accounting policies (continued)

HKFRS 9 Financial Instruments (continued)

Impact on the financial statements

Impact on the condensed consolidated statement of financial position as at 1 January 2018:

	31 December 2017 RMB'000	Adjustments RMB'000	1 January 2018 RMB'000
Non-current assets			
Available-for-sale investments	553,456	(553,456)	–
Financial assets at fair value through other comprehensive income	–	35,518	35,518
Financial assets at fair value through profit or loss	–	517,938	517,938
Total non-current assets	553,456	–	553,456
Current assets			
Available-for-sale investments	516	(516)	–
Financial assets at fair value through profit or loss	–	516	516
Total current assets	516	–	516
Total assets	553,972	–	553,972

Classification and measurement

Under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "**SPPI criterion**").

2. Basis of preparation and changes in accounting policies (continued)

2.2 Changes in accounting policies (continued)

HKFRS 9 Financial Instruments (continued)

Classification and measurement *(continued)*

The new classification and measurement of the Group's debt financial assets are, as follows:

Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's other assets, Trade and other receivables, Pledged deposits and restricted cash, cash and cash equivalents and etc.

Other financial assets are classified and subsequently measured, as follows:

Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. Equity instruments at FVOCI are not subject to an impairment assessment under HKFRS 9.

Financial assets at FVPL comprise derivative instruments and equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model.

The accounting for financial liabilities has not changed from that required by HKAS 39.

2. Basis of preparation and changes in accounting policies (continued)

2.2 Changes in accounting policies (continued)

HKFRS 9 Financial Instruments (continued)

Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For Trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payment are 30 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of HKFRS 9 didn't resulted in increases nor decrease in impairment allowances of the Group's debt financial assets.

3. Estimates

The preparation of interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2017.

4. Financial risk management

(i) 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 interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017.

There have been no changes in the risk management department since year end or in any risk management policies.

(ii) Liquidity risk

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	**1 to 2 years** RMB'000	**2 to 5 years** RMB'000	**Over 5 years** RMB'000	**Total** RMB'000
As at 30 June 2018 (Unaudited)					
Interest-bearing bank and other borrowings	**47,417,711**	**481,499**	**1,343,621**	**–**	**49,242,831**
Trade and other payables	**83,351,707**	**–**	**–**	**–**	**83,351,707**
Dividends payable	**1,623,940**	**–**	**–**	**–**	**1,623,940**
Other non-current liabilities	**–**	**51,325**	**58,597**	**–**	**109,922**
	132,393,358	**532,824**	**1,402,218**	**–**	**134,328,400**
As at 31 December 2017 (Audited)					
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

4. Financial risk management (continued)

(iii) 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 30 June 2018 and 31 December 2017.

	Level 1 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000	**Total** RMB'000
As at 30 June 2018 (Unaudited)				
Assets				
Financial assets at fair value through other comprehensive income	**26,302**	**499**	**2,651**	**29,452**
Non-current financial assets at fair value through profit or loss	**–**	**4,071**	**730,335**	**734,406**
Current financial assets at fair value through profit or loss	**418**	**–**	**–**	**418**
	26,720	**4,570**	**732,986**	**764,276**
As at 31 December 2017 (Audited)				
Assets				
Available-for-sale investments	33,084	4,570	175,098	212,752

There were no significant transfers of financial assets among level 1, level 2 and level 3 during the period.

There were no changes in valuation techniques during the period.

4. Financial risk management (continued)

(iv) Fair value of financial assets and liabilities measured at amortised cost

The carrying amounts and fair values of the non-current borrowings are as follows:

	Carrying amount		Fair value	
	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)	**30 June 2018 RMB'000 (Unaudited)**	31 December 2017 RMB'000 (Audited)
Borrowings from banks and other financial institutions (Note 19)	**451,600**	451,600	**485,310**	493,807
Bonds (Note 19)	**996,826**	4,989,888	**1,004,200**	5,016,219

The fair values of the following financial assets and liabilities approximate to their carrying amounts:

- Long-term deposits
- Continuing involvement assets
- Trade receivables
- Other receivables
- Pledged deposits and restricted cash
- Cash and cash equivalents
- Current borrowings
- Trade payables
- Accruals and other payables
- Dividends payable
- Continuing involvement liabilities
- Long-term financial lease payables

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:

(1) Pharmaceutical distribution – the distribution of medicines, medical instruments and pharmaceutical products to hospitals, other distributors, retail drug stores and clinics;

(2) Retail pharmacy – the operation of pharmaceutical chain stores; and

(3) Other business – the distribution of laboratory supplies, manufacturing and distribution of chemical reagents, and production and sale of pharmaceutical products.

