FOSUN PHARMA

上海復星醫藥(集團)股份有限公司
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.*

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

Stock Code: 02196

ANNUAL REPORT 2018

Innovation for good health 持續創新 樂享健康

*For identification purposes only

Our Vision

Dedicate to become a first-tier enterprise in the global mainstream pharmaceutical and healthcare market.

Our Mission

We continuously enhance the capabilities for innovation, service, integration and international operations to efficiently operate, manage and invest in outstanding enterprises in the industry so that we can become a leading provider of healthcare products and services.

Contents

Corporate Information

Directors

Executive Directors

Mr. Chen Qiyu (陳啟宇) *(Chairman)*
Mr. Yao Fang (姚方) *(Co-Chairman)*
Mr. Wu Yifang (吳以芳)
(President and Chief Executive Officer)

Non-executive Directors

Mr. Wang Qunbin (汪群斌)
Mr. Wang Can (王燦)
Ms. Mu Haining (沐海寧)[1]
Mr. Zhang Xueqing (張學慶)[1]
Mr. Guo Guangchang (郭廣昌)[2]
Ms. Kang Lan (康嵐)[2]

Independent Non-executive Directors

Mr. Cao Huimin (曹惠民)
Mr. Jiang Xian (江憲)
Dr. Wong Tin Yau Kelvin (黃天祐)
Mr. Wai Shiu Kwan Danny (韋少琨)

Supervisors

Ms. Ren Qian (任倩) *(Chairman)*[3]
Mr. Cao Genxing (曹根興)
Mr. Guan Yimin (管一民)
Mr. Li Chun (李春)[4]

Joint Company Secretaries

Ms. Dong Xiaoxian (董曉嫻)
Ms. Lo Yee Har Susan (盧綺霞)

Authorized Representatives

Mr. Chen Qiyu (陳啟宇)
Ms. Lo Yee Har Susan (盧綺霞)

Strategic Committee

Mr. Chen Qiyu (陳啟宇) *(Chairman)*
Mr. Yao Fang (姚方)
Mr. Wu Yifang (吳以芳)[5]
Mr. Wang Qunbin (汪群斌)
Mr. Wai Shiu Kwan Danny (韋少琨)
Mr. Guo Guangchang (郭廣昌)[2]

Audit Committee

Mr. Cao Huimin (曹惠民) *(Chairman)*
Mr. Jiang Xian (江憲)
Mr. Wang Can (王燦)

Nomination Committee

Mr. Jiang Xian (江憲) *(Chairman)*
Mr. Cao Huimin (曹惠民)
Ms. Mu Haining (沐海寧)[1]
Ms. Kang Lan (康嵐)[2]
Mr. Chen Qiyu (陳啟宇)[6]

Remuneration and Appraisal Committee

Dr. Wong Tin Yau Kelvin (黃天祐) *(Chairman)*
Mr. Cao Huimin (曹惠民)
Mr. Jiang Xian (江憲)
Mr. Chen Qiyu (陳啟宇)
Ms. Mu Haining (沐海寧)[1]
Ms. Kang Lan (康嵐)[2]
Mr. Wang Can (王燦)[6]

1 Appointed on 27 June 2018
2 Resigned on 26 March 2018
3 Appointed on 11 January 2018
4 Retired on 11 January 2018
5 Appointed on 26 March 2018
6 Served from 26 March 2018 and 27 June 2018

Corporate Information

Registered Office

9th Floor, No. 510 Caoyang Road
Putuo District
Shanghai, 200063, China

Principal Place of Business in the PRC

Building A
No. 1289 Yishan Road
Shanghai, 200233, China

Principal Place of Business in Hong Kong

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Legal Advisers in Hong Kong

Reed Smith Richards Butler

Legal Advisers in the PRC

Grandall Law Firm (Shanghai)

Auditors

Ernst & Young

Principal Banks

China Merchants Bank
Bank of China
HSBC
Bank of Beijing
Agricultural Bank of China
Shanghai Pudong Development Bank
The Industrial and Commercial Bank of China
The Export-Import Bank of China
China Development Bank
Postal Savings Bank of China
Standard Chartered Bank

Corporate Name

Shanghai Fosun Pharmaceutical (Group) Co., Ltd.

Stock Abbreviation

FOSUN PHARMA

Share Listing

A Share: Shanghai Stock Exchange
Stock Code: 600196
H Share: The Stock Exchange of Hong Kong Limited
Stock Code: 02196

Corporate Information

A Share Registrar and Transfer Office in the PRC

China Securities Depository & Clearing Corporation Limited
(CSDCC) Shanghai Branch
China Insurance Building
166 East Lujiazui Road
Pudong District
Shanghai, China

H Share Registrar and Transfer Office in Hong Kong

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Corporate Website

http://www.fosunpharma.com

Financial Highlights

	2018 RMB million	2017 RMB million
Operating results		
Revenue	**24,714**	18,362
Gross profit	**14,349**	10,753
Operating profit	**2,091**	2,162
Profit before tax	**3,580**	4,062
Profit for the year attributable to owners of the parent	**2,708**	3,124
Profitability		
Gross margin	**58.06%**	58.56%
Operating profit margin	**8.46%**	11.77%
Profit margin for the year	**12.22%**	19.53%
Earnings per share (RMB)		
Earnings per share — basic	**1.07**	1.27
Earnings per share — diluted	**1.07**	1.27
Assets		
Total assets	**70,494**	61,914
Equity attributable to owners of the parent	**27,921**	25,270
Total liabilities	**36,959**	32,230
Cash and bank balances	**8,547**	7,249
Debt-to-asset ratio	**52.43%**	52.06%
Of which: Pharmaceutical manufacturing and R&D segment		
Segment revenue	**18,499**	13,043
Segment gross profit	**11,977**	8,612
Segment results	**1,785**	1,860
Segment profit for the year	**1,755**	1,838

Chairman's Statement

Dear Shareholders,

In 2018, amidst the situation that was full of challenges and uncertainties in the economies of the world and the PRC, there was ongoing further reform of the medical system in the PRC. The pharmaceutical manufacturing industry grew at a steady pace, while the research of innovative drugs enjoyed a period of rapid development, and medical devices and medical diagnosis benefited from the policies with opportunities for rapid development. With a strong demand for healthcare services and the gradual adjustment in the industry structure, the layout of healthcare service resources became more reasonable. During the Reporting Period, the Group adhered to its business philosophy of "Innovation for Good Health", focused on its core pharmaceutical and healthcare businesses, continued to develop product innovation and improve management as well as international development, actively promoted the strategies of organic growth, external expansion and integrated development, thereby maintaining the balanced growth of its principal businesses.

Mr. Chen Qiyu
Chairman

2018 Review

During the Reporting Period, the revenue of the Group increased by 34.59% as compared to 2017 to RMB24,714 million, and excluding the impacts of the contributions from the new acquisition of enterprises in 2018 and the acquisitions of enterprises in 2017 for comparison purpose, revenue would have increased by 20.44% on the same basis as compared to 2017. The revenue from pharmaceutical manufacturing and research and development (R&D) segment of the Group amounted to RMB18,499 million, representing an increase of 41.83% as compared to 2017, and 24.94% on the same basis as compared to 2017. The revenue from healthcare service business amounted to RMB2,555 million, representing an increase of 22.42% as compared to 2017. The revenue from medical devices and medical diagnosis amounted to RMB3,627 million, representing an increase of 13.20% as compared to 2017.

During the Reporting Period, the Group recorded revenue of RMB18,808 million in Mainland China, representing an increase of 25.29% as compared to 2017. The Group recorded revenue of RMB5,906 million in foreign countries or regions, representing an increase of 76.26% as compared to 2017. The proportion of the Group's overseas revenue was 23.90%, representing an increase of 5.65 percentage points as compared to 2017.

Gland Pharma, which was acquired by the Group in 2017, was under solid operation. During the Reporting Period, it benefited from the growth of major products such as vancomycin, enoxaparin injection and caspofungin and recorded an increase in revenue by 26.62% as compared to 2017, and its net profit increased by 39.92% as compared to 2017 (based on the financial statements of Gland Pharma in domestic currency and not taking into account the effects of amortization of appreciation from assets evaluation).

Sales grew during the Reporting Period and the receivables' collection was good, while cash flow from operating activities continued to show a rising trend. In 2018, net cash flow from operating activities amounted to RMB2,950 million, representing an increase of 14.34% as compared to 2017.

In order to leverage its competitive strengths, the R&D projects of the Group continued to focus on therapeutic areas including antitumor, cardiovascular system, central nervous system, blood system, metabolism and alimentary system and anti-infection, and the major products had gained a leading position in their respective market segments. In 2018, there were 29 formulation items or series in the pharmaceutical manufacturing segment of the Group that each recorded revenue of over RMB100 million, of which there were 2 formulation items or series with recorded sales of over RMB1,000 million, 7 formulation items or series with recorded sales between RMB500 million and RMB1,000 million, and 5 formulation items or series with recorded sales between RMB300 million and RMB500 million.

The Group has developed internationalized R&D structure and strong R&D capabilities through the establishment of interactive and integrated R&D systems in China, the U.S., India and other countries, establishing efficient and innovative chemical drugs platform, biopharmaceutical drugs platform, platform for generic drugs with high value and cell-mediated immunity platform. As at the end of the Reporting Period, there were nearly 2,000 staff members in the R&D team, representing approximately 5% of the total number of employees in the Group. Among the 215 pipeline drugs, generic drugs, biosimilars and consistency evaluation projects (including 15 small molecular innovative drugs, 10 biopharmaceutical innovative drugs, 17 biosimilars, 117 generic drugs of international standards, 54 consistency evaluation projects and 2 traditional Chinese medicine drugs), 3 filed applications for clinical trials, 42 were undergoing clinical trials, and 29 were pending for marketing approval. During the Reporting Period, the Group focused on increasing its R&D expenditures in monoclonal antibody biopharmaceutical innovative drugs and biosimilars and small molecular chemistry innovative drugs, and systematically pushed forward consistency evaluation of generic drugs. As at the end of the Reporting Period, 9 small molecular chemistry innovative drug products (including 1 improved new drug) and 9 indications had obtained approval for clinical trial in Mainland China; 13 monoclonal antibody products and 1 combo completed application for the clinical trial of 22 indications, and obtained 27 approvals for clinical trial in the world. During the Reporting Period, a total of 5 generic drugs from Gland Pharma received approval for sale from U.S. FDA, and 9 products including amlodipine besylate tablets (Shi Li Da), escitalopram tablets (Qi Cheng) and alfacalcidol tablets (Li Qing) passed the consistency evaluation of generic drugs. It is expected that these pipeline products as well as the generic drugs approved in consistency evaluation will provide a solid foundation to maintain sustainable development of the Group in the future.

Chairman's Statement

While continuously improving its innovative and R&D capabilities, the Group transformed into a company with new and globally advanced technology through a variety of cooperations, including setting up joint ventures and technology innovation incubation platforms, exploring innovative research and development under partnership and adopting technology introduction, patent licensing, deep incubation and value management models to access new and globally advanced technology, which facilitate the global development of advanced products and in turn so as to facilitate the connection between the Group and leading technology innovation projects worldwide, further propelling the innovation capacity and international operation progress of the Group.

During the Reporting Period, the Group maintained healthy development of the healthcare services business through continuous promotion of specialties layout at medical institutions. Through internal integration and external expansion, the Group also established regional medical centers and a supply chain spanning major health industries. As at the end of the Reporting Period, the Group has completed the preliminary strategic deployment of its healthcare services with high-end healthcare institutions in the more developed coastal cities and specialty and general hospitals in second-tier and third-tier cities in the PRC, and has completed the industrial layout of key discipline planning, specialty hospitals and third-party diagnosis on the provincial, municipal and regional level. The Group continued with the enhancement and optimization of medical professionals, including healthcare staff, nursing staff and technicians, as well as the management system and framework of functions such as finance, EHS, procurement and infrastructure, enabling the healthcare service to sustain improvement in business development, management efficiency, control on procurement cost and information technology system with further improving efficiency in asset management.

According to its strategy, the Group mainly develops its pharmaceutical manufacturing and R&D as well as healthcare services segments. It also maintains its long-term investment in Sinopharm. The pharmaceutical manufacturing and R&D as well as medical devices and medical diagnosis segment of the Group are in a leading position in the industry. The healthcare services business of the Group also took the lead in terms of business development and integration capability in the industry. The core competitiveness of the Group can be reflected in its multi-layered product lines, strong R&D capability, highly standardized production management capability, high-quality service capability, professional marketing capability and international business development and integration capability, as well as the capability of constructing a global manufacturing and supply chain with cost advantages.

In addition, the Group's capabilities in investment, merger and acquisition activities and consolidation have been widely recognized in the pharmaceutical industry, providing a solid foundation for the Group to make a leap-forward development in the future. The dual listing status creates favorable conditions for the Group to rapidly expand its scale of operation and enhance its competitiveness through merger and acquisition activities.

In order to maintain its continuous growth, the Group will continue to follow the direction of China's Thirteenth Five-year Plan in relation to the pharmaceutical industry, take advantage of its competitive strengths and adhere to the strategies of organic growth, external expansion and integrated development.

Technology
Innovation

OUTLOOK

In 2019, the pharmaceutical and healthcare industry of China enters into a stage of crucial transformation, presenting both opportunities and challenges. In terms of market demand and payment, three factors are driving the continuous development of the pharmaceutical industry in China, namely, the accelerated aging process in the country, the government's investment in the pharmaceutical and health industry, which is continuously increasing, and the increase in per capita disposable income. Moreover, the prevalence of geriatric diseases, chronic diseases, cancer and autoimmune diseases will grow continuously in the foreseeable future. There are many patients' needs to be met. These drivers will continue to exist and push the industry to develop at a pace faster than the GDP growth. In terms of industry structure, strategic emerging industries are led and encouraged by the State to undergo industrial upgrade and structural optimization, under which, affordable and quality generic drugs as well as high-value innovations based on clinical needs will become the development trend of the pharmaceutical industry. In terms of national policies, a series of policies and their implementation promoted the structural optimization and innovative transformation of enterprises at home, including the introduction of industry policies relating to various rare diseases, the continuous acceleration and deepening of policy reforms relating to medical review and approval, the acceleration and promotion of consistency evaluation relating to oral and injectable drugs, and the releases of the updated National Essential Medicine List in 2018. The Outline of the 13th Five-Year Plan for the national pharmaceutical industry was formulated and released, putting forward higher requirements for the overall industrial structure. Pharmaceutical enterprises with advantages in scale, technology, brand name and marketing are provided an unprecedented opportunity for development. From the perspective of this particular industry condition, the industry background of co-existing challenges and opportunities will remain unchanged in the future.

In terms of challenges, on the one hand, the consistent concern about the drug quality, system standards and standardized operation of pharmaceutical enterprises from the government, especially the increasingly demanding specifications and requirements on pharmaceutical distribution channels and marketing environment, have procured the industry to be more regulated, standardized and efficient, which may bring great pressure and challenges for certain enterprises in China in the short term. However, in the long run, such efforts will facilitate the upgrading of the entire industrial structure and the further concentration of industry. The accelerated implementation of regulation and control over prices and classification of pharmaceutical products, reform of the medical insurance payment system and the implementation of the centralized pharmaceutical procurement system will pose greater challenges to the overall cost and quality control capabilities of pharmaceutical companies, at the same time promoting the integration progress of the pharmaceutical industry in the country. The level of industrial concentration will rapidly increase by way of acquisition and reorganization. On the other hand, as relatively greater uncertainties lurk within the global economy and international environment, the international expansion of domestic enterprises will be subject to various challenges. However, it will be difficult for the trend of transnational information, technology, talents and capital flows to change in the long run, which presents opportunities for the rapid development of PRC companies with capabilities to innovate independently and carry out international expansion. While facing with favorable capital market conditions and product market opportunities, the international expansion of PRC pharmaceutical enterprises is also consistent with the policy directions of the government's industry plans.

In terms of opportunities, the innovation capacity of enterprises will have rapid development. In particular, some quality pharmaceutical enterprises will realize the market value of their excellent R&D results built up during the Twelfth Five-year Plan period, thus further encouraging domestic pharmaceutical enterprises to increase R&D expenditures and develop high-value-added industry. Besides, in view of the international market, the pace of international development of the domestic pharmaceutical industry as a whole has accelerated. Various quality products have obtained approvals for market access in Europe, the U.S., Japan and other developed countries. The international and global development of PRC pharmaceutical enterprises significantly accelerates, which is in line with the overall policy direction of the government's industry plans.

At the same time, the healthcare services segment in China will further open up and the participation in the segment by social enterprises has been highly encouraged, such as by further opening up market access, encouraging social enterprises to enter into the healthcare services sector and streamlining administrative review procedures for the provision of private healthcare. In addition, the restrictions on approvals and review of multiple practices have been further reduced, and the purchase approval of basic medical insurance has also been gradually loosened. The Group has entered the healthcare services segment since 2009 and is accelerating its deployment of the medical services network while accumulating operation and management experience in medical services.

The Board is of the opinion that the Group, as a pharmaceutical enterprise with a considerable size and being the pioneer pharmaceutical and healthcare group to develop internationally with the use of internet technology while creating product competitiveness, will continue to strengthen its business operation and invest more resources to support product innovation and market expansion. At the same time, the Group will continue to proactively carry out mergers and acquisitions in therapeutic areas with greater unmet needs, and steadily increase its production capabilities to continuously enhance its competitiveness in the market. As for the healthcare service sector, the Group will seize the opportunities and speed up its expansion amid the favorable policies.

I would like to express my sincere gratitude to all Shareholders, members of the Board, the management, employees and business partners of the Group.

Mr. Chen Qiyu
Chairman

25 March 2019

Management Discussion and Analysis

FINANCIAL REVIEW

During the Reporting Period, the audited annual results and the summary of basic financial results prepared by the Group in accordance with HKFRS are as follows:

During the Reporting Period, revenue of the Group amounted to RMB24,714 million, representing an increase of 34.59% as compared to 2017, which was mainly attributable to the revenue growth of core products, contributions from the newly acquired enterprises and expansion of healthcare services business.

During the Reporting Period, the Group recorded profit before tax of RMB3,580 million and profit attributable to owners of the parent of RMB2,708 million, representing a decrease of 11.87% and 13.33%, respectively, as compared to 2017. The decrease was mainly due to the reduction in extraordinary gains as a result of less gain from asset disposals during the Reporting Period, and affected by changes in ordinary gains. The decrease in ordinary gains as compared to 2017 was mainly affected by the increased investment in innovative R&D and improved business layout, as well as the deficit in certain associates and joint ventures, the increase in interest expenses, the expenses charged during the Reporting Period in respect of the employee share incentive scheme implemented by Shanghai Henlius', a controlling subsidiary of the Company, the decrease in the profits of Aohong Pharma, a controlling subsidiary, and the provision for goodwill impairment of Breas, a controlling subsidiary, amounting to RMB80 million during the Reporting Period and other factors.

During the Reporting Period, earnings per share of the Group decreased by 15.75% to RMB1.07 compared to 2017.

REVENUE

During the Reporting Period, the revenue of the Group increased by 34.59% as compared to 2017 to RMB24,714 million, and excluding the impacts of new acquisition of enterprises such as Gland Pharma as comparable factors, the revenue would have increased by 20.44% on the same basis as compared to 2017. During the Reporting Period, the Group recorded revenue of RMB18,808 million in Mainland China, representing an increase of 25.29% as compared to 2017. The Group recorded revenue of RMB5,906 million in foreign countries or regions, representing an increase of 76.26% as compared to 2017. The growth in revenue from foreign countries or regions further increased.

During the Reporting Period, the pharmaceutical manufacturing and R&D segment of the Group generated revenue of RMB18,499 million, representing an increase of 41.83% as compared to 2017. Excluding the impacts of new acquisition of enterprises such as Gland Pharma as comparable factors, during the Reporting Period, the revenue of the pharmaceutical manufacturing and R&D segment increased by 24.94% on the same basis as compared with 2017. The revenue of major products in the pharmaceutical manufacturing and R&D segment for 2018 increased by 25.07% as compared to 2017. During the Reporting Period, the segment results and segment profit of the pharmaceutical manufacturing and R&D segment of the Group amounted to RMB1,785 million and RMB1,755 million respectively, representing a decrease of 4.05% and 4.51% as compared with 2017, respectively.

COST OF SALES

During the Reporting Period, cost of sales of the Group increased to RMB10,365 million from RMB7,609 million for 2017, representing an increase of 36.22% as compared to 2017.

GROSS PROFIT

Consistent with increased revenue and a smaller increase in cost of sales, during the Reporting Period, gross profit of the Group amounted to RMB14,349 million as compared to RMB10,753 million for 2017, representing an increase of 33.44% as compared to 2017. The gross margin of the Group for 2018 and 2017 were 58.06% and 58.56%, respectively. This year, the gross profit margin of the Group had a decrease of 0.50 percentage points as compared to 2017 primarily due to the impact of merger with Gland Pharma.

SELLING AND DISTRIBUTION EXPENSES

During the Reporting Period, the selling and distribution expenses of the Group amounted to RMB8,488 million, representing an increase of 46.57% as compared to RMB5,791 million for 2017. The change in selling and distribution expenses was mainly due to the adjustment to sales model of certain products, the preparations of sales team for products proposed to be launched, the market expansion in new and recent products, and the new acquisitions of enterprises during the Reporting Period.

R&D EXPENSES AND R&D EXPENDITURE

During the Reporting Period, the total R&D expenditure of the Group amounted to RMB2,507 million, representing an increase of RMB978 million or 63.92% as compared to 2017. In particular, the R&D expenses amounted to RMB1,480 million, representing an increase of RMB453 million or 44.14% as compared to 2017. The R&D expenditure in the pharmaceutical manufacturing segment amounted to RMB2,250 million, representing an increase of RMB975 million or 76.49% as compared to 2017, representing 12.0% of the revenue of the pharmaceutical manufacturing segment. In particular, R&D expenses amounted to RMB1,255 million, representing an increase of RMB456 million or 57.10% as compared to 2017, representing 6.7% of the revenue of the pharmaceutical manufacturing segment, mainly because the Group continued to increase its R&D investment in monoclonal antibody biopharmaceutical innovative drugs and biosimilars and small molecular innovative drugs, concentrated R&D expenditures in consistency evaluation and increase in R&D expenditure in innovation incubation platform.