Although the retail pharmacy and other business segments do not meet the quantitative thresholds required by HKFRS 8 *Operating segments*, management has concluded that these segments should be reported, as they are closely monitored by the operating committee as a potential growth segment and are 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 purpose.

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.

Intersegment revenues are conducted at prices and 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 condensed consolidated statement of profit or loss.

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

5. Segment Information (continued)

(i) For the six months ended 30 June 2018 and 2017

	Pharmaceutical distribution RMB'000	Retail pharmacy RMB'000	Other business RMB'000	Eliminations RMB'000	Total RMB'000
Six months ended 30 June 2018 (Unaudited)					
Segment results					
External segment revenue	138,510,299	7,053,886	1,922,009	–	147,486,194
Intersegment revenue	1,415,843	47,687	164,902	(1,628,432)	–
Revenue	139,926,142	7,101,573	2,086,911	(1,628,432)	147,486,194
Operating profit	6,010,108	255,730	187,104	–	6,452,942
Other gains – net	3,194	2,591	45,397	–	51,182
Share of profits and losses of associates and a joint venture	10,060	1,207	326,599	–	337,866
	6,023,362	259,528	559,100	–	6,841,990
Finance costs – net					(1,678,154)
Profit before tax					5,163,836
Income tax expense					(1,136,651)
Profit for the period					4,027,185
Other segment items included in the statement of profit or loss					
Provision for impairment of trade and other receivables	318,354	91	3,255		321,700
Provision/(reversal of provision) for impairment of inventories	18,688	581	(1,295)		17,974
Amortisation of prepaid land lease payments	22,424	76	3,390		25,890
Depreciation of property, plant and equipment	318,730	44,437	33,709		396,876
Depreciation of investment properties	8,377	534	2,342		11,253
Amortisation of intangible assets	115,312	7,291	1,998		124,601
Capital expenditures	2,015,005	77,458	43,417		2,135,880

5. Segment Information (continued)

(i) For the six months ended 30 June 2018 and 2017 (continued)

	Pharmaceutical distribution RMB'000	Retail pharmacy RMB'000	Other business RMB'000	Eliminations RMB'000	Total RMB'000
Six months ended 30 June 2017 (Unaudited)					
Segment results					
External segment revenue	130,393,475	5,683,893	1,690,172	–	137,767,540
Intersegment revenue	1,306,757	17,012	110,212	(1,433,981)	–
Revenue	131,700,232	5,700,905	1,800,384	(1,433,981)	137,767,540
Operating profit	5,553,739	216,244	119,142	(3,459)	5,885,666
Other gains – net	8,069	4,942	16,555	–	29,566
Share of profits and losses of associates and a joint venture	5,229	1,550	233,416	–	240,195
	5,567,037	222,736	369,113	(3,459)	6,155,427
Finance costs – net					(998,123)
Profit before tax					5,157,304
Income tax expense					(1,125,467)
Profit for the period					4,031,837
Other segment items included in the statement of profit or loss					
Provision/(reversal of provision) for impairment of trade and other receivables	116,990	(162)	2,948		119,776
Provision for impairment of inventories	24,859	211	583		25,653
Provision for impairment of finance lease receivables	–	–	31,752		31,752
Amortization of prepaid land lease payments	16,211	59	3,270		19,540
Depreciation of property, plant and equipment	278,759	42,911	33,098		354,768
Depreciation of investment properties	7,160	475	2,260		9,895
Amortization of intangible assets	109,649	4,020	1,763		115,432
Capital expenditures	1,327,716	94,944	42,842		1,465,502

5. Segment Information (continued)

(ii) At 30 June 2018 and 31 December 2017

	Pharmaceutical distribution RMB'000	Retail pharmacy RMB'000	Other business RMB'000	Eliminations RMB'000	Total RMB'000
As at 30 June 2018 (Unaudited)					
Segment assets and liabilities					
Segment assets	175,722,817	7,914,583	10,016,345	(2,731,037)	190,922,708
Segment assets include:					
Investments in associates and a joint venture	211,999	24,749	4,983,600	–	5,220,348
Unallocated assets – Deferred tax assets					903,426
Total assets					191,826,134
Segment liabilities	85,320,491	5,446,157	1,999,275	(3,019,906)	89,746,017
Unallocated liabilities – Deferred tax liabilities and borrowings					48,635,670
Total liabilities					138,381,687
As at 31 December 2017 (Audited)					
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

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 period.

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of goods	**146,949,510**	137,013,514
Operating lease income	**74,806**	71,750
Franchise fees and other service fee from medicine chain stores	**146,363**	115,498
Interest income from finance lease	**–**	284,760
Revenue from logistics service	**141,993**	116,914
Consulting income	**122,510**	118,027
Import agency income	**4,244**	7,340
Others	**46,768**	39,737
	147,486,194	137,767,540

7. Other income

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government grants	**146,303**	211,681

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

8. Other gains – net

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Gain on disposal of prepaid land lease payments, property, plant and equipment and intangible assets	**3,365**	1,722
Gain on changes in fair value of financial assets at fair value through profit and loss	**43,755**	–
Gain on fair value remeasurement of previously held equity interest in the acquiree	**–**	34,933
Foreign exchange loss – net	**(252)**	(7,321)
Write-back of certain liabilities	**11,357**	15,257
Loss on disposal of available-for-sale investments	**–**	(200)
Donation	**(5,773)**	(6,683)
Dividends from available-for-sale investments	**–**	8,592
Dividends from financial assets at fair value through other comprehensive income	**330**	–
Dividends from financial assets at fair value through profit or loss	**32**	–
Others – net	**(1,632)**	(16,734)
	51,182	29,566

9. Expenses by nature

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Raw materials and trading merchandise consumed	**134,381,942**	126,480,071
Changes in inventories of finished goods and work in progress	**(48,133)**	17,987
Employee benefit expenses (Note 10)	**3,110,858**	2,746,186
Provision for impairment of trade receivables	**313,020**	111,756
Provision for impairment of other receivables	**8,680**	8,020
Provision for impairment of inventories	**17,974**	25,653
Provision for impairment of finance lease receivables	**–**	31,752
Operating lease rental in respect of land and buildings	**570,468**	445,026
Depreciation of property, plant and equipment (Note 15)	**396,876**	354,768
Depreciation of investment properties (Note 15)	**11,253**	9,895
Amortisation of intangible assets (Note 15)	**124,601**	115,432
Amortisation of prepaid land lease payments (Note 15)	**25,890**	19,540
Auditors' remuneration	**12,000**	10,440
Advisory and consulting fees	**88,544**	74,033
Transportation expenses	**541,247**	516,259
Travel expenses	**124,432**	118,445
Market development and business promotion expenses	**873,479**	415,130
Utilities	**69,963**	56,449
Others	**556,461**	536,713
Total cost of sales, selling and distribution expenses, and administrative expenses	**141,179,555**	132,093,555

10. Employee benefit expenses

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries, wages, allowance and bonuses	**2,333,823**	2,108,340
Contributions to pension plans (i)	**308,745**	244,589
Post-employment benefits (Note 21)	**1,988**	(22,335)
Housing benefits (ii)	**112,904**	96,800
Share incentive expenses (Note 28)	**13,591**	13,725
Other benefits (iii)	**339,807**	305,067
	3,110,858	2,746,186

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.

(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.

11. Finance income and costs

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest expense:		
– Borrowings	**1,006,416**	620,415
– Discounting of notes receivable	**239,100**	163,984
– Factoring of accounts receivable	**395,512**	249,114
– Net interests on net defined benefit liability (Note 21)	**6,898**	8,133
Gross interest expense	**1,647,926**	1,041,646
Bank charges	**181,041**	113,476
Less: capitalised interest expense	**(5,338)**	(4,673)
Finance costs	**1,823,629**	1,150,449
Finance income:		
– Interest income on deposits in bank or other financial institutions	**(113,427)**	(120,557)
– Interest income on long-term deposits	**(32,048)**	(31,769)
Net finance costs	**1,678,154**	998,123

12. Taxation

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax	**1,245,166**	1,119,268
Deferred income tax (Note 20)	**(108,515)**	6,199
	1,136,651	1,125,467

During the six months ended 30 June 2018, enterprises incorporated in the PRC are normally subject to enterprise income tax ("**EIT**") at the rate of 25%, while certain subsidiaries enjoy preferential EIT at a rate of 15% as approved by the relevant tax authorities or due to their operation in designated areas with preferential EIT policies.

Two of the Group's subsidiaries are subject to Hong Kong profit tax at the rate of 16.5% on the estimated assessable profit arising in or derived from Hong Kong.

13. Earnings per share

The calculation of basic earnings per share is based on the profit for the period 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 at the end of the reporting period and the weighted average number of ordinary shares of 2,767,095,000 (30 June 2017: 2,767,095,000) in issue excluding restricted shares at the end of the reporting period.