SHARE OF PROFITS OF ASSOCIATES

During the Reporting Period, share of profits of associates of the Group amounted to RMB1,399 million from RMB1,367 million for 2017, representing an increase of 2.34% as compared to 2017, which was mainly due to the steady growth of Sinopharm Industrial, a principal associate, the losses in Fosun Kite, Intuitive Fosun and other newly established associates under the preliminary investment phase, the operating losses from similar R&D and other projects that the Group invested in early stages, the increase in the operating loss of United Family Hospital as the new hospitals in Pudong, Shanghai, Guangzhou and Beijing required more investments in early stages of construction, and other factors.

PROFIT FOR THE YEAR

Due to the above factors, profit for the Reporting Period of the Group amounted to RMB3,020 million from RMB3,585 million for 2017, representing an decrease of 15.76% as compared to 2017. Net profit margin of the Group for 2018 and 2017 were 12.22% and 19.53%, respectively.

PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT

During the Reporting Period, profit for the period attributable to owners of the parent of the Group amounted to RMB2,708 million from RMB3,124 million for 2017, representing a decrease of 13.33% as compared to 2017.

DEBT STRUCTURE, LIQUIDITY AND SOURCES OF FUNDS

Total Debts

As at 31 December 2018, total debts of the Group increased to RMB23,203 million from RMB20,287 million as at 31 December 2017 mainly due to the increase of bonds in issue during the Reporting Period. As at 31 December 2018, mid-to long-term debts of the Group accounted for 54.61% of its total debts, increasing by 6.22 percentage points as compared to 48.38% as at 31 December 2017. As at 31 December 2018, cash and bank balances amounted to RMB8,547 million from RMB7,249 million as at 31 December 2017, representing an increase of 17.91% as compared to 2017.

As at 31 December 2018, an equivalent amount of RMB11,186 million (31 December 2017: RMB11,372 million) out of the total debts of the Group was denominated in foreign currencies, and the remainder was denominated in RMB.

As at 31 December 2018, cash and bank balances of the Group denominated in foreign currencies amounted to RMB2,042 million (31 December 2017: RMB2,097 million).

Unit: million Currency: RMB

Cash and bank balances denominated in:	31 December 2018	31 December 2017
RMB	**6,506**	5,152
US dollars	**1,306**	1,259
HK dollars	**23**	210
Others	**712**	628
Total	**8,547**	7,249

Gearing Ratio

As at 31 December 2018, the gearing ratio, calculated as total interest-bearing bank and other borrowings over total assets, was 32.91%, as compared with 32.77% as at 31 December 2017.

Interest Rate

As at 31 December 2018, total interest-bearing bank and other borrowings at a floating interest rate amounted to RMB12,889 million (31 December 2017: RMB13,705 million).

Maturity Structure of Outstanding Debts

Unit: million Currency: RMB

	31 December 2018	31 December 2017
Within 1 year	**10,533**	10,472
1 to 2 years	**3,592**	4,524
2 to 5 years	**8,984**	5,197
Over 5 years	**94**	94
Total	**23,203**	20,287

AVAILABLE FACILITIES

As at 31 December 2018, save for cash and bank balances of RMB8,547 million, the Group had unutilized banking facilities of RMB26,694 million in aggregate. The Group has also entered into cooperation agreements with various major banks (the "Banks") in China. According to such agreements, the Banks have granted the Group with general banking facilities to support its capital requirements. The utilization of such bank facilities was subject to the approval of individual projects from the Banks in accordance with banking regulations in China. As at 31 December 2018, total available banking facilities under these arrangements were approximately RMB43,592 million in aggregate, of which RMB16,898 million had been utilized. The Company obtained approval from the CSRC for public issuance of corporate bonds in the amount of no more than RMB5,000 million to qualified investors on 5 February 2018. The approval is effective for a period of 24 months from the date on which the approval of the CSRC is obtained.

Collateral and Pledged Assets

As at 31 December 2018, the Group had placed the following assets as collateral for bank borrowings: property, plant and equipment amounting to RMB216 million (2017: RMB77 million) and prepaid land lease payments amounting to RMB30 million (31 December 2017: RMB30 million).

As at 31 December 2018, the Group had pledged the following for bank borrowings: the entire equity interest in Alma Lasers Ltd. and Alma Lasers Inc. held by the Group and Pramerica-Fosun China Opportunity Fund L.P. (31 December 2017: 268,371,532 shares in Guilin Pharma held by the Group and the entire equity interest in Alma Lasers Ltd. and Alma Lasers Inc. held by the Group and Pramerica-Fosun China Opportunity Fund L.P.). Details of the collateral and pledged assets are set out in note 31 to the financial statements.

Cash Flow

The cash of the Group is mainly used for meeting capital requirements, repaying interest and principal of debts due, paying for purchases and capital expenditures, and funding growth and expansion of facilities and businesses of the Group. The table below shows the cash flow of the Group generated from (or used in) operating activities, investing activities and financing activities for 2018 and 2017.

Unit: million Currency: RMB

	2018	2017
Net cash flows from operating activities	**2,950**	2,580
Net cash flows used in investing activities	**(5,245)**	(10,504)
Net cash flows from financing activities	**3,138**	9,909
Net increase/(decrease) in cash and cash equivalents	**825**	1,985
Cash and cash equivalents at the beginning of the year	**6,350**	4,538
Cash and cash equivalents at the end of the year	**7,175**	6,350

Capital Commitments and Capital Expenditures

During the Reporting Period, capital expenditures of the Group amounted to RMB3,317 million, which mainly consisted of additions to property, plant and equipment, other intangible assets and prepaid land lease payments exclusive of amounts due to new acquisition of subsidiaries. Details of capital expenditures are set out in note 4 to the financial statements.

As at 31 December 2018, the Group's capital commitments contracted but not provided for amounted to RMB2,638 million. These were mainly committed for reconstruction and renewal of plant and machinery as well as new investees. Details of capital commitments are set out in note 42 to the financial statements.

Contingent Liabilities

As at 31 December 2018, the Group did not have any contingent liabilities.

Interest Coverage

In 2018, the interest coverage, which is calculated by EBITDA divided by financial cost was 6.30 times as compared with 9.66 times for 2017. The interest coverage decreased mainly because of the increase in the interest expenditure during the Reporting Period, resulting from the increase in market interest rates and interest-bearing debts as well as other factors.

RISK MANAGEMENT

Foreign Currency Exposure

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units and investing and financing activities by investment holding units in currencies other than the units' functional currencies.

Interest Rate Exposure

It is the Group's strategy to use debts with fixed and floating interest rates to manage its interest costs. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

BUSINESS REVIEW

1. The Board's Discussion and Analysis on Operations of the Group for the Reporting Period

In 2018, amidst the situation that was full of challenges and uncertainties in the economies of the world and the PRC, there was ongoing further reform of the medical system in the PRC. The pharmaceutical manufacturing industry grew at a steady pace, while the research of innovative drugs enjoyed a period of rapid development, and medical devices and medical diagnosis benefited from the policies with opportunities for rapid development. With a strong demand for healthcare services and the gradual adjustment in the industry structure, the layout of healthcare service resources became more reasonable. During the Reporting Period, the Group adhered to its business philosophy of "Innovation for Good Health", focused on its core pharmaceutical and healthcare businesses, continued to develop product innovation and improve management as well as international development, actively promoted the strategies of "organic growth, external expansion and integrated development", thereby maintaining the balanced growth of its principal businesses.

During the Reporting Period, the revenue of the Group increased by 34.59% as compared to 2017 to RMB24,714 million, and excluding the impacts of the new acquisition of enterprises as comparable factors and other factors, the revenue would have increased by 20.44% on the same basis as compared to 2017. The revenue from pharmaceutical manufacturing and research and development (R&D) segment amounted to RMB18,499 million, representing an increase of 41.83% as compared to 2017, and 24.94% on the same basis as compared to 2017. The revenue from healthcare service segment amounted to RMB2,555 million, representing an increase of 22.42% as compared to 2017. The revenue from medical devices and medical diagnosis amounted to RMB3,627 million, representing an increase of 13.20% as compared to 2017.

During the Reporting Period, the Group recorded revenue of RMB18,808 million in Mainland China, representing an increase of 25.29% as compared to 2017. A revenue of RMB5,906 million was recorded in foreign countries or regions, representing an increase of 76.26% as compared to 2017. The proportion of the Group's overseas revenue was 23.90%, representing an increase of 5.65 percentage points as compared to 2017.

Gland Pharma, which was acquired by the Group in 2017, was under solid operation. During the Reporting Period, it benefited from the growth of major products such as vancomycin, enoxaparin injection and caspofungin and recorded an increase in revenue by 26.62% as compared to 2017, and its net profit increased by 39.92% as compared to 2017 (based on the financial statements of Gland Pharma in domestic currency and not taking into account the effects of amortization of appreciation from assets evaluation).

During the Reporting Period, the revenue from each segment was as follows:

Unit: million Currency: RMB

Business segment	**Revenue 2018**	Revenue 2017	Year-on-year increase/ decrease (%)
Pharmaceutical manufacturing and R&D *(Note 1)*	**18,499**	13,043	41.83
Healthcare services *(Note 2)*	**2,555**	2,087	22.42
Medical devices and medical diagnosis *(Note 3)*	**3,627**	3,204	13.20

Note 1: The revenue of pharmaceutical manufacturing and R&D segment increased by 24.94% on the same basis as compared to 2017;

Note 2: The revenue of healthcare services segment increased by 4.69% on the same basis as compared to 2017;

Note 3: The revenue of medical devices and medical diagnosis segment increased by 12.27% on same basis as compared to 2017.

Sales grew during the Reporting Period and the receivables' collection was good, while cash flow from operating activities continued to show a rising trend. In 2018, net cash flow from operating activities amounted to RMB2,950 million, representing an increase of 14.34% as compared to 2017.

During the Reporting Period, the Group continued to enhance its R&D expenditures. The total R&D expenditures for the year amounted to RMB2,507 million, representing an increase of RMB978 million or 63.92% as compared to 2017. In particular, R&D expenses amounted to RMB1,480 million, representing an increase of RMB453 million or 44.14% as compared to 2017. The R&D expenditures in the pharmaceutical manufacturing segment amounted to RMB2,250 million, representing an increase of RMB975 million or 76.49% as compared to 2017. In particular, the R&D expenses amounted to RMB1,255 million, representing an increase of RMB456 million or 57.10% as compared to 2017.

During the Reporting Period, net profit attributable to shareholders of the listed company and net profit (after extraordinary gain or loss) attributable to shareholders of the listed company amounted to RMB2,708 million, and RMB2,090 million, respectively, representing a respective decrease of 13.33% and 10.92%, as compared to 2017. The decrease in extraordinary gain or loss compared with last year was mainly due to less gain from assets disposal during the Reporting Period, while the decrease in ordinary gain or loss was mainly affected by the increased investment in innovative R&D and improved business layout, as well as the deficit in certain associates and joint ventures, the increase in interest expenses, the expenses charged during the Reporting Period in respect of the employee share incentive scheme implemented by Shanghai Henlius, a subsidiary of the Company, the decrease in the profits of Aohong Pharma, and the provision for goodwill impairment of Breas, a subsidiary of the Company, amounting to RMB80 million during the Reporting Period and other factors:

(1) The Group is currently in the massive input R&D investment phase. A number of monoclonal antibody biopharmaceutical innovative drugs, biosimilars and small molecular innovative drugs entered into the clinical research phase, and generic drugs and consistency evaluation further accelerated. In addition, the Group promoted innovative R&D through various ways, which including setting up innovation incubation platforms. During the Reporting Period, Fosun Lead, Fosun Orinove, Novelstar and other innovation incubation platforms had successively commenced operation during the Reporting Period. During the Reporting Period, the total R&D expenses incurred by the Group was RMB1,480 million in total, representing an increase of RMB453 million or 44.14% as compared to 2017.

(2) In addition, the Group also brought in new technologies through the establishment of joint ventures. The joint ventures and associates established by the Group, such as Fosun Kite and Intuitive Fosun, were still in the preliminary investment phase. Similar R&D and other projects that the Group invested in early stages were still recorded operating loss. United Family Hospital, an associate, recorded an increase in operating loss during the year as the new hospitals in Pudong, Shanghai, Guangzhou and Beijing required more investments in early stages of construction. During the Reporting Period, the operating results of Sinopharm Industrial, an associate, remained constantly growth. And the Group's share in the investment income of Sinopharm Industrial amounted to RMB1,520 million in the year (Excluding the subsequent impacts of merger under common control), representing an increase of RMB68 million as compared to the corresponding period last year. Given the impact of the above factors, the share of profit or loss in joint ventures and associates except for Sinopharm Industrial amounted to a loss of RMB171 million, representing an increase of RMB70 million as compared to the loss incurred in the corresponding period of last year.

(3) With the increase in market interest rates and interest-bearing debts as well as other factors, the interest expenses of the Group increased by RMB352 million during the Reporting Period as compared to 2017.

(4) During the Reporting Period, the net profit of Aohong Pharma, a subsidiary, amounted to RMB230 million (taking into account the amortization of appreciation from asset evaluation), representing a decrease of 39.00% as compared to 2017 due to a decrease in the sales volume of Ao De Jin.

Pharmaceutical Manufacturing and R&D

During the Reporting Period, the pharmaceutical manufacturing and R&D segment of the Group generated revenue of RMB18,499 million, representing an increase of 41.83% as compared to 2017. Excluding the impacts of new acquisition of enterprises such as Gland Pharma as comparable factors, during the Reporting Period, the revenue of the pharmaceutical manufacturing and R&D segment increased by 24.94% on the same basis as compared with 2017. The segment results and segment profit amounted to RMB1,785 million and RMB1,755 million, which decreased by 4.05% and 4.51% as compared to 2017, respectively. The results and the profit of the pharmaceutical manufacturing and R&D segment decreased mainly due to an increase in the R&D expenditures, a decrease in the profit of Aohong Pharma, a subsidiary, and the implementation of a share option incentive scheme by Shanghai Henlius, a subsidiary, during the Reporting Period.

The pharmaceutical manufacturing and R&D segment of the Group continued to grow steadily and the development of its professional operational team was further strengthened. In 2018, febuxostat tablets (You Li Tong), pitavastatin calcium tablets (Bang Zhi), quetiapine fumarate tablets (Qi Wei), anti-tuberculosis series, vancomycin, enoxaparin injection, alfacalcidol tablets (Li Qing), piperacillin sodium and sulbactam sodium for injection (Qiang Shu Xi Lin) and other products maintained rapid growth. In particular, febuxostat tablets (You Li Tong), pitavastatin calcium tablets (Bang Zhi), quetiapine fumarate tablets (Qi Wei) and vancomycin recorded a sales growth of 146%, 213%, 37% and 80%, respectively.

Revenue of major products of the Group in the major therapeutic areas during the Reporting Period is set out in the following table:

Unit: million Currency: RMB

Pharmaceutical manufacturing and R&D	**2018**	2017 *(Note 1)*	Year-on-year increase on the same basis (%)
Major products of cardiovascular system therapeutic area *(Note 2)*	**1,852**	1,556	19.05
Major products of central nervous system therapeutic area *(Note 3)*	**1,774**	1,553	14.21
Major products of blood system therapeutic area *(Note 4)*	**711**	586	21.25
Major products of metabolism and alimentary system therapeutic area *(Note 5)*	**3,221**	2,525	27.56
Major products of anti-infection therapeutic area *(Note 6)*	**4,095**	2,713	50.92
Major products of anti-tumor therapeutic area *(Note 7)*	**500**	435	15.06
Major products of APIs and intermediate products *(Note 8)*	**1,301**	1,389	– 6.30

Note 1: The sales income of 2017 is restated on the same basis for the sales income of Gland Pharma's major products, which include vancomycin, daptomycin and caspofungin in the anti-infection therapeutic area; heparin series preparations in the cardiovascular system therapeutic area; and paclitaxel, carboplatin, oxaliplatin and ondansetron in the anti-tumor therapeutic area. The sales income of such products in 2017 has also been restated for amlodipine besylate tablets (Shi Li Da), a new major product in the cardiovascular system therapeutic area; escitalopram tablets (Qi Cheng), a new major product in the central nervous system therapeutic area; alfacalcidol tablets (Li Qing), a new major product in the metabolism and the alimentary system therapeutic area; mezlocillin sodium and sulbactam sodium for injection (Er Ye Jia), flucloxacillin sodium for injection (Ka Di), rabies vaccine (VERO cell) for human use (non-freeze dried), azithromycin capsules (Xin Ye and Si Ke Ni) and cefminox sodium for injection (Mei Shi Ling), all new major products in the anti-infection therapeutic area; and levamisole hydrochloride, a new major APIs and intermediate product;

Note 2: Major products of cardiovascular system therapeutic area include alprostadil dried emulsion (You Di Er), heparin series preparations, meglumine adenosine cyclophosphate for injection (Xin Xian An), calcium dobesilate (Ke Yuan), Telmisartan (Bang Tan), pitavastatin (Bang Zhi) and amlodipine besylate tablets (Shi Li Da);

Note 3: Major products of central nervous system therapeutic area include deproteinized calf blood injection (Ao De Jin), quetiapine fumarate tablets (Qi Wei) and escitalopram tablets (Qi Cheng);

Note 4: Major products of blood system therapeutic area include hemocoagulase for injection (Bang Ting) and Cobamamide for injection (Mi Le Ka);

Note 5: Major products of metabolism and alimentary system therapeutic area include reduced glutathione series (Atomolan injection and Atomolan tablets), febuxostat tablets (You Li Tong), glimepiride (Wan Su Ping), animal insulin and its formulation, recombinant human erythropoietin for injection (CHO cells) (Yi Bao), compound aloe capsules (Ke Yi), alfacalcidol tablets (Li Qing) and thioctic acid injection (Fan Ke Jia);

Note 6: Major products of anti-infection therapeutic area include antimalarial series such as artesunate, anti-tuberculosis series, cefmetazole sodium for injection (Xi Chang and Cefmetazon), potassium sodium dehydroandrographolide succinate for injection (Sha Duo Li Ka), piperacillin sodium and sulbactam sodium for injection (Qiang Shu Xi Lin), piperacillin sodium and sulbactam sodium for injection 3g (Qin Shu), piperacillin sodium and tazobactam sodium for injection (Pai Shu Xi Lin), ceftizoxime sodium for injection (Er Ye Bi), mezlocillin sodium and sulbactam sodium for injection (Er Ye Jia), flucloxacillin sodium for injection (Ka Di), rabies vaccine (VERO cell) for human use (non-freeze dried), vancomycin, daptomycin, caspofungin, azithromycin capsules (Xin Ye and Si Ke Ni) and cefminox sodium for injection (Mei Shi Ling);

Note 7: Major products of anti-tumor therapeutic area include Xihuang capsules (Ke Sheng), pemetrexed disodium for injection (Yi Luo Ze), bicalutamide (Zhao Hui Xian), paclitaxel, carboplatin, oxaliplatin and ondansetron;

Note 8: Major products of APIs and intermediate products include amino acid, tranexamic acid, clindamycin hydrochloride and levamisole hydrochloride.

The Group continued to improve its innovation system and optimize its pharmaceutical R&D system that integrated generic and innovator drugs. The Group also further increased its R&D expenditures. During the Reporting Period, the R&D expenditures in the pharmaceutical manufacturing segment amounted to RMB2,250 million, representing an increase of RMB975 million or 76.49% as compared to 2017, and accounting for 12.0% of the revenue of the pharmaceutical manufacturing segment. In particular, the R&D expenses amounted to RMB1,255 million, representing an increase of RMB456 million or 57.10% as compared to 2017, accounting for 6.7% of the revenue of the pharmaceutical manufacturing segment. As at the end of the Reporting Period, the Group had 215 pipeline drugs, generic drugs, biosimilars and consistency evaluation projects of generic drugs (including 15 small molecular innovative drugs, 10 biopharmaceutical innovative drugs, 17 biosimilars, 117 generic drugs of international standards, 54 consistency evaluation projects and 2 traditional Chinese medicine drugs). In 2018, there were 29 formulation items or series in the pharmaceutical manufacturing segment of the Group that each recorded sales of over RMB100 million, of which there were 2 formulation items or series with recorded sales of over RMB1,000 million, 7 formulation items or series with recorded sales between RMB500 million and RMB1,000 million and 5 formulation items or series with recorded sales between RMB300 million and RMB500 million. In order to leverage its competitive strengths, the R&D projects of the Group continued to focus on therapeutic areas including anti-tumor, cardiovascular system, central nervous system, blood system, metabolism and alimentary system and anti-infection, and the major products had gained a leading position in their respective market segments.

In 2018, the Group focused on increasing its R&D expenditures in monoclonal antibody biopharmaceutical innovative drugs and biosimilars and small molecular chemistry innovative drugs, and systematically pushed forward consistency evaluation of generic drugs. As at the end of the Reporting Period, 9 small molecular chemistry innovative drug products (including 1 improved new drug) and 9 indications had obtained approval for clinical trial in Mainland China; 13 monoclonal antibody products and 1 combo completed application for clinical trial for 22 indications, and obtained 27 approvals for clinical trial in the world. During the Reporting Period, a total of 5 generic drugs from Gland Pharma received approval for sale from U.S. FDA, and 9 products including amlodipine besylate tablets (Shi Li Da), escitalopram tablets (Qi Cheng) and alfacalcidol tablets (Li Qing) passed the consistency evaluation of generic drugs. It is expected that these pipeline products as well as the generic drugs approved in consistency evaluation will provide a solid foundation to maintain sustainable development of the Group in the future.