The calculation of diluted earnings per share is based on the profit for the period attributable to ordinary equity holders of the parent. 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 period, 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:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**2,678,626**	2,764,650
Less: Cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future	**(3,500)**	(3,285)
Profit attributable to equity holders of the parent used in the basic earnings per share calculation	**2,675,126**	2,761,365
Shares	**Number of shares**	
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation ('000)	**2,760,755**	2,760,525
Effect of dilution – restricted shares ('000)	**6,340**	6,570
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation ('000)	**2,767,095**	2,767,095
Basic earnings per share (RMB per share)	**0.97**	1.00
Diluted earnings per share (RMB per share)	**0.97**	1.00

14. Dividends

The final dividend for year 2017 of RMB0.57 per share (tax inclusive), amounting to RMB1,577,244,000 in total, was approved by the shareholders at the annual general meeting of the Company held on 28 June 2018 ("**2017 AGM**"). Pursuant to the relevant resolution passed at 2017 AGM, the final dividend for year 2017 will be paid on 28 August 2018 to the shareholders whose names appeared on the register of members of the Company on 11 July 2018.

No interim dividend was proposed for the six-month period ended 30 June 2018.

15. Prepaid land lease payments, Investment properties, Property, plant and equipment and Intangible assets

	Prepaid land lease payments RMB'000	Investment properties RMB'000	Property, plant and equipment RMB'000	Intangible assets RMB'000
For the six months ended 30 June 2018 (Unaudited)				
Net carrying amount as at 1 January 2018	**1,348,599**	**401,121**	**7,795,659**	**6,674,179**
Additions	**3,220**	**1,240**	**1,814,633**	**37,064**
Acquisition of subsidiaries (Note 25)	**–**	**–**	**40,141**	**239,582**
Transfers	**–**	**(2,275)**	**(1,467)**	**3,742**
Disposals	**(1,779)**	**(183)**	**(23,586)**	**–**
Depreciation or amortisation (Note 9)	**(25,890)**	**(11,253)**	**(396,876)**	**(124,601)**
Net carrying amount as at 30 June 2018	**1,324,150**	**388,650**	**9,228,504**	**6,829,966**
For the six months ended 30 June 2017 (Unaudited)				
Net carrying amount as at 1 January 2017	1,328,555	407,552	6,752,464	6,282,772
Additions	3,897	1,409	1,053,692	35,691
Acquisition of subsidiaries	–	–	3,546	367,267
Transfers	–	4,368	(22,988)	18,620
Disposals	–	–	(23,738)	(772)
Depreciation or amortisation (Note 9)	(19,540)	(9,895)	(354,768)	(115,432)
Net carrying amount as at 30 June 2017	1,312,912	403,434	7,408,208	6,588,146

16. Investments in associates

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Share of net assets	**5,171,910**	5,024,670
Goodwill	**26,333**	26,333
	5,198,243	5,051,003

	Six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
At 1 January	**5,051,003**	3,327,990
Additions	**20,000**	36,750
Share of results	**328,654**	238,460
Unrealised loss on transactions with associates	**12,173**	9,764
Share of other comprehensive loss	**(2,145)**	2,843
Share of changes in equity other than comprehensive income/ (loss) and distributions received from associates	**47,947**	–
Other changes in an investment in an associate	**(18,073)**	–
Dividends declared by associates attributable to the Group	**(241,316)**	(104,570)
Reclassification to investments in subsidiaries upon transfer of control to the Group	**–**	(10,873)
At 30 June	**5,198,243**	3,500,364

16. 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 activities
			30 June 2018	31 December 2017	
Shanghai Modern Pharmaceutical Co., Ltd. (上海現代製藥股份有限公司)	Ordinary shares of RMB1 each	Mainland China	**19.13% (i)**	18.56%	Pharmaceutical manufacturing

(i) 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 period ended 30 June 2018.

In 2016, the Company disposed of a 51% equity interest in Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd. ("**Zhijun Pharmaceutical**"), a 51% equity interest in Shenzhen Zhijun Pharmaceutical Trade Co., Ltd. ("**Zhijun Pharmaceutical Trade**") and a 51% equity interest in Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd. ("**Pingshan Pharmaceutical**"), and Pingshan Base to Shanghai Modern Pharmaceutical Co., Ltd. ("**Modern Pharmaceutical**") for an aggregate consideration of approximately RMB2,511,323,000, which shall be satisfied by issuance of 86,418,532 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 Zhijun Pharmaceutical, Zhijun Pharmaceutical Trade and Pingshan Pharmaceutical. As Zhijun Pharmaceutical, Zhijun Pharmaceutical Trade and Pingshan Pharmaceutical did not achieve the profit target during the current year, the Company shall compensate Modern Pharmaceutical 3,872,786 consideration shares. Then, the Company recognised a decrease in equity attributable to owners of the parent of RMB18,073,000.

During the reporting period, Modern Pharmaceutical was compensated 48,901,158 consideration shares from other equity holders. Thus, the Company recognised an increase in equity attributable to owners of the parent of RMB47,947,000.

Due to above transactions, shareholding of the Group in Modern Pharmaceutical increased from 18.56% to 19.13%.

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.

16. 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 interim condensed consolidated financial statements:

	30 June 2018 RMB'000
Current assets	**8,210,662**
Non-current assets	**8,136,876**
Current liabilities	**(6,124,168)**
Non-current liabilities	**(2,190,226)**
Non-controlling interests	**(1,502,385)**
Net assets	**6,530,759**
Reconciliation to the Group's interest in the associate:	
Proportion of the Group's ownership	**19.13%**
Carrying amount of the investment	**1,249,334**
Revenue	**5,853,255**
Profit for the period	**575,258**
Total comprehensive income for the period	**575,258**
Dividend received	**(9,598)**

17. Trade receivables

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Accounts receivable	**93,494,681**	64,443,680
Notes receivable	**7,249,698**	11,825,305
	100,744,379	76,268,985
Less: Provision for impairment	**(1,054,288)**	(740,126)
Trade receivables – net	**99,690,091**	75,528,859

The fair value of trade receivables approximates to their carrying amounts.

17. Trade receivables (continued)

Retail sales at the Group's medicine chain stores are generally made in cash or by debit or credit cards. For medicine distribution and medicine manufacturing businesses, sales are made on credit terms 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:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within 1 year	**98,826,670**	75,217,475
1 to 2 years	**805,674**	263,405
Over 2 years	**57,747**	47,979
	99,690,091	75,528,859

18. 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
As at 1 January 2018 and 30 June 2018	**2,767,095**	**1,574,284**	**1,192,811**	**2,767,095**
As at 1 January 2017 and 30 June 2017	2,767,095	1,574,284	1,192,811	2,767,095

19. Interest-bearing bank and other borrowings

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Non-current		
Bank borrowings	420,000	420,000
Borrowings from other financial institutions	31,600	31,600
Bond (i)	996,826	4,989,888
	1,448,426	5,441,488
Current		
Bank borrowings	30,070,771	22,951,008
Borrowings from other financial institutions	471,854	212,993
Bond (i)	15,989,018	6,998,907
	46,531,643	30,162,908
Total borrowings	47,980,069	35,604,396

Note:

(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 were expired 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. The corporate bonds were matured and were repaid in 2018.

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 30 June 2018, the corporate bonds were reclassified as current liabilities.

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%. The bonds matured and were repaid in 2018.

19. Interest-bearing bank and other borrowings (continued)

Note: (continued)

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 30 June 2018, the corporate bonds were classified as non-current liabilities.

On 8 February 2018, the Company issued 20,000,000 units of bonds at a total par value of RMB2,000,000,000. After deduction of the expenses of approximately RMB2,325,000 in relation to the issuance, the total net proceeds were approximately RMB1,997,675,000. The bonds will mature 270 days from the issue date (i.e., 5 November 2018), and the annual interest rate was 4.70%. As at 30 June 2018, the corporate bonds were classified as current liabilities.

On 9 February 2018, the Company issued 20,000,000 units of bonds at a total par value of RMB2,000,000,000. After deduction of the expenses of approximately RMB1,693,000 in relation to the issuance, the total net proceeds were approximately RMB1,998,307,000. The bonds will mature 180 days from the issue date (i.e., 8 August 2018), and the annual interest rate was 4.70%. As at 30 June 2018, the corporate bonds were classified as current liabilities.

On 2 March 2018, 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 RMB3,233,000 in relation to the issuance, the total net proceeds were approximately RMB3,996,767,000. The bonds will mature 180 days from the issue date (i.e., 29 August 2018), and the annual interest rate was 4.89%. As at 30 June 2018, the corporate bonds were classified as current liabilities.

On 8 March 2018, 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 RMB4,753,000 in relation to the issuance, the total net proceeds were approximately RMB3,995,247,000. The bonds will mature 270 days from the issue date (i.e., 3 December 2018), and the annual interest rate was 4.98%. As at 30 June 2018, the corporate bonds were classified as current liabilities.