As at the end of the Reporting Period, the Group's R&D progress on monoclonal antibody is set out below:

No.	Type	Name of R&D project on drugs (products)	R&D stages in mainland China as at the end of the Reporting Period		R&D stages in other countries and regions as at the end of the Reporting Period	
			R&D stage	Stage of clinical trial	R&D stage	Stage of clinical trial
1	Biosimilars	Rituximab	Application for sales	Phase III completed *(Note 1)*	—	—
2		Recombinant Anti-HER2 Humanized Monoclonal Antibody for Injection	Clinical trial	Phase III	Clinical trial *(Note 2)*	Phase III
3		Recombinant Anti-TNFα Human Monoclonal Antibody Injection	Clinical trial	Phase III	—	—
4		Recombinant Anti-VEGF Humanized Monoclonal Antibody Injection	Clinical trial	Phase III	—	—
5		Recombinant Anti-EGFR Human/Murine Chimeric Monoclonal Antibody Injection	Approved for clinical trial	—	—	—
6		Recombinant Anti-VEGFR2 Domain II-III fully human monoclonal antibody Injection	Approved for clinical trial	—	—	—
7	Biopharmaceutical innovative drugs	Recombinant Human/murine Chimeric Anti-CD20 Monoclonal Antibody Injection	Clinical trial	Phase III *(Note 3)*	—	—
8		Recombinant Anti-VEGF Humanized Monoclonal Antibody Injection	Approved for clinical trial	—	—	—
9		Recombinant Anti-VEGFR2 Fully Human Monoclonal Antibody Injection	Approved for clinical trial	—	Clinical trial *(Note 4)*	Phase I
10		Recombinant Anti-EGFR Humanized Monoclonal Antibody Injection	Clinical trial	Phase Ib/II	Clinical trial *(Note 4)*	Phase I
11		Recombinant Humanized Anti-PD–1 Monoclonal Antibody injection	Approved for clinical trial	—	Clinical trial *(Note 5)*	Phase I
12		Recombinant Fully Human Anti-PD-L1 Monoclonal Antibody Injection	Approved for clinical trial	—	Clinical trial *(Note 6)*	Phase I
13		HLX22 Monoclonal Antibody Injection	Application for clinical trial accepted	—	—	—
14	Combo (Combined treatment)	Combo of Recombinant Humanize Anti-PD–1 Monoclonal Antibody Injection and Recombinant Anti-VEGF Humanized Monoclonal Antibody Injection	Clinical trial	Phase I	—	—

Note 1: The application to market and register Rituximab (Han Li Kang) was approved by the NMPA on 22 February 2019;

Note 2: Such drugs for breast cancer indications commenced phase III clinical trials in Ukraine, Poland and the Philippines as at the end of the Reporting Period;

Note 3: Phase III clinical trials were carried out for drugs for rheumatoid arthritis indications as at the end of the Reporting Period;

Note 4: Such drugs were approved for clinical trials in Mainland China, Taiwan region and the United States; phase I clinical trials were carried out in the Taiwan region of China and Phase Ib/II clinical trials were carried out in Mainland China as at the end of the Reporting Period;

Note 5: Phase I clinical trials were carried out in the Taiwan region of China as at the end of the Reporting Period;

Note 6: Phase I clinical trials were carried out in Australia as at the end of the Reporting Period.

As at the end of the Reporting Period, specific R&D progress of the Group on small molecular chemistry innovative drugs is set out below:

No.	Name of R&D project on drugs (products)	R&D stages as at the end of the Reporting Period R&D stage	Stage of clinical trial
1	Foritinib Succinate Capsules *(Note 1)*	Clinical trial	Phase I
2	FCN-411 *(Note 2)*	Clinical trial	Phase I
3	PA-824	Clinical trial	Phase I
4	FN-1501 *(Note 3)*	Clinical trial	Phase I
5	FCN-437 *(Note 4)*	Clinical trial	Phase I
6	Wanpagliflozin Tablets	Approved for clinical trial	—
7	FCN-159	Approved for clinical trial	—
8	Orin1001 *(Note 4)*	Filed for clinical trial in the U.S.	—
9	Docetaxel polymeric micelle for Injection *(Note 5)*	Clinical trial	Phase I

Note 1: Representing R&D project FC-110;

Note 2: Representing R&D project FC-102;

Note 3: As of the end of the Reporting Period, FN-1501 has been approved for clinical trials in Mainland China, the U.S. and Australia, and phase I clinical trials were carried out in the U.S. and Australia;

Note 4: As of the end of the Reporting Period, FCN-437 and Orin1001 have been approved to conduct clinical trial in the U.S.;

Note 5: This is an improved new product.

During the Reporting Period, a total of 99 patents had been applied for in the pharmaceutical manufacturing and R&D segment of the Group, including 12 U.S. patent applications, 1 Japanese patent application, 2 European patent applications, 5 Indian patent applications, and 4 PCT applications, with 35 licensed patents obtained, all of which being invention patents.

The Group has placed great emphasis on quality and risk management throughout the life cycle of its products, and implemented stringent quality and safety control mechanisms and pharmacovigilance mechanism at each stage of the production chain from R&D to pulling off shelf of products. The Group's pharmaceutical manufacturing and R&D segment has fully implemented the concept of quality and risk management and focused on quality control mechanisms such as annual quality review, change management, deviation management, out-of-specification (OOS) investigation, corrective and preventive actions (CAPA) and audit on suppliers. The Group's pharmaceutical manufacturing segment continued to push forward the improvement of qualification certifications. As at the end of the Reporting Period, all subsidiaries of the Group that engaged in pharmaceutical manufacturing business fulfilled the new GMP in China. While ensuring that the production lines fulfill the new GMP in China, the Group encouraged the companies in the pharmaceutical manufacturing segment to comply with international standards, and pushed them forward to put international Current Good Manufacturing Practice (cGMP) certifications such as the U.S., European Union and World Health Organization (WHO) into practice. As at the end of the Reporting Period, more than 10 APIs of the Group received GMP certifications of national health authorities from the U.S. FDA, EU, Ministry of Health, Labor and Welfare of Japan and Federal Ministry of Health; during the Reporting Period, 4 pharmaceutical manufacturing sites and 3 API production sites of Gland Pharma passed reviews/certifications in accordance with the drug regulations in the United States, Europe, Brazil and other countries. 1 production line for oral solid dosage formulation, 3 production lines of injections and 5 production lines for APIs of Guilin Pharma obtained Prequalification from the WHO-PQ; and 1 production line of oral solid dosage formulation of Yao Pharma, was recognized by Health Canada and the U.S. FDA.

While intensively cultivating the business, the Group also actively participated in the pilot reform of the pharmaceutical industry. At the beginning of the Reporting Period, Fosun Pharmaceutical Industrial, the headquarters' platform for the pharmaceutical manufacturing segment, became the first marketing authorization holder for drug products in Shanghai, which will promote continuous improvement in the Group's ability to exert quality control throughout the life cycle of pharmaceuticals, and push forward the expansion of the pharmaceutical manufacturing business.

Meanwhile, the Group continued to focus on innovation and international development, and strived to develop strategic products. Whilst actively seeking opportunities for mergers and acquisitions as well as consolidation in the industry, the Group also consolidated and integrated its current product lines and various resources and proactively expanded its international market in order to expand its pharmaceutical manufacturing and R&D segment while achieving continuous and rapid growth of its revenue and profit.

Healthcare Services

In 2018, the Group continued to reinforce its primarily completed strategic deployment of healthcare services segment with high-end healthcare institutions in the more developed coastal cities and specialty and general hospitals in second-tier and third-tier cities in the PRC. Through continuous promotion of specialties layout at medical institutions, as well as internal integration and external expansion, the Group established regional medical centers and a supply chain spanning major health industries to enhance operating capabilities and profitability. As at the end of the Reporting Period, the Group has completed the preliminary strategic deployment of its healthcare services with high-end healthcare institutions in the more developed coastal cities and specialty and general hospitals in second-tier and third-tier cities in the PRC, and has completed the industrial layout of key discipline planning, specialty hospitals and third-party diagnosis on the provincial, municipal and regional level.

During the Reporting Period, among the hospitals controlled by the Group, Chancheng Hospital, passed the JCI international hospital standard with flying colors, and became the first Grade A Class III general private hospital in China to pass the sixth edition of JCI standard. Another hospital was categorized as a Grade A Class II hospital. Through the efforts in establishing hospital class, the groundwork for the business layout had been laid, which involved 4 Class II hospitals led and supported by 3 Class III hospitals in terms of business and discipline development. Among the investee hospitals of the Group, 1 Class III hospital and 3 Class II hospitals of Huaihai Medical Group were under collaborative development, while 1 Class III hospital and 3 Class II hospitals of Sinopharm Medical Investment were building synergetic networks in specialty areas such as reproductive and rehabilitation. At the same time, through the acquisition of the controlling interest in Wuhan Jihe Hospital and investment in Tongshu Biological during the Reporting Period, the Group developed its own healthcare service market in Central China and accelerated the layout of third-party examination. In addition, through an increased shareholding in Chancheng Hospital and investment in Foshan Chancheng Medical Health Hive Project (the "Health Hive Project"), the medical advantage of Chancheng Hospital was further manifested in Southern China, which also served a demonstrative purpose to hospitals from near to far. The Health Hive project, which was based on the medical resources of Chancheng Hospital, the acquired Hengsheng Hospital and Zhuhai Chancheng all played an important role in the strategic layout of healthcare services in Southern China as well as the business expansion in developed coastal cities and regions. Meanwhile, the Group continued to actively explore and participate in the new business model of providing healthcare services on the Internet to achieve a seamless integration of online and offline services and formed a closed circuit of O2O so as to explore the innovation of medical services operation and model. In addition, the newly established Zhuorui Outpatient was being prepared to become a high-end clinic and health-check center, which was an integration of resources across major health industries. Moreover, the Group also cooperated with local governments, universities, hospitals and other parties to further reserve and consolidate various resources in achieving complementary advantages and mutual development.

As at the end of the Reporting Period, the medical institutions controlled by the Group mainly include Chancheng Hospital, Hengsheng Hospital, Zhongwu Hospital, Wenzhou Geriatric Hospital, Guangji Hospital, Jimin Hospital, Zhuhai Chancheng and Wuhan Jihe Hospital* (武漢濟和醫院). During the Reporting Period, the healthcare services entities controlled by the Group realized total revenue of RMB2,555 million, representing an increase of 22.42% as compared to 2017. During the Reporting Period, segment results were RMB301 million, representing an increase of 3.83% as compared to 2017, and segment profit was RMB209 million, representing a decrease of 6.59% as compared to 2017 mainly due to the increase in operating loss of that year as a result of the preliminary investments in new hospitals in Shanghai Pudong, Guangzhou and Beijing by United Family Hospital, an associate. Excluding the impacts of United Family Hospital, the profit of the healthcare services segment increased by 19.51% as compared to 2017. As at the end of the Reporting Period, the total number of authorized beds available for the public in Chancheng Hospital, Hengsheng Hospital, Zhongwu Hospital, Wenzhou Geriatrics Hospital, Guangji Hospital, Jimin Hospital, Zhuhai Chancheng and Wuhan Jihe Hospital, etc. controlled by the Group was 4,118 in aggregate.

During the Reporting Period, the Group continued to actively support and facilitate the development and deployment of hospital and clinic network under United Family Hospital, a leading high-end healthcare services brand. In 2018, the United Family Hospital maintained its brand awareness and prominent positions in high-end healthcare segment in major cities such as Beijing, Tianjin and Shanghai. Shanghai United Family Pudong Hospital, Guangzhou United Family Hospital and Hainan Boao United Family Clinic had commenced operation, while the preparation works for Shanghai United Family Puxi Hospital had begun.

While investing in the domestic healthcare service industry, the Group also paid close attention to the exploration of new business models by healthcare service sectors across global mainstream markets.

Medical Devices and Medical Diagnosis

In 2018, the Group continued to push the development of the medical devices and medical diagnosis segment forward.

During the Reporting Period, the Group realized revenue of RMB3,627 million from the medical devices and medical diagnosis segment, representing an increase of 13.20% as compared to 2017. During the Reporting Period, segment performance and segment profit amounted to RMB558 million and RMB440 million respectively, which increased by 16.31% and 13.48% as compared to 2017, respectively.

During the Reporting Period, Sisram Medical continued to accelerate the development of the global market and especially key emerging markets while strengthening its new product portfolio, in particular, by increasing R&D of medical devices and extending its production line into the clinical treatment area. In 2018, the revenue of Sisram Medical amounted to US$154 million, representing an increase of 12.44% as compared to 2017 (based on the financial statements of Sisram Medical; 1 product of Sisram passed EU CE certification, and 2 products of Sisram were approved by the U.S. FDA.

In 2018, the revenue of HPV diagnostic reagent and T-SPOT test kits increased rapidly as compared to 2017. The number of surgeries performed by Da Vinci surgical robotic system, which was distributed by the Group, maintained rapid growth during the Reporting Period and recorded a year-on-year increase of 20% in Mainland China and Hong Kong.

Pharmaceutical Distribution and Retail

During the Reporting Period, Sinopharm, an investee of the Group, put continuous efforts in accelerating industry consolidation and expanding the distribution and retail network of pharmaceutical products. It also actively seized the opportunities of rapid development of medical device industry and vigorously developed medical device distribution business. In 2018, Sinopharm realized a revenue of RMB344,526 million, net profit of RMB9,404 million and net profit attributable to shareholders of the parent of RMB5,836 million, which represented an increase of 11.73%, 8.53% and 4.67% as compared to 2017 (after restatement of amount for the corresponding period of last year), respectively.

In the pharmaceutical distribution sector, the distribution network covered 31 provinces, municipalities and autonomous regions across China as the end of the Reporting Period, with a prefecture-level administrative region coverage rate of 97% and a county-level administrative region coverage rate of 98%. During the Reporting Period, Sinopharm's revenue from the pharmaceutical distribution business increased by 9.29% as compared to 2017 to RMB281,049 million. In respect of retail pharmacy, the retail network of Sinopharm covered 30 provinces, municipalities and autonomous regions and more than 229 cities during the Reporting Period, with the total number of retail pharmacies reaching 5,183. During the Reporting Period, Sinopharm's revenue from retail pharmacy increased by 19.46% as compared to 2017 to RMB14,804 million. In respect of medical device distribution, Sinopharm actively seized the opportunities of rapid development of medical device industry and vigorously developed medical device distribution business. In 2018, the sales of the Group's medical device business achieved rapid growth. The acquisition of 60% equity interests in China National Scientific, China's largest medical device distributor, was completed successfully, further consolidating the Group's leading position in China's medical device industry. During the Reporting Period, Sinopharm's revenue from the medical device business increased by 29.99% as compared to 2017 to RMB49,474 million.

Internal Integration and Operation Enhancement

During the Reporting Period, the Group continued to increase its investment in internal integration, further strengthened the internal communication of the Group and proactively improved operational efficiency. During the Reporting Period, the Group strengthened the linkage within the segments as well as between the segments by way of internal consolidation of shareholding and cooperation for products and services between segments in order to further consolidate resources and achieve integration and circulation of the Group's internal resources to facilitate business development. Through the establishment of regional financial sharing centers, the Group integrated the accounting, statement preparation, tax administration, financial analysis and internal control establishment of subsidiaries in the regions. In respect of the pharmaceutical manufacturing and R&D segment, the Group forged production and technological cooperation between domestic and overseas enterprises and exchanged personnel exchanges, which further accelerated its internationalization process, enhanced the market shares of its products and increased its R&D capabilities together with its internationalized drug registration and declaration capabilities, pushing forward the industrial upgrade and R&D capabilities of the Group's pharmaceutical manufacturing business. In respect of healthcare services, the further increase of shareholding in Chancheng Hospital and the completion of the acquisition of Hengsheng Hospital and Zhuhai Chancheng played an important role in the strategic layout of healthcare services of the Group in Southern China. These events further expanded the business arrangements of the Group in developed coastal cities and regions, which contributed to the establishment of regional medical centers and enhanced the supply chain spanning major health industries. In respect of pharmaceutical distribution and retail, by virtue of the cooperation and linkage with Sinopharm, the Group also fully utilized Sinopharm's advantages in distribution network and logistics to facilitate the expansion of the pharmaceutical products sales channels of the Group.

In respect of information resources, adhering to the development strategy of digital transformation, we vigorously promoted innovation and business development in the implementation of digital transformation. With respect to works of a predictable nature, the information security system version 1.0 was formulated and gradually implemented in subsidiaries of the Group, aiming to increase the Group's information security level by security audits. We also pushed forward the plans and systems of our Capacity Sharing Center (MDCC), which involved infrastructure, information security and application systems, so as to share the Company's capacity with each of its subsidiaries. With respect to the works of an exploratory and innovative nature, we achieved significant progress in the nurture of innovative culture, the investment and management of incubation and innovative operations given the implementation of the Internet Hospital, the incubation of Yudao project, the Innovation Competition and the convening of the Annual Internet Summit. With respect to business segments, we further promoted the construction of information platform as well as data integration, which included the management system of clinical trial in the pharmaceutical manufacturing segment, Xingqiao Scheme Phase II in the healthcare services segment, emergency network in medical technology and LABQC, achieving strategies with the power of digital technologies.

In collective procurement and strategic procurement, the Group further promoted collective procurement projects in cross-business segments and sectors in 2018. As at the end of the Reporting Period, 14 collective procurement and strategic bidding projects for analytical instruments and consumables, production materials, production equipment, medical equipment, medical devices, VOC treatment, and infrastructure construction etc. had been completed. Through the advancement of the collective procurement project and strategic agreement, the Group exerts a platform effect, realizing cost reduction and efficiency. We also traced the implementation of collective procurements as well as procurements under strategic agreements and collected all kinds of procurement information of the Group for comprehensive statistical analysis and analyzed cost reduction status, providing further basis for management to optimize procurement strategy. We also adopted a risk management system with respect to the procurement and tendering platform this year, so as to avoid potential risks in the procurement and tendering process in advance, and to further purify the procurement environment. We established a digitalized procurement platform and had a trial run, which demonstrated integrity, transparency, comparability and traceability in the procurement business, realizing the goal of procurement cost reduction by increasing procurement efficiency.

In respect of anti-corruption compliance, the Company successively formulated systems including the Anti-Corruption Regulations, the Administrative Regulations on Reporting and the Regulations on the Protection and Reward of Informers and Witnesses, so as to further enhance the anti-corruption compliance system. The Group also focused on investigating reported clues and monitoring areas of higher corruption risk to ensure lawful operations of the Group.

Environment, Health and Safety

During the Reporting Period, the Group continued to proceed with the establishment and operation of the management of environment, health and safety (EHS). On the one hand, the Group continued to accelerate and promote the mapping and thorough implementation of the EHS management system standard (HOPES) for hospitals in the healthcare services segment, and established HOPES leading hospitals to help the healthcare services segment rise to EHS management standard. On the other hand, the Group introduced the EHS management standard to the pharmaceutical manufacturing and R&D segment, establishing the unprecedented four-layered requirement. We adopted a cross-checking model, among others, to expedite the establishment and optimization of the system. Meanwhile, as we established and developed the system, we also completed the training and recruitment of EHS talents to accumulate a talent base for the Group's EHS management system.

For on-site EHS improvement work, the Group built, upgraded and renovated various environmental protection facilities based on the principal objective of hardware improvement. The Group also improved its ability to govern corporate environmental pollutants, in order to ensure continuous and stable discharge in accordance with relevant standards, and to reduce the total amount of environmental pollutants discharged. During the Reporting Period, a number of medical institutions of the Group began to build or upgrade their sewage treatment facilities, built new treatment equipment for atmospheric pollutants, and introduced new energy-saving equipment and technologies for energy conservation, making active efforts to reduce carbon emission.

In respect of the cultivation of an EHS culture, the Group continued to carry out its EHS management month campaign, which emphasized and highlighted the importance of environmental protection as well as work safety among employees, and required the management to attach importance to EHS by participating in EHS works in terms of manpower, resources and capital. The campaign required the management to guide employees in actively participating in EHS works, so as to fulfil their obligations for environmental protection and safety. Meanwhile, the Group continued to promote and expedite training for EHS teams and talents. Therefore, projects such as "EHS WeChat Classroom", "EHS Expert Training" and "EHS Special Training Library" were developed successively to enhance the team's awareness and capability in EHS, and to train professional and technical personnel for EHS, providing a pool of talents for further improvement in EHS.

During the Reporting Period, the Group piloted the "Green Chain Extension Audit" on green chain management. A total of 23 subsidiaries conducted on-site and/or document audits with their suppliers, and identified hidden EHS risks with the supplying end, paving a way for the collaborative optimization of supply chain management and the supply chain in general.

Financing

During the Reporting Period, the CSRC approved the Company's public issuance of Corporate Bonds with an aggregate nominal value of not more than RMB5 billion, pursuant to which, the Company completed the issuance of three phases of corporate bonds, raising a total of RMB2.8 billion. In addition, the Company received the Notice of Registration from NAFMII for its mid-term notes and super short-term commercial papers amounting to RMB5 billion respectively. At the same time, the Group continued to strengthen its cooperation with PRC-funded banks in financing business and intersified businesses with foreign banks, and further increased the credit facilities on the basis of maintaining good cooperative relationship between Chinese and foreign-funded financial institutions. During the Reporting Period, new credit facilities from Chinese and foreign-funded banks amounted to approximately RMB4 billion, providing favorable conditions for the Group to strengthen the development of its principal business and implement internationalization strategies. As at the end of the Reporting Period, the Group received over RMB40 billion in credit facilities from major cooperative banks.

Social Responsibility

In pursuit of sustainable development of talents and products, the Group actively implemented the philosophy of "Innovation for Health", and remained committed to assuming the civic responsibility of corporates. The Group regarded innovation as its most important social responsibility. Focusing on unmet medical needs, the Group continued to innovate, so as to provide patients and customers with better, more convenient and more affordable products and services. Artesunate for injection, an innovative drug whose independent intellectual property right was owned by the Group, had saved the lives of more than 20 million people with severe malaria worldwide.

With respect to quality control, the Group established a product quality system that was in line with international standards. During the Reporting Period, the Group continued to take forward Fosun Pharma Operation Excellence (FOPEX) and officially launched FOPEXTAR, a star-rated factory evaluation, which continuously improved the efficiency of corporate management and operation. The Group was also deploying pharmacovigilance management for the entire life cycle of pharmaceutical products. With reference to international standards, the Group established a pharmacovigilance system from R&D to market launch, so as to safeguard the drug use of patients.

With respect to social welfare, the Group had organized charity events in support of education, scientific research and innovation, healthcare and poverty alleviation and childcare. Meanwhile, the Group actively responded to and facilitated the implementation of the Central Government's decision and plan of "targeted poverty alleviation and elimination". In collaboration with its subsidiaries, the Group organized various kinds of targeted poverty alleviation activities in respect of education for poverty elimination, healthcare and poverty alleviation, social poverty alleviation and basic support. In 2018, the Company took an active role in the "Village Doctors for Healthcare and Poverty Alleviation Project", which was jointly initiated by the Poverty Alleviation Office of National Health Commission, Fosun Foundation and "Health News". The Group also collaborated with Chinese Antituberculosis Association and Hongqi Pharma, a subsidiary, to launch the "Double Thousand Actions" project, alleviating poverty of patients with tuberculosis. In addition, the Group supported education, scientific research and innovation through sponsorship to the School of Life Sciences in Fudan University, Shenyang Pharmaceutical University, teaching price at China Pharmaceutical University and projects such as Tan Jia Zhen Life Sciences Prize* (談家楨生命科學獎).

With respect to social responsibilities, the Company was successively awarded various recognitions in 2018, including the Golden Bee CSR Report Evergreen Award and Outstanding Enterprises Award in Social Responsibilities, etc. It was also named in the ESG 50 Index of China and Ze Ren Yun ESG 100 Index (責任雲ESG100指數).