At the end of respective reporting period, borrowings were repayable as follows:

	Bank and other borrowings		Bonds	
	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)	**30 June 2018 RMB'000 (Unaudited)**	31 December 2017 RMB'000 (Audited)
Within 1 year	**30,542,625**	23,164,001	**15,989,018**	6,998,907
Between 1 to 2 years	**301,600**	250,000	**–**	3,993,862
Between 2 to 5 years	**150,000**	201,600	**996,826**	996,026
	30,994,225	23,615,601	**16,985,844**	11,988,795

20. Deferred income tax

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Deferred tax assets	**903,426**	836,511
Deferred tax liabilities	**(655,601)**	(666,872)
	247,825	169,639

The gross movements in deferred tax assets and liabilities are as follows:

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
At 1 January	**169,639**	189,880
Acquisition of subsidiaries (Note 25)	**(34,147)**	(33,374)
Credited/(charged) to consolidated statement of profit or loss (Note 12)	**108,515**	(6,199)
Credited to other comprehensive income	**4,209**	1,108
(Charged)/credited to capital surplus	**(391)**	1,411
At 30 June	**247,825**	152,826

21. Post-employment benefit obligations

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

The amounts recognised in the consolidated statement of profit or loss are as follows:

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Current service cost	**1,666**	2,890
Past service cost	**322**	(25,225)
Interest expense	**6,898**	8,133
	8,886	(14,202)

21. Post-employment benefit obligations (continued)

The amounts recognised in the consolidated statement of financial position are analysed as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Present value of funded obligations	11,064	11,066
Fair value of plan assets	(63,217)	(56,572)
Surplus of funded plans	(52,153)	(45,506)
Present value of unfunded post-employment benefit obligations	402,426	404,401
Liability in the consolidated statement of financial position	350,273	358,895

The movements in the defined benefit liability during the period were as follows:

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
At 1 January	358,895	518,353
Charged/(credited) to consolidated statement of profit or loss	8,886	(14,202)
Remeasurements of post-employment benefit obligations recognised in the consolidated statement of other comprehensive income	10,382	(12,005)
Contributions by employers and benefit payments	(27,890)	(32,165)
At 30 June	350,273	459,981

22. Other non-current liabilities

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Medical reserve funds		
– general (i)	**408,870**	419,920
– for H1N1 vaccines	**68,407**	68,407
Government grants for construction of logistic centers (ii)	**94,007**	98,783
Government grants for products development	**1,209**	1,454
Deferred revenue	**176,266**	214,339
Finance lease payables	**109,922**	83,614
Others	**31,735**	39,298
	890,416	925,815

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 RMB16,950,000 during the six months ended 30 June 2018 from CNPGC.

The Group will have to sell pharmaceutical products to specific customers at cost when there are any serious disasters, epidemic 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. RMB28,000,000 was written-off with the government's approval due to the expiry of relevant medicines during the six months ended 30 June 2018. 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 30 June 2018, the directors expected that the construction will not be completed within one year and therefore, the balance was recorded as other non-current liability.

23. Trade payables

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Accounts payable	**56,955,645**	51,634,332
Notes payable	**15,869,192**	14,978,447
	72,824,837	66,612,779

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.

The ageing analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Below 3 months	**46,389,550**	49,133,927
Between 3 to 6 months	**13,951,208**	11,665,398
Between 6 months to 1 year	**9,925,582**	3,945,713
Between 1 to 2 years	**1,716,480**	1,207,793
Over 2 years	**842,017**	659,948
	72,824,837	66,612,779

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

During the six months ended 30 June 2018, accounts payable of RMB1,184,127,000 were repaid by the banks under this program with the equivalent amount drawn as borrowings As at 30 June 2018, the balance of bank borrowings related to this program was RMB80,283,000 (31 December 2017: RMB166,835,000).

24. Transactions with non-controlling interests

(a) Acquisition of additional interests in subsidiaries

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

Subsidiaries	Equity interests acquired %	Cash consideration RMB'000
Beijing Tianxinpuxin Bio-Medicine Co., Ltd.	4.00%	85,731
Sinopharm Holding Dalian Pengrun Co., Ltd.	36.29%	40,645
Sinopharm Pharmaceutical Beijing Medical Technology Co., Ltd.	19.00%	951
Sinopharm Holding Nanping Co., Ltd.	40.00%	7,294
		134,621

The effect of changes in the equity interests of these subsidiaries on the total equity attributable to owners of the parent during the period is summarised as follows:

	Effect on the total equity RMB'000
Carrying amount of non-controlling interests acquired	51,836
Consideration payable to non-controlling interests	134,621
Excess of consideration paid over the carrying amount acquired	82,785

(b) Disposal of interests in subsidiaries without loss of control

During the reporting period, Sinopharm Group Nanping NewPower Co., Ltd. obtained a capital injection from a non-controlling shareholder amounting to RMB6,120,000. The shareholding of the non-controlling interests in Sinopharm Group Nanping NewPower Co., Ltd. increased by 9% and the carrying amount increased by RMB3,684,000. The Group recognised an increase in equity attributable to owners of the parent of RMB2,436,000.