2. Major Operations in the Reporting Period

A. Analysis on Principal Operations

Analysis of Changes in Relevant Items of Income Statement and Statement of Cash Flows

Unit: million Currency: RMB

Items	Amount for the period	Amount for the corresponding period of last year	Year-on-year change (%)	Reasons
Revenue	24,714	18,362	34.59	*Note 1*
Cost of sales	10,365	7,609	36.23	*Note 2*
Selling and distribution expenses	8,488	5,791	46.58	*Note 3*
Administrative expenses	2,291	1,774	29.14	*Note 4*
Research and development expense	1,480	1,027	44.14	*Note 5*
Finance costs	930	578	60.90	*Note 6*
Net cash flow generated from operating activities	2,950	2,580	14.34	
Net cash flow generated from investment activities	–5,245	–10,504	50.07	*Note 7*
Net cash flow generated from financing activities	3,138	9,909	–68.34	*Note 8*
R&D expenditures	2,507	1,529	63.92	*Note 5*

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

Note 1: The increase in revenue was mainly due to the growth in revenue of major products, the contributions from new acquisitions of enterprises and expansion of business of healthcare services during the Reporting Period. Excluding the impacts of the new acquisition of enterprises as comparable factors and other factors, the revenue increased by 20.44% on the same basis as compared to 2017;

Note 2: The increase in cost of sales was mainly due to the sales growth of major products and the impacts of new acquisitions of enterprises during the Reporting Period;

Note 3: The increase in selling and distribution expenses was mainly affected by adjustment to sales model of certain products, the preparations of sales team for products proposed to be launched, the market expansion in new and recent products, and the new acquisitions of enterprises during the Reporting Period;

Note 4: The increase in administrative expenses was mainly affected by new acquisitions of enterprises and the amortization of appreciation of asset evaluation. Excluding the impacts of the new acquisition of enterprises and the establishment of new enterprises, the administrative expenses increased by 12.49% on the same basis as compared to 2017;

Note 5: The increase in R&D expenditures and R&D expenses was mainly due to the increase in the R&D expenditures of innovative biopharmaceutical drugs, biosimilar and small molecular innovative drugs, concentrated R&D expenditures in consistency evaluation and increase in R&D expenditure in innovation incubation platform during the Reporting Period;

Note 6: The increase in finance costs was mainly affected by factors including the increase of market interest rate and interest-bearing debts during the Reporting Period;

Note 7: The increase in net cash flow generated from investment activities was mainly due to the amounts paid for the acquisition of a subsidiary, Gland Pharma, in the corresponding period of last year;

Note 8: The decrease in net cash flow generated from financing activities was mainly due to the raising of funds for the acquisition of Gland Pharma in the corresponding period of last year.

I. Analysis of Revenue and Cost of Sales

During the Reporting Period, revenue of the Group increased by 34.59% to RMB24,714 million from 2017.

The change in revenue was mainly attributable to the revenue growth of core products, contributions from the newly acquired enterprises and expansion of healthcare services business.

(1) Principal Operations by Segments, Products and Geographical Locations

Unit: million Currency: RMB

			Principal Operations by Segments			
By segments	**Revenue**	**Cost of sales**	**Gross profit margin** (%)	**Year-on-year change in revenue** (%)	**Year-on-year change in cost of sales** (%)	**Year-on-year change in gross margin**
Pharmaceutical manufacturing and R&D *(Note 1)*	18,499	6,522	64.74	41.83	47.19	decrease of 1.29 percentage points
Healthcare services	2,555	1,888	26.11	22.42	25.35	decrease of 1.73 percentage points
Medical devices and medical diagnosis	3,627	1,888	47.94	13.20	15.75	decrease of 1.15 percentage points

Note 1: The increase in revenue and cost of sales of the pharmaceutical manufacturing and R&D segment as compared to the corresponding period last year, was mainly due to sales growth in major products and the contribution from new acquisitions of enterprises during the Reporting Period; while the decrease in gross profit margin was mainly affected by the merger of Gland Pharma, and excluding the impacts of Gland Pharma, the gross profit margin of the pharmaceutical manufacturing and R&D segment could have increased 1.67 percentage points on the same basis.

By products *(Note 1)*	Revenue	Cost of sales	Gross profit margin (%)	Year-on-year change in revenue (%)	Year-on-year change in cost of sales (%)	Year-on-year change in gross margin
	Principal Operations by Products					
Major products of cardiovascular system therapeutic area *(Note 2)*	1,852	610	67.07	19.05	47.70	decrease of 6.39 percentage points
Major products of central nervous system therapeutic area *(Note 3)*	1,774	97	94.56	14.21	–21.58	increase of 2.48 percentage points
Major products of blood system therapeutic area	711	34	95.27	21.25	–25.78	increase of 3.00 percentage points
Major products of metabolism and alimentary system therapeutic area *(Note 4)*	3,221	563	82.53	27.56	9.68	increase of 2.85 percentage points
Major products of anti-infection therapeutic area *(Note 5)*	4,095	1,078	73.66	50.92	26.30	increase of 5.13 percentage points
Major products of anti-tumor therapeutic area *(Note 6)*	500	137	72.65	15.06	15.19	decrease of 0.03 percentage point
Major products of APIs and intermediate products *(Note 7)*	1,301	952	26.83	–6.30	–1.63	decrease of 3.47 percentage points

By Geographical Locations	Revenue	Cost of sales	Gross profit margin (%)	Year-on-year change in revenue (%)	Year-on-year change in cost of sales (%)	Year-on-year change in gross margin
	Principal Operations by Geographical Locations					
Mainland China	18,808	6,751	64.11	25.29	17.59	increase of 2.36 percentage points
Overseas countries or regions *(Note 8)*	5,906	3,614	38.80	76.26	93.54	decrease of 5.47 percentage points

Note 1: In 2018, the figures of principal business by therapeutic areas included the core product data of Gland Pharma. In the corresponding period of 2017, the revenue and cost of sales were restated for the core products of Gland Pharma on the same basis.

Note 2: The revenue of major products of the cardiovascular system therapeutic area recorded a year-on-year increase of 19.05%, which was mainly due to the sales growth of pitavastatin (Bang Zhi), telmisartan (Bang Tan), amlodipine besylate tablets (Shi Li Da) and enoxaparin injection.

Note 3: The revenue of major products of the central nervous system therapeutic area recorded a year-on-year increase of 14.21%, mainly due to the sales growth of quetiapine fumarate tablets (Qi Wei) and escitalopram tablets (Qi Cheng) and changes in the price of deproteinized calf blood injection (Ao De Jin).

Note 4: The revenue of major products of the metabolism and the alimentary system therapeutic area recorded an increase of 27.56% on the same basis, mainly due to the sales growth of febuxostat tablets (You Li Tong), thioctic acid injection (Fan Ke Jia) and alfacalcidol tablets (Li Qing).

Note 5: The revenue of major products of the anti-infection therapeutic area recorded a year-on-year increase of 50.92%, mainly due to the sales growth of products including the anti- tuberculosis series, cefmetazole sodium for injection (Xi Chang and Cefmetazon), piperacillin sodium and sulbactam sodium (Qiang Shu Xi Lin), vancomycin, caspofungin, antimalarial series such as artesunate and rabies vaccine (VERO cell) for human use (non-freeze dried).

Note 6: The revenue of major products of the anti-tumor therapeutic area recorded a year-on-year increase of 15.06%, mainly due to the sales growth of bicalutamide (Zhao Hui Xian), pemetrexed disodium for injection (Yi Luo Ze) and ondansetron.

Note 7: The revenue of major products of APIs and intermediate products recorded a year-on-year decrease of 6.3%, mainly due to price adjustment of the amino acid series.

Note 8: The increase of revenue and cost of sales in overseas countries and regions were mainly due to contribution from the new acquisition of subsidiary in 2017, and the change of gross profit margin was affected by the acquisition of Gland Pharma.

(2) Analysis of Cost

Unit: million Currency: RMB

By Segments

By Segments	**Cost**	**Amount for the period**	**Percentage of the total cost for the period** (%)	**Amount for the corresponding period of last year**	**Percentage of the total cost for the corresponding period of last year** (%)	**Ratio of change for the period as compared with the corresponding period of last year** (%)
Pharmaceutical manufacturing and R&D *(Note 1)*	Cost of products	6,522	62.92	4,431	58.24	47.19
Healthcare services	Cost of services	1,888	18.21	1,506	19.79	25.35
Medical devices and medical diagnosis	Cost of products and goods	1,888	18.22	1,631	21.44	15.75

Unit: million Currency: RMB

By Therapeutic Areas

By Therapeutic Areas	Cost	Amount for the period	Percentage of the total cost for the period (%)	Amount for the corresponding period of last year	Percentage of the total cost for the corresponding period of last year (%)	Ratio of change for the period as compared with the corresponding period of last year (%)
Major products of cardiovascular system therapeutic area *(Note 2)*	Cost of products	610	9.35	413	9.32	47.70
Major products of central nervous system therapeutic area	Cost of products	97	1.48	123	2.78	–21.58
Major products of blood system therapeutic area	Cost of products	34	0.52	45	1.02	–25.78
Major products of metabolism and alimentary system therapeutic area	Cost of products	563	8.63	513	11.58	9.68
Major products of anti-infection therapeutic area	Cost of products	1,078	16.54	854	19.27	26.30
Major products of anti-tumor therapeutic area	Cost of products	137	2.10	119	2.68	15.19
Major products of APIs and intermediate products	Cost of products	952	14.60	968	21.85	–1.63

Note 1: The increase in cost of products of the pharmaceutical manufacturing and R&D segment as compared to the corresponding period of last year was mainly due to the sales growth of major products and impact of the new acquisition of enterprises during the Reporting Period;

Note 2: The change in the cost of sales of major products in the cardiovascular system therapeutic area was mainly due to impact of the major products of Gland Pharma, namely heparin sodium and enoxaparin injection; excluding Gland Pharma, the sales of costs recorded an increase of 33.92% on the same basis.

(3) *Major Customers and Suppliers*

Sales to the top 5 customers of the Group amounted to RMB3,732 million, representing 15.10% of the total sales in 2018.

Purchases from the top 5 suppliers amounted to RMB990 million, representing 9.28% of the total purchases of the Group for 2018.

II. Expenses

During the Reporting Period, the selling and distribution expenses of the Group amounted to RMB8,488 million, representing an increase of 46.58% as compared to 2017. The change in selling and distribution expenses was mainly affected by the adjustment to sales model of certain products, the preparations of sales team for products proposed to be launched, the market expansion in new and recent products, and the new acquisitions of enterprises during the Reporting Period.

During the Reporting Period, the administrative expenses of the Group amounted to RMB2,291 million, representing an increase of 29.14% as compared to 2017. The change in administrative expenses was mainly affected by new acquisitions of enterprises and the amortization of premium thereof. Excluding the impacts of the new acquisitions of enterprises and the establishment of new enterprises, the management expenses increased by 12.49% on the same basis as compared to 2017.

During the Reporting Period, the R&D expenses of the Group amounted to RMB1,480 million, representing an increase of 44.14% as compared with 2017. The change in R&D expenses was mainly due to the increase in the R&D expenditures in biosimilar, innovative biopharmaceutical drugs and small molecular innovative drugs, concentrated R&D expenditures in consistency evaluation and increase in R&D expenditure in innovation incubation platform during the Reporting Period.

During the Reporting Period, the finance costs of the Group amounted to RMB930 million, representing an increase of 60.90% as compared to 2017. The change in finance costs was mainly affected by the increase of market interest rate and interest-bearing debts as well as other factors during the Reporting Period.

III. R&D Expenditures

R&D Expenditures

Unit: million Currency: RMB

R&D expenditures expensed for the period	1,480
R&D expenditures capitalized for the period	1,027
Total R&D expenditures	2,507
Total R&D expenditures as a percentage of revenue (%)	10.1
R&D expenditures in the pharmaceutical manufacturing segment as a percentage of the revenue from the pharmaceutical manufacturing segment	12.0
The number of R&D staff in the Group (including QA and QC)	4,464
The number of R&D staff (including QA and QC) as a percentage of the total number of staff in the Group (%)	15.80
Percentage of R&D expenditures capitalized (%)	40.98

Descriptions

During the Reporting Period, the R&D expenditures in the pharmaceutical manufacturing segment amounted to RMB2,250 million, representing an increase of RMB975 million or 76.49% as compared to 2017, accounting for 12.0% of the revenue from the pharmaceutical manufacturing segment, mainly due to the continuous increase in the R&D expenditures in biosimilar, innovative biopharmaceutical drugs and small molecular innovative drugs, concentrated expenditures in consistency evaluation and increase in R&D expenditure in innovation incubation platform during the Reporting Period.

IV. Cash Flows

Unit: million Currency: RMB

Items	Amount for the period	Amount for the corresponding period of last year	Ratio of Change (%)	Reasons
Net cash flow generated from operating activities	2,950	2,580	14.34	Mainly due to the sales growth, good return, and operational enhancement of the Group during the Reporting Period
Net cash flow generated from investment activities	–5,245	–10,504	50.07	Mainly due to the amount paid for the acquisition of Gland Pharma in the corresponding period of last year
Net cash flow generated from financing activities	3,138	9,909	–68.34	Mainly due to the raising of funds for the acquisition of Gland Pharma in the corresponding period of last year

B. Description on the non-principal business leading to significant changes in profit

Not applicable

C. Assets and liabilities analysis

Assets and liabilities

Unit: million Currency: RMB

Items	Amount as at the end of the period	Percentage of the amount as at the end of the period to the total assets (%)	Amount as at the end of last period	Percentage of the amount as at the end of last period to the total assets (%)	Ratio of change for the amount as at the end of the period as compared with the amount as at the end of last period (%)	Reasons
Investment in joint ventures	447	0.63	647	1.04	–30.91	Mainly due to the disposal of certain equity interests in joint ventures during the Reporting Period transforming them into associates
Equity investments at fair value through other comprehensive income	126	0.18	—	—	N/A	Mainly due to the implementation of new financial instrument standards during the Reporting Period, under which, the original available for sale financial assets were classified to financial assets at fair value through other comprehensive income and the changes in fair value of the financial assets
Financial assets at fair value through profit or loss — non-current	2,506	3.55	—	—	N/A	Mainly due to the implementation of new financial instrument standards during the Reporting Period, under which the available for sale financial assets was classifies into equity investment at fair value through profit or loss-non current, and the changes in the fair value of the financial assets
Other non-current assets	1,053	1.49	554	0.89	90.07	Mainly due to the increase of advance payment for the purchase of fixed assets during the Reporting Period
Financial assets at fair value through profit or loss — current	616	0.87	219	0.35	181.28	Mainly due to the implementation of new financial instrument standards during the Reporting Period, under which the available for sale financial assets was classifies into equity investment at fair value through profit or loss-current and the changes in the fair value of the financial assets
Trade and bills payable	2,333	3.31	1,782	2.88	30.92	Mainly due to the increase in purchase during the Reporting Period
Contract liabilities	531	0.75	—	—	N/A	Mainly due to the implementation of new revenue standards during the Reporting Period, and the reclassification of prepayment from customer to contract liabilities

D. Analysis on investments

Major Subsidiaries and Investees

(1) Operation and Results of Subsidiaries

① *Operation and Results of Major Subsidiaries*

Unit: million Currency: RMB

Name of subsidiary	Nature of business	Major products or services	Registered capital	Total assets	Net assets	Revenue	Operating profit	Net profit
Yao Pharma	Pharmaceutical manufacturing	Atomolan, You Di Er, Sha Duo Li Ka, Xi Chang, Cefmetazon, etc.	197	4,651	2,546	5,657	814	705
Wanbang Pharma	Pharmaceutical manufacturing	You Li Tong, Yi Bao, Xihuang capsules, Wan Su Ping enoxaparin sodium series, etc.	440	3,701	2,098	3,966	558	452
Aohong Pharma	Pharmaceutical manufacturing	Ao De Jin, Bang Ting	108	2,402	1,627	1,770	277	230
Gland Pharma	Pharmaceutical manufacturing	Heparin sodium, vancomycin, rocuronium bromide, etc.	N/A	6,245	4,796	1,912	448	283

Note 1: The figures of revenue, operating profit and net profit of Yao Pharma included the impact of merger with Hunan Donting Pharmaceutical Co., Ltd.* (湖南洞庭藥業股份有限公 司) under common control this year;

Note 2: The data of Aohong Pharma and Gland Pharma included appreciation of asset evaluation and amortization of appreciation of asset evaluation.

② *Status of Other Major Subsidiaries*

Unit: million Currency: RMB

Name of subsidiary	Nature of business	Major products	Registered capital	Total assets	Net assets	Revenue	Net profit
Chancheng Hospital	Healthcare services	Healthcare services	50	1,985	1,438	1,364	195
Sisram Medical	Medical devices	Medical cosmetics devices, medical devices	N/A	2,403	2,156	1,020	145

Note 1: The data of Chancheng Hospital include appreciation of asset evaluation and amortization of appreciation of asset evaluation.

Note 2: The data of Sisram Medical is prepared in accordance with Hong Kong Financial Reporting Standards.

(2) Operation and Results of Investee Companies whose Net Profit Contributing More Than 10% of the Group's Net Profit

Unit: million Currency: RMB

Name of investee	Nature of business	Principal activities	Registered capital	Total assets	Net assets	Revenue	Operating profit	Net profit
Sinopharm Industrial	Pharmaceutical investment	Pharmaceutical investment	100	235,734	68,557	343,699	12,220	9,419

Note 1: The figures of revenue, operating profit and net profit of Sinopharm Industrial included the impact of merger with China National Scientific under common control this year.

(3) Acquisition and Disposal of Subsidiaries for the Year (including the Purposes, Methods and Effects of the Acquisitions and Disposals and the Effects on the Group's Overall Operation and Results)

① *Acquisition of Subsidiaries in 2018*

On 29 June 2018, Yao Pharma, a subsidiary of the Company, entered into an agreement with Avic Xinxing, pursuant to which Yao Pharma acquired 75.7408% of equity interest in Avic Pharma. As at the end of the Reporting Period, Yao Pharma held 75.7408% equity interest in Avic Pharma.

On 17 August 2018, Fosun Hospital Investment, a subsidiary of the Company, entered into an Equity Transfer Agreement with Tian Shiming (田世明) and Tian Zhongxi (田重喜), pursuant to which Fosun Hospital Investment acquired 55% of equity interest in Wuhan Jihe Hospital through equity transfer and capital contribution. As at the end of the Reporting Period, Fosun Hospital Investment held 55% of equity interests in Wuhan Jihe Hospital.

On 28 August 2018, Fosun Long March, a subsidiary of the Company, entered into an Equity Transfer Agreement with Bohao Biotech, pursuant to which Fosun Long March acquired 65% of equity interest in Bohao Medical through equity transfer. As at the end of the Reporting Period, Fosun Long March held 65% of equity interests in Bohao Medical

On 20 December 2018, Qianda Tianjin, a subsidiary of the Company, entered into an Equity Transfer Agreement with Yang Jianpeng (楊建朋), pursuant to which Qianda Tianjin acquired 55% of equity interest in Jianyou Chengye through equity transfer and capital contribution. As at the end of the Reporting Period, Qianda Tianjin held 55% of equity interests in Jianyou Chengye.

The impact of disposal of subsidiaries in 2018 on the Group's operation and results:

Unit: million Currency: RMB

Name of subsidiary	Acquired through	Net assets (as at the end of Reporting Period)	Net profit (from date of acquisition/ merger up to the end of Reporting Period)	Date of acquisition/ merger
Avic Pharma	Equity transfer	231	1	25 October 2018
Wuhan Jihe Hospital	Equity transfer and capital contribution	112	4	29 September 2018
Bohao Medical	Equity transfer	22	–1	28 September 2018
Jianyou Chengye	Equity transfer	50	—	26 December 2018

Note: The above data include appreciation of asset evaluation and amortization of appreciation of asset evaluation.

② *Disposal of Subsidiaries in 2018*

On 9 January 2018, the strike-off of a subsidiary, namely Sichuan Nuoya Medical, was completed.

On 8 November 2017, Fosun Hospital Investment, a subsidiary, entered into an Equity Transfer Agreement with Wang Weiguo and Wang Xiang, pursuant to which Fosun Hospital Investment transferred its 45% equity interests in Hunan Jingren to Wang Weiguo and Wang Xiang in stages. As at the end of the Reporting Period, Fosun Hospital Investment still held 20% equity interests in Hunan Jingren, transforming Hunan Jingren from a subsidiary to an associate.

On 8 April 2018, Wanbang Pharma, a subsidiary, entered into an Equity Transfer Agreement with Liu Haiquan (劉海泉), pursuant to which Wanbang Pharma transferred its 51% equity interests in Heilongjiang Wanbang to Liu Haiquan. As at the end of the Reporting Period, Wanbang Pharma no longer held any equity interests in Heilongjiang Wanbang.

On 29 October 2018, Wanbang Pharma, a subsidiary, entered into an Equity Transfer Agreement with Tiancheng Pharma (天誠藥業), pursuant to which Wanbang Pharma transferred its 35% equity interests in Wanbang Tiancheng to Tiancheng Pharma. As at the end of the Reporting Period, Wanbang Pharma held only 45% of equity interests in Wanbang Tianchneg, transforming Wanbang Tiancheng from a subsidiary to an associate.

On 23 November 2018, Fosun Pingyao, a subsidiary, entered into an Equity Transfer Agreement with Ye Xueqiang (葉雪強), Wang Liwen (王立文) and Hu Xueke (胡學科), pursuant to which Fosun Pingyao transferred its entire equity interests in Anji Innovation to Ye Xueqiang, Wang Liwen and Hu Xueke. As at the end of the Reporting Period, Fosun Pingyao no longer held any equity interests in Anji Innovation.

The disposals of the subsidiaries in 2018 have the following effect on the Group's production and results:

Unit: million Currency: RMB

Name of subsidiary	Disposed through	Net assets as at date of disposal	Net profit from beginning of Reporting Period to date of disposal	Date of disposal
Sichuan Nuoya Medical	Strike-off	–1	–	9 January 2018
Hunan Jingren	Equity transfer	64	–	17 January 2018
Heilongjiang Wanbang	Equity transfer	–1	1	11 April 2018
Wanbang Tiancheng	Equity transfer	–10	–13	29 October 2018
Anji Innovation	Equity transfer	13	0	10 December 2018

E. Core Competence Analysis

According to its strategy, the Group mainly develops its pharmaceutical manufacturing and R&D as well as healthcare services segments. It also maintains its long-term investment in Sinopharm. The pharmaceutical manufacturing and R&D as well as medical devices and medical diagnosis segment of the Group are in a leading position in the industry. The healthcare services business of the Group also took the lead in terms of business development and integration capability in the industry. The core competitiveness of the Group can be reflected in its multi-layered product lines, strong R&D capability, highly standardized production management capability, high-quality service capability, professional marketing capability and international business development and integration capability, as well as the capability of constructing a global manufacturing and supply chain with cost advantages.