During the reporting period, Sinopharm Jienuo Medical Treatment Service Wenzhou Co., Ltd. obtained a capital injection from a non-controlling shareholder amounting to RMB10,978,000. The shareholding of the non-controlling interests in Sinopharm Jienuo Medical Treatment Service Wenzhou Co., Ltd. increased by 32.5% and the carrying amount increased by RMB6,649,000. The Group recognised an increase in equity attributable to owners of the parent of RMB4,329,000.

24. Transactions with non-controlling interests (continued)

(c) Effect of transactions with the non-controlling interests on the total equity for the six months ended 30 June 2018

	Effect on the total equity RMB'000
Changes in total equity arising from:	
– acquisition of additional interest in subsidiaries	82,785
– disposal of interests in subsidiaries without loss of control	(6,765)
Net effect for transactions with the non-controlling interests on equity attributable to owners of the parent	76,020

25. Business combinations not under common control

Acquisitions during the period are as follows:

The Group acquired equity interests from independent third parties in certain subsidiaries which are mainly engaged in distribution of medicines and pharmaceutical products and operation of pharmaceutical chain stores to expand the market share of the Group. The subsidiaries acquired by the Group during the period are as follows:

Subsidiaries acquired	Acquisition date	Acquired interests
Sinopharm Holding Heze Co., Ltd.	January, 2018	80.00%
Sinopharm Holding Tonghua Co., Ltd.	February, 2018	70.00%
Xinjiang Lisheng Medicines and Herbs Co., Ltd.	March, 2018	51.00%
Xinjiang Haoyouduo Medical Chains Co., Ltd.	March, 2018	100.00%
Yining Kangzhuo Pharmaceutical Co., Ltd.	March, 2018	100.00%
Sinopharm Holding Guorun Medical Supply Chain Service (Anhui) Co., Ltd.	April, 2018	70.00%
Sinopharm Holding Wende Pharmaceutical (Nanjing) Co., Ltd.	April, 2018	51.00%
Sinopharm Holding Guangzhou Huadu Co., Ltd.	April, 2018	70.00%
Sinopharm Holding Zhihui Minsheng (Tianjin) Pharmaceutical Co., Ltd.	May, 2018	60.00%
Lanzhou Shengyuan Medicine Co., Ltd.	May, 2018	70.00%

25. Business combinations not under common control (continued)

The effect of the above acquisitions is summarised as follows:

	RMB'000
Purchase consideration	
– Cash paid	164,387
– Contingent consideration (i)	129,980
Total purchase consideration	294,367

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

	Fair values at acquisition dates RMB'000
Cash and cash equivalents	148,199
Property, plant and equipment (Note 15)	40,141
Intangible assets (Note 15)	136,125
Deferred tax assets (Note 20)	888
Inventories	119,560
Trade and other receivables	523,177
Trade and other payables	(561,219)
Dividends payable	(11,984)
Interest-bearing bank and other borrowings	(29,850)
Deferred tax liabilities (Note 20)	(35,035)
Net assets	330,002
Non-controlling interests (ii)	(139,091)
Goodwill (Note 15)	103,457
Negative goodwill	(1)
	294,367
Total purchase consideration	294,367
Less: Contingent consideration (i)	(129,980)
Cash consideration paid during the period	164,387
Cash and cash equivalents in subsidiaries acquired	(148,199)
Cash outflow on acquisition	16,188

25. 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 acquisition, the Group is required to pay contingent consideration based on achievement of profit target of the acquirees. The maximum undiscounted contingent consideration payable is RMB129,980,000.

Based on the projected profit performance of the acquirees, the fair value of the contingent consideration arrangement was estimated to be RMB129,980,000. As at 30 June 2018, 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 acquirees' net assets excluding goodwill.

(iii) The revenue and net profit attributable to owners of the parent of these newly acquired subsidiaries from the respective acquisition dates to 30 June 2018 are summarised as follows:

	From acquisition dates to 30 June 2018 RMB'000 (Unaudited)
Revenue	279,087
Net profit	10,124

26. Commitments

(a) Capital commitments

Capital expenditures at the end of the reporting period are as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Property, plant and equipment:		
– contracted but not provided for	**269,182**	1,528,630

26. Commitments (continued)

(b) Operating lease commitments

(i) The Group as lessee:

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within 1 year	**789,498**	816,749
Later than 1 year and not later than 5 years	**1,675,818**	1,545,697
Later than 5 years	**937,063**	931,495
	3,402,379	3,293,941

(ii) The Group as lessor:

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within 1 year	**61,718**	15,456
Later than 1 year and not later than 5 years	**87,880**	73,415
Later than 5 years	**29,809**	35,249
	179,407	124,120

27. 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.

27. Significant related party transactions (continued)

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

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

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
CNPGC and subsidiaries of CNPGC		
Sale of goods	**320,003**	318,211
Purchase of goods	**1,481,318**	891,601
Rental expenses	**4,986**	4,170
Interest expenses	**65,965**	51,439
Borrowings	**1,282,348**	480,000
Notes receivable discount	**1,334,693**	790,793
Associates of the Group		
Sale of goods	**258,352**	324,828
Purchase of goods	**1,333,967**	1,116,019
Interest expenses	**2,636**	540
Borrowings	**18,867**	54,000
Associates of CNPGC		
Sale of goods	**442**	166
Purchase of goods	**705,357**	594,058
The subsidiaries of entity which has significant influence over the Company		
Sale of goods	**90,044**	69,238
Purchase of goods	**1,074,486**	689,076

27. Significant related party transactions (continued)

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
CNPGC and subsidiaries of CNPGC		
Cash in other financial institution	385,142	3,483,463
Trade receivables	171,559	185,439
Other receivables	262,572	313,705
Prepayments	153,292	124,223
Trade payables	878,308	225,082
Other payables	338,172	378,326
Advances from customers	223	580
Borrowings	484,587	229,316
Associates of the Group		
Trade receivables	63,099	77,627
Other receivables	50,580	46,579
Prepayments	5,853	3,829
Trade payables	529,609	578,143
Other payables	390,485	422,171
Borrowings	18,867	15,277
Associates of CNPGC		
Trade receivables	232	42
Other receivables	26	81
Prepayments	10,486	9,327
Trade payables	189,347	172,990
Advances from customers	–	1,804
The subsidiaries of entity which has significant influence over the Company		
Trade receivables	66,148	39,737
Other receivables	309	449
Prepayments	61,973	134,306
Trade payables	412,277	276,740
Other payables	1,431	77
Advances from customers	64	79

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

(iii) Key management compensation

The compensation of key management is on an annual basis and still in approval process.

28. 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 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 H 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.

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.

In June 2018, due to resignation of certain Scheme Participants, a total number of 200,000 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.

28. Share incentive scheme (continued)

Conditions for unlocking the Initial Grant

Pursuant to 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; 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; 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; 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; 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; 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; 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%

28. Share incentive scheme (continued)

Particulars and movements in the share incentive scheme are as follows:

Date of grant	As at 1 January 2018	Granted	Vesting	Bonus issue	Forfeited	Lapsed/ expired	As at 30 June 2018
16 November 2016	6,340,000	–	–	–	(200,000)	–	6,140,000

The fair value of the Restricted shares granted was calculated based on the market price of the Company's shares at the grant date. The Group recognised expenses relating to the Scheme of approximately RMB13,591,000 in the condensed consolidated statement of profit or loss during the period.

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 30 June 2018 ('000)	5,470.00	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

29. Material Subsequent Events

Sinopharm Holding Guoda Drug Store Co., Ltd., a subsidiary of the Group, has obtained the record-filing receipt for the incorporation of foreign-invested enterprises issued by Shanghai Jingan District Municipal Commission of Commerce and has completed registration processes with relevant industrial and commercial administration on 28 June 2018. Sinopharm Holding Guoda Drug Store Co., Ltd., changed from a wholly-owned subsidiary of China National Accord Medicines Co., Ltd. to a foreign joint venture. Registered capital of Sinopharm Holding Guoda Drug Store Co., Ltd., became RMB1,683,333,000, China National Accord Medicines Co., Ltd. contributed RMB1,010,000,000 and held 60% interests; Walgreens Boots Alliance (Hong Kong) Investments Limited contributed RMB673,333,000 and held 40% interests.

On 11 July 2018, the Company and CNPGC entered into an agreement on asset purchase by issue of shares (the "**Asset Purchase Agreement**"), pursuant to which the Company agreed to acquire, and CNPGC agreed to sell the 60% equity interest in China National Scientific Instruments and Materials Co. Ltd. (the "**Target Company**") held by CNPGC, at a consideration of RMB5,107,890,720, which will be satisfied by issue of 204,561,102 domestic shares by the Company to CNPGC under general mandate at the issue price of RMB24.97 per consideration share. Upon completion of the acquisition, the Target Company will become a subsidiary of the Company. The Company will convene an extraordinary general meeting on 21 September 2018 for the purpose of, among other things, obtaining the independent shareholders' approval for the Asset Purchase Agreement as well as the transactions contemplated thereunder.

30. Approval of the financial statements

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 24 August 2018.