In addition, the Group's capabilities in investment, merger and acquisition activities and consolidation have been widely recognized in the pharmaceutical industry, providing a solid foundation for the Group to make a leap-forward development in the future. The dual listing status creates favorable conditions for the Group to rapidly expand its scale of operation and enhance its competitiveness through merger and acquisition activities.

In order to maintain its continuous growth, the Group will continue to follow the direction of China's Thirteenth Five-year Plan in relation to the pharmaceutical industry, take advantage of its competitive strengths and adhere to the strategies of organic growth, external expansion and integrated development.

F. Employees and Remuneration Policies

As at the end of the Reporting Period, the Group had a total of 28,245 employees. The employee's remuneration policies of the Group are formulated on the basis of the results, work experience and salary level prevailing in the market.

3. The Board's Discussion and Analysis on Future Development of the Company

A. Competition and Development Trends of the Industry

In 2019, the pharmaceutical and healthcare industry of China enters into a stage of crucial transformation, presenting both opportunities and challenges. In terms of market demand and payment, three factors are driving the continuous development of the pharmaceutical industry in China, namely, the accelerated aging process in the country, the Government's investment in the pharmaceutical and health industry, which is continuously increasing, and the increase in per capita disposable income. Moreover, the prevalence of geriatric diseases, chronic diseases, cancer and autoimmune diseases will grow continuously in the foreseeable future. There are many patients' needs to be met. These drivers will continue to exist and push the industry to develop at a pace faster than the GDP growth. In terms of industry structure, strategic emerging industries are led and encouraged by the State to undergo industrial upgrade and structural optimization, under which, affordable and quality generic drugs as well as high-value innovations based on clinical needs will become the development trend of the pharmaceutical industry. In terms of national policies, a series of policies and their implementation promoted the structural optimization and innovative transformation of enterprises at home, including the introduction of industry policies relating to various rare diseases, the continuous acceleration and deepening of policy reforms relating to medical review and approval, the acceleration and promotion of consistency evaluation relating to oral and injectable drugs, and the releases of the updated National Essential Medicine List in 2018. The Outline of the 13th Five-Year Plan for the national pharmaceutical industry was formulated and released, putting forward higher requirements for the overall industrial structure. Pharmaceutical enterprises with advantages in scale, technology, brand name and marketing are provided an unprecedented opportunity for development. From the perspective of this particular industry condition, the industry background of co-existing challenges and opportunities will remain unchanged in the future.

In terms of challenges, on the one hand, the consistent concern about the drug quality, system standards and standardized operation of pharmaceutical enterprises from the government, especially the increasingly demanding planning and requirements on pharmaceutical distribution channels and marketing environment, have procured the industry to be more regulated, standardized and efficient, which may bring great pressure and challenges for certain enterprises in China in short term. However, in the long run, such efforts will facilitate the upgrading of the entire industrial structure and the further concentration of industry. The accelerated implementation of regulation and control over prices and classification of pharmaceutical products, reform of the medical insurance payment system and the implementation of the centralized pharmaceutical procurement system will pose greater challenges to the overall cost and quality control capabilities of pharmaceutical companies, at the same time promoting the integration progress of the pharmaceutical industry in the country. The level of industrial concentration will rapidly increase by way of acquisition and reorganization. On the other hand, as relatively greater uncertainties lurk within the global economy and international environment, the international expansion of domestic enterprises will be subject to various challenges. However, it will be difficult for the trend of transnational information, technology, talents and capital flows to change in the long run, which presents opportunities for the rapid development of PRC companies with capabilities to innovate independently and carry out international expansion. While facing with favorable capital market conditions and product market opportunities, the international expansion of PRC pharmaceutical enterprises is also consistent with the policy directions of the government's industry plans.

In terms of opportunities, the innovation capacity of enterprises will have rapid development. In particular, some quality pharmaceutical enterprises will realize the market value of their excellent R&D results built up during the Twelfth Five-year Plan period, thus further encouraging domestic pharmaceutical enterprises to increase R&D expenditures and develop high-value-added industry. Besides, in view of the international market, the pace of international development of the domestic pharmaceutical industry as a whole has accelerated. Various quality products have obtained approvals for market access in Europe, the U.S., Japan and other developed countries. The international and global development of PRC pharmaceutical enterprises significantly accelerates, which is in line with the overall policy direction of the government's industry plans.

At the same time, the healthcare services segment in China will further open up and the participation in the segment by social enterprises has been highly encouraged, such as by further opening up market access, encouraging social enterprises to enter into the healthcare services sector and streamlining administrative review procedures for the provision of private healthcare. In addition, the restrictions on approvals and review of multiple practices have been further reduced, and the purchase approval of basic medical insurance has also been gradually loosened. The Group has entered the healthcare services segment since 2009 and is accelerating its deployment of the medical services network while accumulating operation and management experience in medical services.

The Board is of the opinion that the Group, as a pharmaceutical enterprise with a considerable size and being the first pharmaceutical and healthcare group to develop internationally with the use of internet technology while creating product competitiveness, will continue to strengthen its business operation and invest more resources to support product innovation and market expansion. At the same time, the Group will continue to proactively carry out mergers and acquisitions in therapeutic areas with greater unmet needs, and steadily increase its production capabilities to continuously enhance its competitiveness in the market. As for the healthcare service sector, the Group will seize the opportunities and speed up its expansion amid the favorable policies.

B. Development Strategies

In 2019, the Group will continue to be committed to its mission of improving human health, adhere to its corporate philosophy of "Innovation for Good Health", and endeavor to capture the opportunities presented by the broad pharmaceutical market in China, the rapid growth of generic drugs in mainstream markets worldwide as well as the continuous research and development in innovative drugs. It will uphold the "4IN (Innovation, Internationalization, Integration and Intelligentization)" Strategy and adhere to the development model of organic growth, external expansion and integrated development, and further its efforts in acquiring quality companies in the international pharmaceutical industry. By continuing to optimize and integrate resources in the pharmaceutical industry chain and strengthening product innovation and product marketing systems, the Group will actively implement internationalization, enhance the competitiveness of products and the brand and enhance the core competence of the Group, further enhancing its operating results. Meanwhile, the Group will continue to actively explore financing channels domestically and internationally and create favorable conditions for the continuous development of the Group.

C. Operation Plan

In 2019, the development of the pharmaceutical industry will be presented with both challenges and opportunities. The Group will endeavor to optimize its product-oriented strategy, further increase its R&D expenditures, and strengthen R&D efficiency. In addition, the Group will continue to optimize operational efficiency in the healthcare service industry, and to expand the construction of competitive disciplines and enhance quality control so as to expand the operating scale in the segment and improve its capabilities in operation, management and internationalization. Meanwhile, the Group will continue to pay attention to merger and acquisition opportunities of quality pharmaceutical R&D companies abroad and at home, of medical devices and medical diagnosis companies, and within the healthcare service sector, so as to consolidate the pharmaceutical and medical devices distribution of Sinopharm with the retail industry.

In 2019, the Group plans to achieve rapid growth and aim to make revenue of not less than RMB27 billion. Meanwhile, the Group will strive to control costs and various expenses. As a result, the increase in costs will not be greater that the growth in revenue and the cost of sales ratio and management expense (excluding R&D expenses) ratio will be relatively stable. Also, the percentage of R&D expenditure on pharmaceutical manufacturing segment to the total sales revenue from the pharmaceutical business will not be less than 5% so as to enhance profit margin and profitability of the major products.

The above operation objectives do not represent the profit forecast and performance commitment of the Group for 2019. The achievement of the objectives is subject to various internal and external factors with uncertainty. Investors should pay attention to investment risk.

The Group will continue to optimize its control throughout operation and enhance the efficiency of asset operations. Specific strategies and actions include:

(1) The pharmaceutical business of the Group will continue to focus on therapeutic areas such as cardiovascular system, central nervous system, blood system, metabolism and alimentary system, anti-infection and anti-tumor, and proactively push forward the transformation of marketing teams, which highlights professionalism, branding and digitalization. The Group will also step up its R&D efforts and enhance management over the life cycles of products, so as to maintain and further improve their leading positions in the respective market segments. Meanwhile, the Group will increase its R&D expenditures in an effort to develop strategic product lines, and develop R&D systems for new pharmaceutical products that are in line with international standards, in order to solidify the core competence of its pharmaceutical manufacturing business.

(2) The Group will continue to seize the business and investment opportunities arising from the opening up of the healthcare services segment to social enterprises. The Group will continuously increase its investments in the healthcare services segment in an effort to expand the scale of our healthcare services business and to innovate its model. Meanwhile, the Group will actively realise the operation mode of a medical group by seeking new mergers and acquisitions opportunities in healthcare services, so as to form a diversified and multi-layer layout in the Pearl River Delta Greater Bay Area, Huaihai Economic Zone and Yangtze River Delta which consists of medical groups and medical associations, an integration of hospitals and specialty hospitals, and linkage between chain specialist clinics and third-party medical centers. The healthcare institutions controlled by the Group will further strengthen their disciplines and quality management, so as to enhance operational efficiency and accelerate business development.

(3) The Group will continue to develop and introduce medical devices and diagnostic products, launch new products and enrich existing product lines. The Group will continue to enhance the development of domestic and overseas sales network and its professional sales team, and innovate a diversified marketing model focusing on major technology platforms and innovative technologies, so as to increase the market share of its products. The Group will also actively seek opportunities to invest in quality companies both domestically and internationally, with a view to becoming a leading integrated supplier of product and services.

(4) The Group will continue to consolidate and rapidly develop Sinopharm's pharmaceutical and medical devices distribution business, and continue to expand Sinopharm's competitive advantages in pharmaceutical and medical devices distribution as well as in the retail sector.

Pharmaceutical Manufacturing and R&D

In 2019, the Group will continue to focus on innovation and international development, and strive to develop strategic products. Whilst actively seeking opportunities for mergers and acquisitions as well as consolidation in the industry, the Group seeks to achieve continuous growth of its revenue and profit.

The Group will proactively push forward the development of professional marketing teams and follow-on products in therapeutic areas such as cardiovascular system, central nervous system, blood system, metabolism and alimentary system, anti-tumor and anti-infection. In addition to solidifying the market position and product growth in its existing key segments and products, the Group will further its efforts in promoting products such as the anti-malaria series including the rituximab (Han Li Kang) and antimalarial series such as artesunate, febuxostat tablets (You Li Tong), recombinant human erythropoietin (Yi Bao), calcium dobesilate (Ke Yuan), new compound aloe capsules (Ke Yi), pitavastatin calcium tablets (Bang Zhi), quetiapine fumarate tablets (Qi Wei) and cefmetazole sodium for injection (Xi Chang and Cefmetazon), so as to maintain and further improve the leading position in their respective market segments.

The Group will continue to adopt the strategy to integrate imitation with innovation to combine international technology licenses with domestic industry-university-research cooperation, and increase its R&D expenditures driven by the cooperation tie of "project plus technology platform". Project approval process for new products will continue to be strictly implemented by the Group in order to enhance the efficiency of research and development. The Group will strengthen the development of the teams for the registration of pharmaceutical products in order to accelerate the approval process of existing products as well as to support innovation. The Group will actively facilitate the R&D and registration processes for products including monoclonal antibody products and small molecular innovative drugs and ensure that the development and registration processes will be completed on schedule. The Group will also accelerate its efforts to link its R&D with the market situation so that demand and supply are better matched. The Group will fully take advantage of the benefits of various R&D platforms, and strive to develop strategic product lines as well as R&D systems that are in line with international standards for new pharmaceutical products, and accelerate the development and reserve for follow-on strategic products.

At the same time, the Group will seize such opportunity of consistency evaluation on generic drugs, to maintain and expand its market position in advantage types and make a new deployment in the market for the Group's products. The Group will continue to promote the consistency evaluation of nearly 60 generic drugs, which will be selected from therapeutic areas such as the cardiovascular system, the metabolism and alimentary system, the central nervous system and anti-infection. In addition, by participating in the pilot system for the holder of listing license, the Group will promote the development and continuous improvement of the management model and experience relating to the drug listing license holder system, and exert quality control over the entire life cycle of drugs.

In addition, the Group will also further expand and intensify its cooperation with the leading pharmaceutical companies in the world in order to give full play to the advantages of connecting momentum in China to global resources, making innovations in cooperation model and searching for new momentum. In 2019, the Group will further facilitate the listing of Shanghai Henlius on the Hong Kong Stock Exchange, and proceed to make use of the industry experience of the Group and the leading research and development in the world for the purpose of active cooperation among pharmaceutical manufacturing enterprises, in order to solidify the core competence of its pharmaceutical manufacturing business.

Healthcare Services

In 2019, the Group will continue to seize the business and investment opportunities arising from the opening up of the healthcare services segment to social enterprises. The Group will continuously increase its investments in the healthcare services segment, and strengthen the established strategic deployment of its healthcare services business, which integrates high-end healthcare services in coastal developed cities and specialty hospitals and general hospitals in second-tier and third-tier cities, in an effort to expand the scale of our healthcare services business. The healthcare institutions controlled by the Group will further strengthen their discipline construction and quality management, enhance operational efficiency and accelerate their business development. With Chancheng Hospital gaining JCI international certification, the Group further increasing its shareholdings in Chancheng Hospital, and the launch of the Health Hive Project, the radiation coverage and regional influence of Chancheng Hospital's medical services continued to expand, and the layout of the Group's healthcare services business enjoyed improvements in Southern China. The Group will also facilitate the reconstruction and expansion of the Taizhou Zhedong Hospital, Zhongwu Hospital and Guangji Hospital as well as the implementation of the Huai'an Xinghuai International Hospital Project, and actively seek new opportunities for merger and acquisition of healthcare services. Furthermore, the Group will continue to support and promote the development of United Family Hospital, a high-end brand for healthcare services, and in particular the business expansion of Guangzhou United Family Hospital and Shanghai United Family Pudong Hospital, in order to accelerate the development of its high-end healthcare services characterized by multiple levels, diversification and extensibility.

Medical Devices and Medical Diagnosis

In 2019, the Group will increase its investments in R&D, manufacturing and sales of medical devices. Sisram Medical will further stimulate the R&D and sales of medical and medical cosmetic devices and actively explore synergy and innovation in service models with other business segments in order to expand the coverage of the industry chain. Meanwhile, the Group will continue to leverage its strengths in expanding international operations, and with its existing overseas companies as platforms, vigorously explore cooperation with overseas companies on the basis of proactive integration and seek investment opportunities in outstanding domestic and foreign medical devices enterprises and introduction of high-end medical devices, while using precise medical care as the entry point to achieve industrial upgrade and growth of scale in its medical devices business. The Group will continue to expand its product portfolio and diversify its product lines and marketing channels through investment, acquisitions and mergers of the relevant companies, gradually forming a closed circuit.

In 2019, the Group will continue to develop and introduce products, launch new products and enrich new product lines for its diagnostic business. The Group will continue to enhance the development of domestic and overseas sales network and its professional sales team, and innovate a diversified marketing model focusing on major technology platforms and innovative technologies. The Group will also actively seek opportunities to invest in quality companies both domestically and internationally, with a view to becoming a leading integrated supplier of diagnosis product and services in the PRC and participating in the international market.

Pharmaceutical Distribution and Retail

In 2019, the Group will continue to facilitate consolidation and rapid development of Sinopharm in its pharmaceutical distribution business, and the continued expansion of the competitive advantages of Sinopharm in the pharmaceutical and medical devices distribution and retail sector.

Financing

In 2019, the Group will continue to explore the financing channels domestically and internationally, continuously optimize its financing structure and debt structure, lower financial costs and further enhance its core competence, so as to consolidate its leading position in the industry.

D. Financial Needs Required by the Group for Maintaining the Current Operations and Completing Investment Projects under Construction

With the organic growth of the Group and the steady growth in the industry consolidation, the Group expects to invest approximately RMB2,000 million for production capacity expansion, plant relocation and the development of cGMP and reconstruction and expansion of hospitals in 2019. Primary sources of funding include, among others, the Group's own capital, cash flow from operating activities, and proceeds from debt and equity financing.

E. Potential Risks

I. Risks in relation to industry policies and system reforms

Pharmaceutical industry is one of the industries most affected by national policies in the PRC. Enterprises which engage in production and sale of pharmaceutical products, medical devices and diagnostic products must obtain relevant permits issued by food and drug supervision and administration authorities. The product quality is regulated under stringent laws and regulations. The pharmaceutical industry is currently at the stage where relevant state policies are under significant adjustment and is strictly controlled. Although the Group's major business segments in manufacturing and sale for pharmaceutical products, diagnostic products and medical devices have obtained the above-mentioned permits and approvals issued by food and drug supervision and administration authorities, the state may adjust its regulations in respect of the manufacturing and sale of pharmaceutical products, diagnostic products and medical devices. If the Group is unable to make corresponding adjustment and improvement, the production and operation of the Group may be adversely affected. In addition, with the official launch of reform of drugs and pharmaceutical system, industry consolidation and transformation in business models are inevitable. The exploratory medical reform in the PRC will directly affect the development trend of the entire pharmaceutical industry. Implementation of policies and measures regarding drug price reduction, production quality regulations and environmental protection practice will also directly affect the profitability and production cost of pharmaceutical enterprises, which in turn affect the production and operation of the Group.

In the field of healthcare services, uncertainties remained in the reforms of public hospitals, which accounted for the mainstay of medical services. They proposed a variety of strategic options for the entry of social forces, and were of the view that social forces might contribute greatly if state-owned enterprises in medical institutions were given policy opportunities.

II. Market risks

Due to the huge market size and great development potential of the pharmaceutical market in the PRC, leading international pharmaceutical enterprises have been entering the market. At the same time, the participation of enterprises from other industries in the competition and the existence of numerous domestic pharmaceutical enterprises across the PRC result in the excessive number of pharmaceutical manufacturing companies, fragmented market and low market concentration. Hence, market competition has been intensified. The intense competition among domestic pharmaceutical companies and the implementation of reform measures relating to, among others, deregulation of drug prices and medical insurance fund coverage have increased the risk of uncertainty in product pricing of pharmaceutical manufacturing companies.

With respect to the overseas regulatory markets dominated by the United States, which had been entered into through acquisitions, the competition for generic drugs was fierce, the price of which continued to fall, and drug regulatory agencies implemented increasingly stringent requirements on production quality. These factors constituted unavoidable risks during the deepening of internationalization. In emerging markets such as Africa, with the continuous entry of generic pharmaceutical companies such as India, the Group was also under pressure from government tenders. In some resource-based countries, there are also potential payment risks brought about by currency/foreign exchange instability.

III. Business and operating risks

Being a special commodity, pharmaceutical products are directly related to life and health. The quality issues arising from raw materials, production, transportation, storage and usage of pharmaceutical products may have adverse impact on the production, operation and market reputation of the Group. On the other hand, in the event that the new drugs of the Group do not align with the changing market demand, or the Group fails to develop new products or the Group's new products do not receive positive market response, the operating costs of the Group will increase, which adversely affected the Group's profitability and future development.

Pharmaceutical manufacturing companies are exposed to environmental risks during the production process. Residue, waste gas, waste liquid and other pollutant produced will be harmful to the nearby environment if they are not treated properly, which in turn affect the normal production and operation of the Group. Despite the strict compliance by the Group of the relevant environmental protection laws, regulations and standards for its waste treatment and emission of residue, waste gas and waste liquid, the environmental protection costs incurred by the Group may increase in light of the enhanced social awareness on environmental protection over time, and the potential implementation of more stringent environmental protection laws and regulations by central and local government.

There also exist risks of medical malpractice in the healthcare services segment, including complaints and disputes between doctors and patients arising from medical malpractice, medical misdiagnosis and incidents relating to defects of treatment devices. In the event of serious medical malpractice, relevant compensation and loss may be incurred by the Group, and operation results, brand and market reputation of the Group's healthcare services segment could be adversely affected.

IV. Management risks

(1) Management risks in relation to business expansion

With the implementation of the internationalization strategies of the Group, the scale of export of the Group's products and the region coverage of its overseas production will be expanded. The Group may face various problems during the process of implementation of internationalization strategies, including unfamiliarity with the overseas markets, difference in the demands between overseas and domestic customers, and implementation of trade protection policies in certain countries. At the same time, with the further expansion in global sales network of the Group, the scale of sales and the scope of business scope, there are higher requirements on the operating and management ability of the Group. If the Group's capability regarding production, marketing, quality control, risk management, compliance with integrity and talent training does not align with the development pace of the internationalization of the Group or the requirement for the expansion of the Group, the Group is exposed to operating and management risks. In addition, as the proportion of procurement, sales and acquired businesses that are settled in foreign currencies has been increasing, the exchange fluctuation between RMB and other currencies may affect the operation of the Group.

(2) Risks arising from acquisitions and reorganizations

It is one of the development strategies of the Group to facilitate acquisitions and business consolidations so as to achieve economies of scale. However, there might be legal, policy and operating risk exposures during the process of acquisitions and business consolidations. Upon successful acquisitions, the requirements on the operation and management of the Group will become higher. If acquisitions cannot bring about the synergistic impact, the operating results of the Group may be adversely affected.

V. Force majeure risks

Severe natural disasters and abrupt public health incidents may harm the properties and personnel of the Group, and may affect the ordinary production and operation of the Group.

Other Events

1. Share Increase Plan of Mr. Wu Yifang

On 30 December 2016, the Company was notified by Mr. Wu Yifang, an executive Director, president and chief executive officer of the Company, that he intended to increase his shareholding in the Company (including A Shares and/or H Shares) on the secondary market during the 12-month period from 3 January 2017 (inclusive), if and where appropriate, and the cumulative amount thereof shall not be less than RMB20 million. As at 2 January 2018 (after trading hours), the implementation period of the share increase plan of Mr. Wu Yifang lapsed. From 3 January 2017 to 2 January 2018, Mr. Wu Yifang acquired a total of 755,900 shares (including 443,900 A Shares and 312,000 H Shares) of the Company for an aggregate amount of approximately RMB20.90 million, representing approximately 0.03% of the total number of shares issued by the Company as at 2 January 2018 (ie. 2,495,131,045 shares).

2. The Restricted A Share Incentive Scheme II

On 30 October 2017, the Board considered and approved the repurchase and cancellation of 70,150 Restricted A Shares which were granted to grantees of the Restricted A Share Incentive Scheme II, namely Mr. Dong Zhichao, Mr. Wang Shuhai and Mr. Deng Jie, at a buy-back price of RMB10.54 per share. Such portion of shares had not been unlocked. The total consideration for the repurchase amounted to RMB739,381. Such shares were cancelled on 18 May 2018.

On 13 November 2018, the Board considered and approved the repurchase and cancellation of 162,350 Restricted A Shares which were granted to grantees of the Restricted A Share Incentive Scheme II, namely Mr. Li Chun, Mr. Li Dongjiu, Mr. Shao Ying, Ms. Shi Jiajue, Ms. Zhou Ting, Ms. Yan Jia, Ms. Zhang Ye, Mr. Deng Jie and Mr. Song Dajie at a repurchase price of RMB10.54 per share. Such Restricted A Shares had not been unlocked. The total consideration for the repurchase amounted to RMB1,711,169. The number of grantees of the Restricted A Share Incentive Scheme II reduced to 32 from 41. Such Restricted A Shares will be repurchased and cancelled by the Company.

On 19 November 2018, the Board considered and approved, the resolution in relation to the fulfillment of the conditions for unlocking the third tranche of the Restricted A Shares in respect of the Restricted A Share Incentive Scheme II, and the conditions for unlocking the relevant Restricted A Shares have been satisfied by 32 grantees. As a result, a total of 712,300 Restricted A Shares were unlocked, and the listing and trading of such Restricted A Shares commenced on 30 November 2018.

3. The Public Issuance of Corporate Bonds to Qualified Investors

The Shareholders approved the public issuance of Corporate Bonds by the Company on 29 June 2017.

The approval on the public issuance of the Corporate Bonds to the qualified investors was issued by CSRC on 5 February 2018, pursuant to which it approved the Company to publicly issue the Corporate Bonds not exceeding RMB5 billion to qualified investors.

The issuance of the First Tranche of Corporate Bonds in 2018, "18 Fosun 01", was completed by the Company on 15 August 2018 and the issuance size was RMB1.3 billion. The value date of "18 Fosun 01" is 13 August 2018, with the final coupon rate at 5.10%.

The public issuance of the Corporate Bonds (Second Tranche) in 2018, namely type 1 "18 Fosun 02" and type 2 "18 Fosun 03", were completed by the Company on 4 December 2018 and the issuance size of "18 Fosun 02" and "18 Fosun 03" was RMB500 million and RMB1 billion, respectively. The value date of "18 Fosun 02" and "18 Fosun 03" is 30 November 2018, with the final coupon rate at 4.47% and 4.68%, respectively.

4. **2017 Shareholding Increase Plan of the Controlling Shareholder**

   As notified by Fosun High Tech, the controlling shareholder of the Company, in writing on 9 May 2017 and 24 May 2017, Fosun High Tech intended to increase its shareholding in the Company (including A Shares and/or H Shares) on the secondary market by itself and parties acting in concert with it during the 12-month period from 9 May 2017 (inclusive), if and where appropriate, and the cumulative total amount thereof shall not be less than RMB70 million. The increased shareholding percentage of Fosun High Tech and parties acting in concert with it shall not in aggregate exceed 2% of the total issued shares of the Company prior to the completion of H Shares placing in May 2017 (i.e. 2,414,474,545 shares). As of 8 May 2018 (after trading hours), the implementation period of the 2017 shareholding increase plan of the controlling shareholder of the Company lapsed. From 9 May 2017 to 8 May 2018, Fosun High Tech acquired a total of 8,852,710 shares (including 4,036,710 A Shares and 4,816,000 H Shares) of the Company for an aggregate amount of approximately RMB245.08 million, and the increased shareholding percentage represents approximately 0.37% of the total issued shares of the Company prior to the completion of H Shares placing in May 2017.

5. **2018 Shareholding Increase Plan of the Controlling Shareholder**

   As notified and confirmed by Fosun High Tech, the controlling shareholder of the Company, in writing on 3 July 2018 and 26 July 2018, Fosun High Tech (and/or by parties acting in concert with it) intended to further increase its shareholding in the Company (including A Shares and/or H Shares) on the secondary market during the 12-month period from 3 July 2018 (inclusive), if and where appropriate, and the cumulative total amount thereof shall not be less than RMB100 million. The increased shareholding percentage of Fosun High Tech and parties acting in concert with it shall not in aggregate exceed 2% of the total issued shares of the Company prior to the completion of H Shares placing in July 2018 (i.e. 2,495,060,895 shares). As at the end of the Reporting Period, since the implementation of shareholding increase plan by controlling shareholder, Fosun High Tech acquired a total of 15,948,300 shares of the Company (including 699,800 A Shares and 15,248,500 H Shares) for an aggregate amount of approximately RMB407.50 million, representing approximately 0.64% of the total issued shares of the Company prior to Placing of H Shares.

6. **Issuance of H Shares under General Mandate**

   The Approval on the Issuance of Overseas Listed Foreign Shares of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (Zheng Jian Xu Ke [2018] No. 802) (《關於核准上海復星醫藥(集團)股份有限公司增發境外上市外資股的批覆》) was issued by the CSRC on 8 May 2018, approving the Company's issuance of not more than 96,788,100 additional overseas listed foreign shares (H Shares) with a nominal value of RMB1.00 each, all of which shall be ordinary shares.

   On 26 July 2018, the Company successfully allotted and issued a total of 68,000,000 new H Shares to not less than six placees at the price of HK$38.20 per placing share. The net proceeds from the Placing of H Shares were approximately HK$2,579.22 million.

7. The Mandate to Issue Inter-bank Market Debt Financing Instruments

The mandate to issue inter-bank market debt financing instruments was approved by the Shareholders on 29 June 2017. The NAFMII accepted the registration for the Company's mid-term notes and super short-term commercial papers by issuing the "Notice of Acceptance for Registration" (Zhong Shi Xie Zhu 2018 No. MTN208) and "Notice of Acceptance for Registration" (Zhong Shi Xie Zhu 2018 No. SCP90) on 17 April 2018. The registered amounts for each of the Company's mid-term notes and super short-term commercial papers were RMB5 billion, respectively, which will be effective for 2 years commencing from the date of issuance of the relevant notices. The Company may issue the aforementioned in tranches within the effective period of registration.

The issuance of the first tranche of super short-term commercial papers for 2019 was completed by the Company on 21 January 2019 with the aggregate principal amount of RMB1 billion. The value date of such super short-term commercial papers issued is 21 January 2019, with the final coupon rate at 3.73%.

8. Shanghai Henlius Share Option Incentive Scheme

The Shareholders approved, among other matters, the Shanghai Henlius Share Option Incentive Scheme (Shanghai Henlius being a subsidiary of the Company) on 29 June 2017.

The termination of the Shanghai Henlius Share Option Incentive Scheme was approved by shareholders of Shanghai Henlius at its general meeting held on 29 August 2018. As of 29 August 2018, no share option of Shanghai Henlius was granted under the Shanghai Henlius Share Option Incentive Scheme.

9. Proposed spin-off and overseas listing of Shanghai Henlius

The Shareholders approved, among other matters, the resolution regarding the proposed spin-off and overseas listing of Shanghai Henlius on 27 November 2018. On 5 December 2018, the CSRC accepted the application for administrative permission for overseas initial public offering filed by Shanghai Henlius. On 13 December 2018, Shanghai Henlius had submitted a listing application (Form A1) to Hong Kong Stock Exchange through its joint sponsors for the listing of and permission to deal in the H shares of Shanghai Henlius on the Main Board of Hong Kong Stock Exchange.

Five-Year Statistics

Unit: million Currency: RMB

Year	2014	2015	2016	2017	2018
Operating Results					
Revenue	11,938	12,502	14,506	18,362	**24,714**
Profit for the year	2,370	2,871	3,221	3,585	**3,020**
Profit for the year attributable to owners of the parent	2,113	2,460	2,806	3,124	**2,708**
EBITDA	3,697	4,499	4,799	5,585	**5,856**
Proposed final dividend (in RMB)	0.28	0.32	0.35	0.38	**0.32**
Earnings per share (in RMB)					
Earnings per share — basic	0.92	1.07	1.21	1.27	**1.07**
Earnings per share — diluted	0.92	1.06	1.20	1.27	**1.07**
Equity					
Total equity	19,046	20,613	25,193	29,685	**33,536**
Equity attributable to owners of the parent	16,618	18,125	22,133	25,270	**27,921**
Equity per share attributable to owners of the parent	7.19	7.83	9.17	10.13	**10.89**
Debt					
Total debt	8,796	10,895	11,710	20,287	**23,203**
Gearing ratio (%)	24.93%	28.56%	26.79%	32.77%	**32.91%**
Interest coverage (times)	8.91	9.57	9.83	9.66	**6.30**
Assets					
Cash and bank balances	3,696	4,029	5,996	7,249	**8,547**
Property, plant and equipment	5,695	5,778	6,325	8,353	**9,218**
Prepaid land lease payments	862	1,042	1,030	1,324	**1,523**
Investments in joint ventures	121	225	248	647	**447**
Investments in associates	11,727	13,638	15,870	17,747	**20,924**
Available-for-sale investments *(Note 1)*	2,499	3,314	2,674	2,673	**—**
Equity investments at fair value through profit or loss	34	34	48	219	**—**
Financial assets at fair value through profit or loss — non-current *(Note 2)*	—	—	—	—	**2,506**
Financial assets at fair value through profit or loss — current *(Note 2)*	—	—	—	—	**616**
Equity investments designated at fair value through other comprehensive income *(Note 2)*	—	—	—	—	**126**
Segment net profit					
Pharmaceutical manufacturing and R&D	1,095	1,238	1,640	1,838	**1,755**
Healthcare service	112	76	149	223	**209**
Medical diagnosis and medical devices	127	272	323	387	**440**
Pharmaceutical distribution and retail	863	1,037	1,284	1,416	**1,515**

EBITDA = profit before tax + finance costs + depreciation and amortization

Note 1: Under the new financial instrument standards implemented by the Group during the Reporting Period, "available-for-sale investments" is no longer an applicable item.

Note 2: Under the new financial instrument standards implemented by the Group during the Reporting Period, the portion originally held as available-for-sale investments were classified under this item.

Report of the Directors

The Directors are pleased to present their 2018 report and the audited consolidated financial statements of the Company for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the development, manufacture and sale of pharmaceutical products and medical equipment, import and export of medical equipment, healthcare services and the provision of related and other consulting services and investment management.

Details of the principal activities of the Group's principal subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the Reporting Period.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2018 and the state of affairs of the Group at that date are set out in the financial statements and the accompanying notes on pages 96 to 240.

The Board has proposed a final dividend of RMB0.32 per share, inclusive of tax, for the year ended 31 December 2018, which will be subject to the approval by the Shareholders at the forthcoming AGM.

The Company will dispatch a circular containing, inter alia, further information relating to the proposed distribution of final dividend and the forthcoming AGM to Shareholders as soon as practicable.

PROFIT DISTRIBUTION PLAN

According to the Articles of Association, the Company may distribute its profit by means of cash, shares or a combination of cash and shares. If the Company satisfies the conditions for cash dividends, priority should be given to profit distribution by means of cash dividends. The Company makes a profit distribution each year in principle, and the Board may propose to distribute interim cash dividends under the circumstances of the Company. Under the circumstances that the profit of the year and the accumulated undistributed profit are both positive, the cash dividends for the year of the Company should not be less than 10% of the distributable profit realized for the year in principle if the Company does not have any major investment plans or incur any significant cash expenses. The specific plan for distribution shall be decided by the Shareholders at the general meeting according to the Company's actual operation status of the year. The Board shall comprehensively take account of the features of the industry where the Company operates, its stage of development, its own business model, and profitability and the factors such as whether there is significant capital expenditure arrangement in distinguishing the following situations and form different cash dividend distribution proposals:

(a) If the Company is at the mature stage of development and has no significant capital expenditure arrangement, the proportion of cash dividends shall be at least 80% in the profit distribution;

(b) If the Company is at the mature stage of development and has significant capital expenditure arrangement, the proportion of cash dividends shall be at least 40% in the profit distribution;

(c) If the Company is at the growth stage and has significant capital expenditure arrangement, the proportion of cash dividends shall be at least 20% in the profit distribution.

If it is difficult to distinguish the Company's stage of development but there is significant capital expenditure arrangement, the profit distribution may be dealt with pursuant to the rules in the preceding paragraph.

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

According to the requirements of the PRC Enterprise Income Tax Law effective from 1 January 2008 and the implementation rules thereof and the Notice on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders which are Overseas Non-resident Enterprises (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (Guo Shui Han 2008 No. 897) issued by the State Administration of Taxation on 6 November 2008, the 2018 Final Dividend payable to the non-resident enterprise Shareholders whose names appear on the registers of members of H Shares is subject to a withholding tax at a rate of 10%. Any Shares registered in the name of the non-individual registered Shareholders, including HKSCC Nominees Limited, other nominees or trustees and other groups and organizations will be treated as being held by non-resident enterprise Shareholders and therefore will be subject to the withholding of the enterprise income tax at the rate of 10%.

According to the Notice on Matters Concerning the Levy and Administration of Individual Income Tax after the Repeal of Guo Shui Fa 1993 No. 045 (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) (Guo Shui Han 2011 No. 348) issued by the State Administration of Taxation on 28 June 2011 and the Letter on the Tax Arrangements on Dividends Paid to Hong Kong Residents by Mainland Companies issued by the Hong Kong Stock Exchange on 4 July 2011, when domestic companies other than foreign invested enterprises which issue shares in Hong Kong distribute dividends to their shareholders, the individual shareholders in general will be subject to a withholding of individual income tax at a rate of 10%. When the Company distributes the 2018 Final Dividend to the individual holders of H Shares, such dividend will be subject to the withholding of individual income tax at a rate of 10%. However, if otherwise provided by tax laws, relevant tax treaties or notices, the tax will be withheld in accordance with the relevant requirements and tax levy and administration requirements.

The arrangement relating to withholding tax, if any, in respect of the 2018 Final Dividend to be paid by the Company to the investors who invest through the Shanghai Stock Exchange in the H Shares of the Company listed on the Main Board of the Hong Kong Stock Exchange will be finalized with the relevant PRC authorities prior to the payment of the 2018 Final Dividend.

AGM AND CLOSURE OF REGISTER OF MEMBERS OF H SHARES

The notice of the forthcoming AGM will be published and dispatched to Shareholders in accordance with the requirements of the Hong Kong Listing Rules and the Articles of Association. The Company will announce the period of closure of register of members of H Shares in the notice of AGM to be issued.

SUMMARY FINANCIAL INFORMATION

A summary of the financial information for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out in the section headed "Five-Year Statistics" in this annual report.

ISSUED CAPITAL

Details of movements in the Company's share capital during the Reporting Period are set out in note 35 to the financial statements.

SUBSIDIARIES

Particulars of the names, places of incorporation and issued/registered share capital of the Company's principal subsidiaries are set out in note 1 to the financial statements.

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

(a) The Restricted A Share Incentive Scheme II

As (1) two of the grantees of the Restricted A Share Incentive Scheme II, namely Mr. Dong Zhichao and Mr. Wang Shuhai, had resigned from the Company and terminated their employment contracts with the Company or its subsidiaries; (2) the 2016 performance appraisal results of Mr. Deng Jie, a grantee of the Restricted A Share Incentive Scheme II, was unsatisfactory, and he no longer fulfilled the conditions for incentives, on 30 October 2017, the Board considered and approved the repurchase and cancellation of 70,150 Restricted A Shares which were granted to Mr. Dong Zhichao, Mr. Wang Shuhai and Mr. Deng Jie which had not been unlocked at a price of RMB10.54 per share for the repurchase. The total consideration for the repurchased shares amounted to RMB739,381. The repurchased Restricted A Shares were cancelled on 18 May 2018.

As (1) the grantees of the Restricted A Share Incentive Scheme II, namely Mr. Li Chun, Mr. Li Dongjiu, Mr. Shao Ying, Ms. Shi Jiajue, Ms. Zhou Ting, Ms. Yan Jia, Ms. Zhang Ye and Mr. Deng Jie, had resigned from the Company or its subsidiaries and terminated their employment contracts with the Company or its subsidiaries; (2) the 2017 performance appraisal results of Mr. Song Dajie, a grantee of the Restricted A Share Incentive Scheme II, was unsatisfactory, and he no longer fulfilled the conditions for incentives, on 13 November 2018, the Board considered and approved the repurchase and cancellation of 162,350 Restricted A Shares which were granted to the above 9 grantees of the Restricted A Share Incentive Scheme II, which had not been unlocked at a price of RMB10.54 per share for the repurchase. The total consideration for the repurchased shares amounted to RMB1,711,169. The number of grantees of the Restricted A Share Incentive Scheme II reduced to 32 from 41. The relevant Restricted A Shares are subject to repurchase and cancellation by the Company.

On 19 November 2018, the Board considered and approved, the resolutions in relation to the fulfillment of the conditions for unlocking the third tranche of the Restricted A Shares under the Restricted A Share Incentive Scheme II, and the conditions for unlocking under the Restricted A Share Incentive Scheme II have been satisfied by 32 grantees. As a result, a total of 712,300 Restricted A Shares were unlocked, and the listing and trading of such Restricted A Shares commenced on 30 November 2018.

(b) Placing of H Shares under General Mandate

On 18 July 2018, the Company entered into a placing agreement with the placing agents in relation to the Placing of H Shares at a placing price of HK$38.20 per H Share (the closing price quoted on Hong Kong Stock Exchange was HK$42.00 per H Share on the date of the placing agreement). The Placing of H Shares represents an opportunity to raise capital for the Company while broadening the Shareholders base and capital base of the Company.

On 26 July 2018, the Company announced that all conditions precedent to the Placing of H Shares were satisfied, and completion of the Placing of H Shares took place on 26 July 2018. An aggregate of 68,000,000 new H Shares, representing approximately 12.32 % of the total number of H Shares in issue as enlarged by the allotment and issue of H Shares, were successfully allotted and issued by the Company on 26 July 2018 at the placing price of HK$38.20 per H Share to not less than six placees, who are professional, institutional and/or other investors. The total proceeds from the Placing of H Shares amounted to approximately HK$2,579.22 million. The net price (after deducting all applicable costs and expenses, including commission, legal fees and levies) raised per H Share upon completion of Placing of H Shares was approximately HK$37.91. The net proceeds (after deducting all applicable costs and expenses, including commission, legal fees and levies) from the Placing of H Shares was intended to be used to repay interest-bearing debts, replenish the working capital of the Group, and finance potential mergers and acquisitions domestically or overseas.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

DISTRIBUTABLE RESERVES

The amount of the Company's reserves available for distribution as at 31 December 2018, calculated in accordance with PRC rules and regulation, was RMB6,968 million.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the total purchases attributable to the Group's five largest suppliers were less than 30%, and the total turnover attributable to the Group's five largest customers was less than 30%.

Report
of the Directors

DIRECTORS

As at the end of the Reporting Period, the Board was constituted by eleven Directors. The Directors are as follows:

Executive Directors

Mr. Chen Qiyu (陳啟宇) *(Chairman)*
Mr. Yao Fang (姚方) *(Co-Chairman)*
Mr. Wu Yifang (吳以芳) *(President and Chief Executive Officer)*

Non-executive Directors

Mr. Wang Qunbin (汪群斌)
Mr. Wang Can (王燦)
Ms. Mu Haining (沐海寧)
Mr. Zhang Xueqing (張學慶)

Independent non-executive Directors

Mr. Cao Huimin (曹惠民)
Mr. Jiang Xian (江憲)
Dr. Wong Tin Yau Kelvin (黃天祐)
Mr. Wai Shiu Kwan Danny (韋少琨)

On 26 March 2018, Mr. Guo Guangchang and Ms. Kang Lan resigned as non-executive Directors. At the annual general meeting held on 27 June 2018, Ms. Mu Haining and Mr. Zhang Xueqing were elected by the Shareholders as non-executive Directors of the seventh session of the Board.

SUPERVISORS

As at the end of the Reporting Period, the Supervisors are as follows:

Ms. Ren Qian (任倩) (Chairman)
Mr. Cao Genxing (曹根興)
Mr. Guan Yimin (管一民)

On 11 January 2018, the employee congress was held by the Company. Ms. Ren Qian was elected by the employee congress of the Company to hold the position of staff Supervisor with effect from 11 January 2018; on the same day, Ms. Ren Qian was elected by the Supervisory Committee to hold the position of the new chairman for the seventh session of the Supervisory Committee. Mr. Li Chun ceased to serve as chairman of the Supervisory Committee and the staff Supervisor.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors, Supervisors and the senior management of the Company are set out on pages 82 to 89 of this annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors has entered into a service contract with the Company for a term of no more than three years until the conclusion of the forthcoming AGM which will elect members of the next session of the Board and Supervisory Committee. None of the Directors and Supervisors has an unexpired service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The executive Directors who are also the senior management of the Company are not entitled to receive by way of remuneration for their services as being executive Directors, but entitled to receive by way of remuneration for their services as the senior management of the Company, and such remuneration will be assessed and determined by the Board. The remuneration for the full-time Directors should be determined by the general meetings based on the economic benefits received by the Company and by reference to other factors including the responsibilities and performance of the Directors and the remuneration standards of the industry. The allowances for the independent non-executive Directors should be determined by the Shareholders at the general meetings of the Company.

Details of the remuneration of Directors, Supervisors and chief executives and details of the five highest paid employees' remuneration are set out in note 10 and note 11 to the financial statements.

For the year ended 31 December 2018, the remuneration, including salaries, allowances and benefits in kind, performance-related bonuses, pension scheme contribution and the shares awarded under the Restricted A Share Incentive Scheme II, of the Company's senior management (excluding Ms. Lo Yee Har Susan, one of the joint company secretaries) whose profiles are included in the section headed "Biographical Details of Directors, Supervisors and Senior Management" of this annual report fell within the following bands:

Remuneration bands	Number of individuals
RMB Nil to RMB2,000,000	2
RMB2,000,001 to RMB4,000,000	11
RMB4,000,001 to RMB6,000,000	3
RMB6,000,001 to RMB8,000,000	1
RMB8,000,001 to RMB10,000,000	1

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or its subsidiaries was a party subsisted at the end of the Reporting Period or at any time during the Reporting Period in which a Director or Supervisor had a material interest.

PENSION SCHEME

The full-time employees of the Group are covered by various government-regulated defined contribution retirement benefit schemes under which the employees are entitled to a monthly pension. The Group contributes a percentage of the employees' salaries (subject to maximum caps) to these retirement benefit schemes on a monthly basis. Under these schemes, the Group has no legal obligation for retirement benefits beyond the contributions made. Contributions to these schemes are expensed as incurred. The Group's pension cost charged to the income statement for the Reporting Period was RMB235.9 million.

MANAGEMENT CONTRACT

No contracts concerning the management and/or administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the Reporting Period, no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any Directors and Supervisors or their respective spouse or minor children, or were any such rights exercised by them; nor was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement which enabled the Directors or Supervisors to acquire such rights in any other body corporate.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests or short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which should be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise should be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

(1) Long positions in the Shares, underlying Shares and debentures of the Company

Name of Directors/chief executive	Capacity	Class of Shares	Number of Shares[1]	Approximate percentage of Shares in relevant class of Shares
Mr. Chen Qiyu	Beneficial owner	A Share	114,075(L)	0.01%
Mr. Wang Qunbin	Beneficial owner	A Share	114,075(L)	0.01%
Mr. Yao Fang	Beneficial owner	A Share	781,000(L)	0.04%
Mr. Wu Yifang	Beneficial owner	H Share	342,000(L)	0.06%
Mr. Wu Yifang	Beneficial owner	A Share	718,900(L)	0.04%

Note:

(1) (L) — Long position

(2) Long positions in the shares, underlying shares and debentures of the Company's associated corporations (within the meaning of Part XV of the SFO)

Name of Directors/ chief executive	Name of associated corporations	Class of shares	Capacity	Number of Shares[1]	Approximate percentage of Shares in issue
Mr. Wang Qunbin	Fosun International Holdings	Ordinary share	Beneficial owner	5,000(L)	14.71%
Mr. Chen Qiyu	Fosun International	Ordinary share	Beneficial owner	16,883,000(L)	0.20%
	Fosun Tourism	Ordinary share	Beneficial owner	1,478(L)	0.00%
Mr. Wang Can	Fosun International	Ordinary share	Beneficial owner	9,725,000(L)	0.11%
	Fosun Tourism	Ordinary share	Beneficial owner	829(L)	0.00%
Mr. Zhang Xueqing[2]	Fosun International	Ordinary share	Beneficial owner	3,146,000(L)	0.04%
Ms. Mu Haining[2]	Fosun International	Ordinary share	Beneficial owner	540,000(L)	0.01%

Notes:

(1) (L) — Long position

(2) Mr. Zhang Xueqing and Ms. Mu Haining were appointed as the Company's non-executive Directors on 27 June 2018.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, so far as is known to the Directors and Supervisors, the persons or entities, other than the Directors, Supervisors or chief executive of the Company, who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were deemed to be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

Name of Shareholders	Nature of Interest	Class of Shares	Number of Shares[(1)]	Approximate percentage of Shares in relevant class of Shares
Fosun High Tech	Beneficial owner	H Share	25,237,500(L)[(2)]	4.57%
Fosun High Tech	Beneficial owner	A Share	937,275,290(L)[(2)]	46.60%
Fosun International	Interest of a controlled corporation	H Share	25,237,500(L)[(2)]	4.57%
Fosun International	Interest of a controlled corporation	A Share	937,275,290(L)[(2)]	46.60%
Fosun Holdings	Interest of a controlled corporation	H Share	25,237,500(L)[(2)]	4.57%
Fosun Holdings	Interest of a controlled corporation	A Share	937,275,290(L)[(2)]	46.60%
Fosun International Holdings	Interest of a controlled corporation	H Share	25,237,500(L)[(2)]	4.57%
Fosun International Holdings	Interest of a controlled corporation	A Share	937,275,290(L)[(2)]	46.60%
Mr. Guo Guangchang	Interest of a controlled corporation	H Share	25,237,500(L)[(2)]	4.57%
	Interest of a controlled corporation	A Share	937,275,290(L)[(2)]	46.60%
	Beneficial owner	A Share	114,075(L)	0.01%
The Capital Group Companies, Inc.	Interest of a controlled corporation	H Share	38,689,394(L)	7.01%
Wellington Management Group LLP	Investment manager	H Share	33,551,238(L)	6.08%
			1,874,213(S)	0.34%
Edinburgh Partners Limited	Investment manager	H Share	32,623,000(L)	5.91%

Notes:

(1) (L) — Long position; (S) — Short position

(2) These Shares are held by Fosun High Tech. Fosun High Tech is wholly owned by Fosun International, which in turn is owned as to 70.72% by Fosun Holdings, and Fosun Holdings is wholly owned by Fosun International Holdings. As Fosun International Holdings is owned as to 85.29% by Mr. Guo Guangchang, Fosun International, Fosun Holdings, Fosun International Holdings and Mr. Guo Guangchang are deemed to be interested in these Shares.

PERMITTED INDEMNITY

At no time during the year ended 31 December 2018 and up to the date of this annual report, there was or is, any permitted indemnity provision being in force for the benefit of any of the Directors and the Supervisors (whether made by the Company or otherwise) or any directors and supervisors of an associated company (if made by the Company). The Company has arranged appropriate Directors', Supervisors' and senior management's liability insurance coverage for the Directors, Supervisors and senior management.

SHARE-BASED INCENTIVE PLAN

Shanghai Henlius Share Option Incentive Scheme

The Shareholders approved, among other things, the Shanghai Henlius Share Option Incentive Scheme on 29 June 2017. The purpose of Shanghai Henlius Share Option Incentive Scheme is to provide the participants of the Shanghai Henlius Share Option Incentive Scheme with the opportunities to acquire interests in Shanghai Henlius, which will encourage the participants to work towards enhancing the values of Shanghai Henlius and in turn benefiting Shanghai Henlius, Fosun Pharma and Fosun International and their respective shareholders as a whole. The basis of eligibility of the participants, which include employees of Shanghai Henlius and its subsidiaries and other persons who made outstanding contribution to Shanghai Henlius, shall be determined by the board of directors of Shanghai Henlius in accordance with the requirements of relevant laws and regulations.

The termination of the Shanghai Henlius Share Option Incentive Scheme was approved by shareholders of Shanghai Henlius at its general meeting held on 29 August 2018. As at 29 August 2018, no share option of Shanghai Henlius was granted under the Shanghai Henlius Share Option Incentive Scheme.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and to the best knowledge of the Directors, as at the date of this annual report, the Company has been maintaining sufficient public float as required by the Hong Kong Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or applicable laws of the PRC where the Company is incorporated.

DONATIONS

During the Reporting Period, the Group made donations of approximately RMB10 million.

CONNECTED TRANSACTIONS

During the Reporting Period, the Company has entered into the following transactions with connected persons as defined in the Hong Kong Listing Rules:

(A) Non-exempt Connected Transactions

(i) As disclosed in the announcement of the Company dated 10 January 2018, on 10 January 2018, the Board agreed the proposal that Fosun Pharma USA, the Company's subsidiary, and Fosun International (or its subsidiary), a connected person, jointly establish the U.S. new company (the "Establishment of U.S. New Company"), pursuant to which Fosun Pharma USA agreed to contribute US$25.50 million in cash, representing 51% interest therein, and Fosun International (or its subsidiary) agreed to contribute US$24.50 million in cash, representing 49% interest therein. The incorporation registration of the U.S. new company was completed on 23 April 2018.

As Fosun International is the controlling shareholder of the Company, Fosun International is a connected person of the Company under Rule 14A.07 of the Hong Kong Listing Rules. Therefore, the Establishment of the U.S. New Company constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

(ii) As disclosed in the announcement of the Company dated 10 January 2018, on 10 January 2018, the Board agreed to the proposal that the Company and SFHIH contribute an aggregate amount of RMB200 million for the purpose of capital increase of Futuo Biotech in proportion to their respective shareholding in Futuo Biotech (the "Futuo Capital Increase"). In particular, the Company agreed to contribute RMB102 million to subscribe for the additional registered capital of Futuo Biotech in the amount of RMB102 million and SFHIH agreed to contribute RMB98 million to subscribe for the additional registered capital of Futuo Biotech in the amount of RMB98 million. The industrial and commercial registration in relation to the Futuo Capital Increase was completed on 13 February 2018.

As SFHIH is a subsidiary of Fosun High Tech, the controlling shareholder of the Company, SFHIH constitutes an associate of Fosun High Tech and hence a connected person of the Company under Rule 14A.07 of the Hong Kong Listing Rules. Therefore, the Futuo Capital Increase constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

(iii) As disclosed in the announcement of the Company dated 1 February 2018, on 1 February 2018, Chindex Beijing and Chancheng Hospital, subsidiaries of the Company, and Shanghai Yunji entered into the shareholders cooperation agreement in relation to the proposed establishment of the joint venture company (the "Shareholders Cooperation Agreement"), to which Chindex Beijing agreed to make cash contribution in the amount of RMB12.5 million, representing 25% of the equity interest in the joint venture company, Chancheng Hospital agreed to make cash contribution in the amount of RMB2.5 million, representing 5% of the equity interest in the joint venture company, and Shanghai Yunji agreed to make cash contribution in the amount of RMB35 million, representing 70% of the equity interest in the joint venture company. The industrial and commercial registration of the joint venture company was completed on 13 February 2018.

As Shanghai Yunji is a company controlled by Mr. Guo Guangchang, our controlling shareholder, therefore, Shanghai Yunji is an associate of Mr. Guo Guangchang and constitutes a connected person of the Company under Rule 14A.07 of the Hong Kong Listing Rules. Therefore, the transactions contemplated under the Shareholders Cooperation Agreement constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

(iv) As disclosed in the announcement of the Company dated 14 May 2018, on 14 May 2018, the Company, Wanbang Cloud Health, SFHIH and Haitun International entered into a joint venture contract in relation to the establishment of the joint venture company (the "JV Contract") with a registered capital of RMB18 million, to which the Company agreed to make cash contribution in the amount of RMB4.5 million, representing 25% of the equity interest in the joint venture company, Wanbang Cloud Health agreed to make cash contribution in the amount of RMB0.9 million, representing 5% of the equity interest in the joint venture company, SFHIH agreed to make cash contribution in the amount of RMB7.2 million, representing 40% of the equity interest in the joint venture company, and Haitun International agreed to make cash contribution in the amount of RMB5.4 million, representing 30% of the equity interest in the joint venture company. The industrial and commercial registration of the joint venture company was completed on 11 July 2018.

As SFHIH is a company controlled by our controlling shareholder, Mr. Guo Guangchang, therefore, SFHIH constitutes an associate of Mr. Guo Guangchang. Accordingly, SFHIH constitutes a connected person of the Company under Rule 14A.07 of the Hong Kong Listing Rules. Therefore, the entering into of the JV Contract constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

(v) As disclosed in the announcement of the Company dated 18 July 2018, on 18 July 2018, the Company entered into a placing agreement with the placing agents in relation to the Placing of H Shares, which included the engagement of services of certain placing agents, including Fosun Hani, in consideration of placing commission, and the placing agents had, on a several but not joint nor joint and several basis, agreed to place 68,000,000 placing shares, as the agents of the Company and on a best effort basis, to professional investors, institutions and/or other investors.

As Fosun Hani, one of the placing agents, is a wholly-owned subsidiary of Fosun International, and Fosun International is a controlling shareholder of the Company, Fosun Hani is a connected person of the Company under Rule 14A.07 of the Hong Kong Listing Rules. Accordingly, the engagement of Fosun Hani's services as a placing agent in consideration of placing commission under the placing agreement constitutes a connected transaction under Chapter 14A of the Hong Kong Listing Rules.

(B) Non-exempt Continuing Connected Transactions

(i) As disclosed in the announcement of the Company dated 19 April 2018, on 19 April 2018, the Company and Fosun International, entered into the framework tenancy agreements, including a lessee framework agreement and a lessor framework agreement ("Framework Tenancy Agreements"). The lessee framework agreement was entered into in relation to the continued lease of the relevant Fosun International premises to the relevant members of the Group, as tenant, for a term of 1 year commencing from 1 January 2018 to 31 December 2018. The lessor framework agreement was entered into in relation to the continued lease of the relevant premises of the Group by the relevant members of the Company, as landlord, for a term of 1 year commencing from 1 January 2018 to 31 December 2018.

Fosun International is a controlling shareholder of the Company and therefore a connected person of the Company under Rule 14A.07 of the Hong Kong Listing Rules. The transactions contemplated under the Framework Tenancy Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

(ii) As disclosed in the announcement of the Company dated 19 April 2018, the Company and CQ Pharma Holdings entered into the framework sales and purchases agreement in respect of the supply of products for sale and the purchase of products for a term of 1 year commencing from 1 January 2018 to 31 December 2018 (the "Framework Sales and Purchases Agreement").

CQ Pharma Holdings is a substantial shareholder of Yao Pharma, an indirect non-wholly-owned subsidiary of the Company, and therefore CQ Pharma Holdings is a connected person of the Company at the subsidiary level under Rule 14A.07 of the Hong Kong Listing Rules, and the transactions contemplated under the Framework Sales and Purchases Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

(iii) As disclosed in the announcement of the Company dated 11 July 2018, on 11 July 2018, Zhuorui Outpatient intended to enter into a supplemental agreement to the lease agreement with Zhengda Real Estate (the "Supplement Agreement") and revise the annual cap, pursuant to which, Zhuorui Outpatient (as lessee) agreed to rent the properties of the Bund International Finance Services Centre located at Huangpu District, Shanghai from Zhengda Real Estate (as lessor) for a term of 36 months commencing from 1 July 2018 to 30 June 2021 (both days inclusive).

As 50% of the equity interests of Zhengda Real Estate is indirectly owned by Fosun International, the controlling shareholder of the Company, Zhengda Real Estate constitutes an associate of Fosun International, and Zhengda Real Estate constitutes a connected person of the Company under Rule 14A.07 of the Hong Kong Listing Rules. Therefore, the transactions contemplated under the Supplement Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

(iv) As disclosed in the announcements of the Company dated 17 October 2016 and 22 December 2016 and the circular dated 4 November 2016, on 17 October 2016, the Company entered into a renewed financial services agreement with Fosun Finance in order to renew the financial services agreement, which expired on 31 December 2016, for a term of three years commencing on 1 January 2017 and ending on 31 December 2019.

Fosun Finance is a subsidiary of Fosun High Tech, the controlling shareholder of the Company. Fosun Finance is a connected person of the Company under Rule 14A.07 of the Hong Kong Listing Rules. The transactions contemplated under the renewed financial services agreement therefore constitute continuing connected transactions for the Company under Chapter 14A of the Hong Kong Listing Rules.

Certain details of the continuing connected transactions during the year ended 31 December 2018 are summarized in the table below. The Company has complied and will continue to comply with the relevant requirements under Chapter 14A of the Hong Kong Listing Rules in respect of the continuing connected transactions, including, among others, conducting annual review of the continuing connected transactions.

Connected person	Type of the Transaction	Type	Actual Amount of Transaction 2018 RMB	Proposed Annual Cap 2018 RMB
Fosun International and its subsidiaries *(Note 1)*	Leasing of premises by Fosun International and its subsidiaries to the Group		12,853,150	40,000,000
	Provision of property management services by Fosun International and its subsidiaries to the Group		7,642,534	
	Leasing of premises by the Group to Fosun International and its subsidiaries		14,353,204	30,000,000
			34,848,888	**70,000,000** *(Note 2)*
Zhengda Real Estate	Leasing of premises by Zhengda Real Estate to Zhuorui Outpatient	—	1,000,191 *(Note 3)*	5,340,000 *(Note 3)*
Fosun Finance	Financial Services Agreement *(Note 4)*			
	(a) Maximum daily outstanding balance of deposits placed by the Company with Fosun Finance	Deposit taking	575,421,799	1,000,000,000
	(b) Maximum daily outstanding balance of loans granted by Fosun Finance to the Company	Loan provision	500,000,000	1,000,000,000
	(c) Fees and charges paid by the Company to Fosun Finance for clearing and settlement services and other financial services	Service fee	0	1,000,000

Notes:

(1) Fosun International and its subsidiaries include: Fosun High Tech, Shanghai Xingyi Health Management Co., Ltd., Shanghai Zhongheng Insurance Broker Co., Ltd., Shanghai Fosun Venture Capital Investment Management Co., Ltd., Liangfu Credit Investigation, Shanghai Yunji, Shanghai New Shihua Investment and Management Co., Ltd., Beijing Golte, Shanghai Golte, Great China Finance Leasing Co., Ltd. and Zhangxingbao (Shanghai) Network Technology Co. Ltd.

(2) According to the announcement of the Company dated 19 April 2018, the aggregate amounts of annual cap in respect of the Lessee Framework Agreement and the Lessor Framework Agreement are RMB40,000,000 and RMB30,000,000, respectively.

(3) According to the announcement of the Company dated 11 July 2018, the annual cap under the Supplemental Agreement for the period from 1 July 2018 to 30 June 2019 is RMB5,340,000.

(4) On 17 October 2016, the Company entered into the Financial Services Agreement with Fosun Finance to renew the finance services agreement, which would expire on 31 December 2016, for a further term of three years commencing from 1 January 2017 to 31 December 2019.

Connected person	Type of the Transaction	Actual value of Transaction RMB	Annual cap for the Transaction RMB
CQ Pharma Holdings	Sales of products by the Group to CQ Pharma Holdings and its subsidiaries	366,319,631	600,000,000 *(note)*
	Purchase of products by the Group from CQ Pharma Holdings and its subsidiaries	0	1,000,000 *(note)*

Note: According to the announcement dated 19 April 2018, the annual cap for the transactions in respect of sales of products by the Group to CQ Pharma Holdings is RMB600,000,000, the annual cap for the transactions in respect of purchase of products by the Group from CQ Pharma Holdings is RMB1,000,000.

The Board has reviewed the continuing connected transactions as described above and confirmed that in 2018, such transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

The auditors of the Company issued a letter to the Board, which states their opinion on the continuing connected transactions as mentioned above:

1. nothing has come to their attention that causes the auditors to believe that the disclosed continuing connected transactions have not been approved by the Board;

2. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the auditors to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

3. nothing has come to their attention that causes the auditors to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

4. with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes the auditors to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value that set up by the Company.

RELATED PARTY TRANSACTIONS

During the Reporting Period, the Group entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Details of the related party transactions entered into by the Group during the Reporting Period are disclosed in note 43 to the financial statements. Save as disclosed in the paragraph headed "Connected Transactions" in this annual report, the related party transactions disclosed in note 43 were not regarded as connected transactions or were exempt from reporting, announcement and shareholders' approval requirements under the Hong Kong Listing Rules.

NON-COMPETITION UNDERTAKING

The independent non-executive Directors have reviewed all the matters, if any, relating to the enforcement of the Deed of Non-Competition. Fosun International Holdings, Fosun Holdings, Fosun International, Fosun High Tech, Mr. Guo Guangchang, Mr. Liang Xinjun and Mr. Wang Qunbin have provided the Company with an annual declaration of compliance with the provisions of the Deed of Non-Competition.

SUBSEQUENT EVENTS

Details of significant subsequent events of the Group are set out in note 49 to the financial statements.

USE OF PROCEEDS

In May 2017, upon approval by CSRC through the Reply in Relation to the Issuance of Overseas Listed Foreign Shares of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (Zheng Jian Xu Ke 2016 No. 2680) 《(關於核准上海復星醫藥(集團)股份有限公司增發境外上市外資股的批覆》), the Company issued an additional of 80,656,500 H Shares with a nominal value of RMB1.00 each at a price of HK$28.80 per share pursuant to the placing agreement dated 17 May 2017. The total proceeds from the issuance of H Shares were HK$2,322.9072 million. The net proceeds, after deducting the listing expenses of HK$15.1515 million paid overseas, were HK$2,307.7557 million.

As at 31 December 2018, net proceeds of HK$2,307.7557 from the placing of additional H Shares in May 2017 had been utilized in full. Balance of proceeds in the designated account amounted to HK$0 million (including the net interest income of HK$0 million from the designated account). The details of the use of proceeds are as follows:

Unit: million Currency: HKD

Usage	Amount of proceeds proposed to be applied	Amount of proceeds applied as at 31 December 2018
Repayment of interest-bearing debts, replenishing the working capital of the Group, and financing potential mergers and acquisitions domestically or overseas	2,307.7557	2,307.7557

In July 2018, upon approval by CSRC through the Reply in Relation to the Issuance of Overseas Listed Foreign Shares of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (Zheng Jian Xu Ke 2018 No. 802) 《(關於核准上海復星醫藥(集團)股份有限公司增發境外上市外資股的批覆》), the Company issued an additional of 68,000,000 H Shares with a nominal value of RMB1.00 each at a price of HK$38.20 per share pursuant to the placing agreement dated 18 July 2018. The total proceeds from the issuance of H Shares amounted to HK$2,597.6000 million. Excluding the listing expenses of HK$18.3832 million, which was paid overseas, the total net proceeds from the issuance of H Shares amounted to HK$2,579.2168 million.

As at 31 December 2018, HK$2,579.2168 million of net proceeds from the placing of additional H Shares in July 2018 had been utilized. Balance of proceeds in the designated account amounted to HK$0.5356 million (including the net interest income of HK0.5356 million from the designated account). The details of the use of proceeds are as follows:

Unit: million   Currency: HKD

Usage	Amount of proceeds proposed to be applied	Amount of proceeds applied as at 31 December 2018
Repayment of interest-bearing debts, replenishing the working capital of the Group, and financing potential mergers and acquisitions domestically or overseas	2,579.2168	2,579.2168

COMPLIANCE WITH THE MODEL CODE AND THE WRITTEN CODE

The Company has adopted the Model Code and the Written Code as its codes of conduct regarding securities transactions. Having made specific enquiry with the Directors, all the Directors confirmed that they have complied with the standards as set out in the Model Code and the Written Code throughout the Reporting Period.

COMPLIANCE WITH THE CG CODE

The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code contained in Appendix 14 to the Hong Kong Listing Rules. The Board is of the view that, during the Reporting Period, the Company has complied with all the code provisions as set out in the CG Code.

Further information on the corporate governance practices of the Company is set out in the Corporate Governance Report on pages 72 to 81 of this annual report.

AUDIT COMMITTEE

As at the end of the Reporting Period, the Audit Committee of the seventh session of the Board comprises Mr. Cao Huimin (chairman), an independent non-executive Director, Mr. Jiang Xian, an independent non-executive Director, and Mr. Wang Can, a non-executive Director.

The main duties of the Audit Committee are to review and monitor the financial reporting procedures and internal control system of the Group, and to provide recommendations and advice to the Board.

The Audit Committee of the Company has reviewed the 2018 annual results of the Group.

AUDITORS

The consolidated financial statements of the Group have been audited by Ernst & Young. A resolution for re-appointing Ernst & Young as the auditors of the Company will be proposed at the forthcoming AGM of the Company.

On Behalf of the Board
Chen Qiyu
Chairman

Shanghai, PRC
25 March 2019

Supervisory Committee Report

A. DURING THE REPORTING PERIOD, THE DAILY OPERATION OF THE SUPERVISORY COMMITTEE IS AS FOLLOWS:

In 2018, the seventh session of the Supervisory Committee carried out the work diligently, lawfully and efficiently in accordance with the Articles of Association and the Rules of Procedures for the Supervisory Committee's Meeting (監事會議事規則):

Supervisors attended and participated in the discussions of relevant board meetings, and held 8 Supervisory Committee Meetings in 2018. Details are as follows:

1. On 11 January 2018, the Company convened the first meeting of the seventh session of the Supervisory Committee in 2018 (a special meeting) to review and approve the resolution in relation to the election of the Chairman of the seventh session of the Supervisory Committee.

2. On 9 March 2018, the Company convened the second meeting of the seventh session of the Supervisory Committee in 2018 (a special meeting) to review and approve the resolution in relation to the changes in accounting policies.

3. On 26 March 2018, the Company convened the third meeting of the seventh session of the Supervisory Committee in 2018 (a regular meeting) to review and approve the 2017 Annual Report, the Working Report of the Supervisory Committee for 2017, the Special Report of the Placement and Actual Use of the Proceeds in 2017 and the 2017 Internal Control Self-Assessment Report of the Group.

4. On 27 April 2018, the Company convened the fourth meeting of the seventh session of the Supervisory Committee in 2018 (a regular meeting) to review and approve the 2018 First Quarterly Report of the Group.

5. On 27 August 2018, the Company convened the fifth meeting of the seventh session of the Supervisory Committee in 2018 (a regular meeting) to review and approve the 2018 Interim Report of the Group, the 2018 Interim Internal Control Self-Assessment Report, the resolution in relation to the extension of the investment plan for certain raised funds, the Interim Special Report of the Placement and Actual Use of the Proceeds in 2018.

6. On 29 October 2018, the Company convened the sixth meeting of the seventh session of the Supervisory Committee in 2018 (a regular meeting) to review and approve the 2018 Third Quarterly Report of the Group

7. On 13 November 2018, the Company convened the seventh meeting of the seventh session of the Supervisory Committee in 2018 (a special meeting) to review and approve the resolution in relation to the repurchase and cancellation of certain Restricted A Shares which had not been unlocked.

8. On 19 November 2018, the Company convened the eighth meeting of the seventh session of the Supervisory Committee in 2018 (a special meeting) to review and approve the resolution in relation to the unlocking of the third tranche of the Restricted A Shares under the Restricted A Share Incentive Scheme II of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (Amendments) (《上海復星醫藥(集團)股份有限公司第二期限制性股票激勵計劃(修訂稿)》).

B. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE LAWFUL OPERATION OF THE COMPANY

The Supervisory Committee is of the view that the operation of the Company has been consistent with the provisions of the PRC Company Law, the PRC Securities Law and the Articles of Association; that the decision-making process of the Company has been in compliance with the laws, and the Company has established a relatively comprehensive internal control system; and that the Directors and senior management of the Company, in discharging their duties, have not violated any law, regulation or the Articles of Association, nor have they acted in a way which is prejudicial to the interests of the Company.

C. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE FINANCIAL POSITION OF THE GROUP

The Supervisory Committee agreed with the audit opinion issued by Ernst & Young on the 2018 annual financial report of the Group, and that the financial report of the Group has given a true and fair view of the financial position and the operating results of the Group.

D. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE ACQUISITIONS OR DISPOSALS OF ASSETS BY THE GROUP

The Supervisory Committee is of view that the Group acquired and disposed of assets at reasonable prices, and it is not aware of any insider dealing or any act that is prejudicial to the interests of Shareholders or resulting in any loss of assets of the Group.

E. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON CONNECTED TRANSACTIONS OF THE GROUP

The Supervisory Committee is of view that the connected transactions of the Group were fair, and were not prejudicial to the interests of the Group.

F. THE REVIEW OF THE INTERNAL CONTROL SELF-ASSESSMENT REPORT BY THE SUPERVISORY COMMITTEE

The Supervisory Committee has reviewed the 2018 Internal Control Self-Assessment Report of the Group, and considers that the Group has established an appropriate internal control system in all material respects and the internal control system has operated efficiently, which ensures the implementation of the internal control measures and the normal conduct of production and operation.

On Behalf of the Supervisory Committee
Ren Qian
Chairman

Shanghai, PRC
25 March 2019

Corporate Governance Report

The Board hereby presents to the Shareholders the corporate governance report of the Group for the year ended 31 December 2018 (the "Corporate Governance Report").

CORPORATE GOVERNANCE PRACTICES

As a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, the Company has remained in strict compliance with the Articles of Association, relevant laws and regulations, the Shanghai Listing Rules and Hong Kong Listing Rules. The Company seeks to continually improve its corporate governance structure, and to optimize its internal management and control and corporate operations in order to improve the Company's corporate governance.

The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code contained in Appendix 14 to the Hong Kong Listing Rules.

The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of Shareholders and to enhance corporate value and accountability.

The Board is of the view that throughout the Reporting Period, the Company has complied with all the applicable code provisions as set out in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Hong Kong Listing Rules and formulated the Written Code as its code of conduct regarding securities transactions.

Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code and the Written Code throughout the Reporting Period.

No incident of non-compliance of the Written Code by the Directors and relevant employees was noted by the Company.

BOARD OF DIRECTORS

As at the end of the Reporting Period, the Board constituted eleven members, including three executive Directors, four non-executive Directors and four independent non-executive Directors.

The composition of the Board is as follows:

Executive Directors:

Mr. Chen Qiyu *(Chairman)*
Mr. Yao Fang *(Co-Chairman)*
Mr. Wu Yifang *(President and Chief Executive Officer)*

Non-executive Directors:

Mr. Wang Qunbin
Mr. Wang Can
Ms. Mu Haining *(note)*
Mr. Zhang Xueqing *(note)*

Independent Non-executive Directors:

Mr. Cao Huimin
Mr. Jiang Xian
Dr. Wong Tin Yau Kelvin
Mr. Wai Shiu Kwan Danny

Note: Appointed on 27 June 2018

Biographical information of the Directors is set out on pages 82 to 85 of this annual report.

The members of the Board do not have any relationship, including financial, business, family or other material or relevant relationship, with each other.

Chairman of the Board and Chief Executive Officer of the Company

The positions of chairman of the Board (equivalent to the chairman as referred to in the CG Code) and chief executive officer of the Company (equivalent to the chief executive as referred to in the CG Code) are held by Mr. Chen Qiyu and Mr. Wu Yifang, respectively. The chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The chief executive officer focuses on the Company's business development and daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing.

Independent Non-executive Directors

During the Reporting Period, the Board at all times met the requirements of the Hong Kong Listing Rules relating to the appointment of at least three independent non-executive directors with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise, and the independent non-executive Directors represent over one-third of the Board.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with Rule 3.13 of the Hong Kong Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Appointment, Removal and Re-election of Directors

A Director shall have a term of office of three years and shall be entitled to be re-appointed when the term of office expires provided that the term of office of independent non-executive Directors shall not exceed six years. The Company has entered into a service contract with each executive Director and a letter of appointment with each non-executive Director and independent non-executive Director for a term of three years (unless otherwise required by relevant laws and regulations). The appointment and removal of Directors shall be approved by Shareholders at the general meeting.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors shall make decisions objectively in the interests of the Company.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective operation.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the joint company secretaries and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company.

The Board reserves for its decision as to all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Directors, directing and coordinating the daily operation and management of the Company are delegated to the senior management.

Continuous Professional Development of Directors

Directors shall keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of his/her responsibilities and obligations under the Hong Kong Listing Rules and relevant statutory rules.

All Directors have participated in continuous professional development program during the Reporting Period in order to refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All Directors are encouraged to attend relevant training courses at the Company's expenses.

According to the records maintained by the Company, for the year ended 31 December 2018, all Directors received training with an emphasis on the roles, functions and duties as a director of a listed company in compliance with the code provisions relating to continuous professional development under the CG Code. In addition, relevant reading materials including directors' manual and legal and regulatory update have been provided to the Directors for their reference and studying. The continuous professional development records of the Directors for the year ended 31 December 2018 is set out in the table on page 78 of this annual report.

BOARD COMMITTEES

The Board has established four committees, namely, Audit Committee, Remuneration and Appraisal Committee, Nomination Committee and Strategic Committee, for overseeing all aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website (http://www.fosunpharma.com) and the Hong Kong Stock Exchange's website (http://www.hkexnews.hk) and are available to Shareholders upon request.

The majority of the members of each specialized Board committee (except Strategic Committee) are independent non-executive Directors and the list of the chairman and members of each specialized Board committee is set out under "Corporate Information" on page 2 of this annual report.

Audit Committee

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reports, internal control procedures and risk management system, arranging audit plans and liaising with external auditors, to review and monitor the effectiveness of the internal audit function and reviewing the arrangement for enabling employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

In 2018, the Audit Committee held 15 meetings to review periodic reports, audit plan, internal control, major and ongoing related party/connected transactions, and make recommendations to the Group on strengthening internal control system.

In 2018, the Audit Committee also held 2 meetings with the external auditors without the presence of the executive Directors.

Remuneration and Appraisal Committee

The primary functions of the Remuneration and Appraisal Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management and the remuneration policy and structure for all Directors and senior management, and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

In 2018, the Remuneration and Appraisal Committee held 3 meetings to review and make recommendations to the Board on the performance appraisal and remuneration packages of the executive Directors and senior management of the Company during the prior year.

Nomination Committee

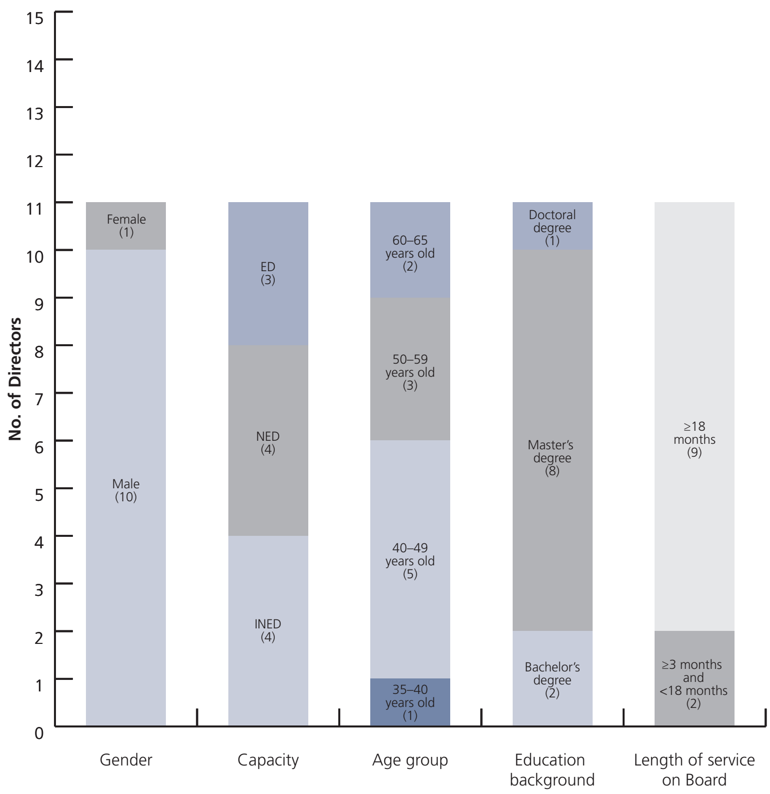
The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors and senior management, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

The Board has adopted policy of nomination, setting out the standards and procedures for nomination and appointment of directors, to ensure the members of the Board have the skills, knowledge, experience and diversity that meet the Company's requirements and to ensure the continuity of the Board and maintain its leadership, for the nomination of candidates for directorship of the Company by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations.

The Company has committed to provide equal opportunities in different aspects of its operations. In August 2013, the Company adopted the Board Diversity Policy (the "Policy"), which has been made available on the Company's website. The Nomination Committee, in nominating and appointing new Board members, shall consider a range of diversity perspectives pursuant to the Policy, including but not limited to gender, age, culture and education background, professional experience, skills, knowledge and term of service, and make the final decision based on the merits and contribution that the candidate will bring to the Board. The Nomination Committee will review the Policy in due course to ensure its continued effectiveness.

In 2018, the Nomination Committee held 2 meetings to discuss and approve matters relating to the selection of independent non-executive directors and senior management of the Company.

An analysis of the Board's diversity as at the end of the Reporting Period is set out as follows:



In 2018, the Nomination Committee held 2 meetings to review and make recommendations to the Board on the structure, size and composition of the Board, the appointment of the senior management. The Nomination Committee considered an appropriate balance of diversity of the Board has been maintained.

Strategic Committee

The primary responsibilities of the Strategic Committee are to develop and evaluate the Group's operational targets and long-term development strategies and formulate the Group's development strategies and plans, which include, among other things:

- understanding and mastering the overall operations of the Group, the international and domestic market trends and the relevant governmental policies;

- researching and advising on the short-term, medium-term and long-term development strategies of the Group and major investment decisions; and

- reviewing and approving research reports on development strategy.

In 2018, the Strategic Committee met once to understand and master the overall operations of the Group, the international and domestic market trend and the relevant government policies, to research and advise on the medium-term and long-term development strategies of the Group and major investment decision, and review and approve research reports on development strategy.

CORPORATE GOVERNANCE RESPONSIBILITIES

The Board is responsible for performing the functions as set out in code provision D.3.1 of the CG Code to ensure that the Company has established comprehensive corporate governance practices and procedures. During the Reporting Period, the Board has:

(1) established and reviewed the corporate governance policies and practices of the Company as well as made relevant recommendations;

(2) reviewed and monitored the training and continuous development of the Directors and senior management;

(3) reviewed and monitored the policies and practices of the Company regarding the compliance of relevant legal and regulatory requirements;

(4) established, reviewed and monitored the code of conduct for Directors and employees; and

(5) reviewed as to whether the Company has complied with the CG Code and made disclosures in the Corporate Governance Report.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board committee meetings of the Company held for the year ended 31 December 2018 is set out in the table below:

	Attendance/Number of Meetings						
Name of Directors	**Board**	**Nomination Committee**	**Remuneration and Appraisal Committee**	**Audit Committee**	**Strategic Committee**	**Annual General Meeting(1)**	**Continuous Professional Development**
Executive Directors							
Mr. Chen Qiyu	28/28	1/1(M)(3)	3/3(M)		1/1(C)	1/1	✓
Mr. Yao Fang	28/28				1/1(M)	0/1	✓
Mr. Wu Yifang	28/28				1/1(M)(3)	1/1	✓
Non-executive Directors							
Mr. Guo Guangchang	6/6(2)						✓
Mr. Wang Qunbin	28/28				1/1(M)	0/1	✓
Ms. Kang Lan	6/6(2)	1/1(M)(3)	1/1(M)(3)				✓
Mr. Wang Can	28/28			15/15(M)		0/1	✓
Ms. Mu Haining	17/17(2)		2/2(M)(3)				✓
Mr. Zhang Xueqing	17/17(2)						✓
Independent Non-executive Directors							
Mr. Cao Huimin	28/28	2/2(M)	3/3(M)	15/15 (C)		1/1	✓
Mr. Jiang Xian	28/28	2/2(C)	3/3(M)	15/15 (M)		1/1	✓
Dr. Wong Tin Yau Kelvin	28/28		3/3(C)			0/1	✓
Mr. Wai Shiu Kwan Danny	28/28				1/1(M)	1/1	✓

Notes:

(1) The Annual General Meeting was held on 27 June 2018.

(2) Mr. Guo Guangchang and Ms. Kang Lan resigned as the non-executive Directors with effect from 26 March 2018. Each of them was required to attend a total 6 Board Meetings in the morning from 1 January 2018 to 26 March 2018. Ms. Mu Haining and Mr. Zhang Xueqing were appointed as non-executive Directors with effect from 27 June 2018. Each of them was required to attend 17 Board Meetings in total from 27 June 2018 to 31 December 2018.

(3) Ms. Kang Lan resigned as the non-executive Director with effect from 26 March 2018, and no longer performs the relevant responsibilities of the Nomination Committee and Remuneration and Appraisal Committee. She was required to attend 1 meeting of the Nomination Committee and 1 meeting of the Remuneration and Appraisal Committee in the morning from 1 January 2018 to 26 March 2018. On 26 March 2018, Mr. Chen Qiyu and Mr. Wang Can were appointed by the Board to fill in the Nomination Committee and Remuneration and Appraisal Committee, and Mr. Chen Qiyu was required to attend 1 meeting of the Nomination Committee from the afternoon of 26 March 2018 to 27 June 2018. On 27 June 2018, the Board agreed to the change in the composition of the Nomination Committee, namely the substitution of Mr. Chen Qiyu by Ms. Mu Haining, and the change in the composition of the Remuneration and Appraisal Committee, namely the substitution of Mr. Wang Can by Ms. Mu Haining. Ms. Mu Haining was required to attend 2 meetings of the Remuneration and Appraisal Committee from 27 June 2018 to 31 December 2018. On 26 March 2018, Mr. Wu Yifang was appointed by the Board to fill in the Strategic Committee. From 26 March 2018 to 31 December 2018, Mr. Wu Yifang was required to attend 1 meeting of the Strategic Committee.

(4) (C) — Chairman of the committee; (M) — Committee member.

During the year ended 31 December 2018, the Company convened meetings among the chairman and non-executive Directors (including non- executive Directors and independent non-executive Directors) only without the presence of executive Directors.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group for the year ended 31 December 2018. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern. The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 90 to 95.

AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit services for the annual report for the year ended 31 December 2018 amounted to RMB4.50 million. There is no remuneration paid to external auditors in respect of non-audit services.

INTERNAL CONTROLS

The Board, particularly the Audit Committee, is responsible for maintaining sound and effective internal control systems in order to safeguard the Group's assets and shareholders' interests, and review and monitor the effectiveness of the Company's internal control and risk management systems on a regular basis so as to ensure that the internal control and risk management systems in place are adequate. The Company carries out reviews on the effectiveness of the internal control systems on a regular basis in order to ensure that they are able to meet and deal with the dynamic and ever changing business environment.

During the Reporting Period, the Board, through the Audit Committee, conducted an annual review of the effectiveness on the internal control system of the Group, including review of the Group's all material controls, including financial operational and compliance controls and risk management functions, as well as review of the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting and financial reporting function.

The Board believes that existing internal control system is adequate and effective.

JOINT COMPANY SECRETARIES

As at the end of the Reporting Period, Ms. Dong Xiaoxian and Ms. Lo Yee Har Susan of Tricor Services Limited, an external service provider, were the joint company secretaries of the Company. The primary contact person of Ms. Lo Yee Har Susan is Ms. Dong Xiaoxian, who is the vice president, secretary to the Board and joint company secretary of the Company.

RIGHTS OF SHAREHOLDERS

To safeguard the interests and rights of the Shareholders, a separate resolution is proposed for each substantially separate issue at the general meetings, including the election of individual Directors. All resolutions put forward at the general meetings will be voted on by poll pursuant to the Hong Kong Listing Rules except where the chairman of the meeting, in good faith, decides to allow a resolution which relates merely to a procedural or administrative matter to be voted on by a show of hands, and poll results will be posted on the websites of the Company and of the Hong Kong Stock Exchange after each the general meeting.

(1) Shareholder's requests to convene an extraordinary general meeting

Pursuant to Article 71 of the Articles of Association, if Shareholders require the convening of an extraordinary general meeting or a class general meeting, the following procedures shall be followed:

(i) Shareholders individually or jointly holding more than ten percent (10%) of the Company's shares shall have the right to make a request in writing to the Board for the holding of an extraordinary general meeting, which request shall be in writing. The Board shall, in accordance with the laws, administrative regulations and the Articles of Association, make a written response within ten (10) days after receipt of such request as to whether or not it agrees that an extraordinary general meeting should be held.

(ii) If the Board agrees to convene the extraordinary general meeting, it shall serve a notice of such general meeting within five (5) days after the resolution has been made by the Board. Any change to the original proposal set forth in the notice shall be subject to approval by the relevant Shareholders.

(iii) If the Board does not agree to convene the extraordinary general meeting or fails to give a written reply within ten (10) days after receipt of the request, the Shareholders individually or jointly holding more than ten percent (10%) of shares of the Company shall have the right to request the Supervisory Committee to convene an extraordinary general meeting, and shall put forward such request to the Supervisory Committee in writing.

(iv) If the Supervisory Committee agrees to convene the extraordinary general meeting, it shall serve a notice of such general meeting within five (5) days after receipt of the said request. In the event of any change to the original proposal set forth in the notice, the consent of the relevant Shareholders shall be obtained.

(v) If the Supervisory Committee fails to serve the notice of such general meeting within the prescribed period, it shall be deemed as having failed to convene and preside over the general meeting, and the Shareholders individually or jointly holding ten percent (10%) or more shares of the Company for ninety (90) consecutive days may convene and preside over the meeting on their own, the procedures for convening such meeting shall follow those for convening a general meeting by the Board as closely as practicable.

(vi) When the Shareholders convene a general meeting as the Board has failed to convene the meeting pursuant to the aforesaid provision, the reasonable expense incurred shall be borne by the Company and shall be deducted from the outstanding amounts payable by the Company to the defaulting Directors.

(2) Proposals of General Meetings

Pursuant to Article 76 of the Articles of Association, Shareholders individually or jointly holding more than three percent (3%) of the shares of the Company shall have the right to put forward proposals to the Company, and the Company shall include in the agenda of the said general meeting the matters of the said motions falling within the term of reference of general meetings. In addition, Shareholders individually or jointly holding more than three percent (3%) of the shares of the Company may submit written provisional proposal(s) to the convener not later than ten (10) days before a general meeting is convened. The convener shall serve a supplementary notice of general meeting within two (2) days after receipt of the proposal(s) and announce the contents thereof.

(3) Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company.

Note: The Company will not normally deal with verbal or anonymous enquiries.

(4) Primary Contact Persons

Shareholders may send their enquiries or requests as mentioned above to the Company by means of facsimile, email or post. The details of contact are as follows:

Shanghai Fosun Pharmaceutical (Group) Co., Ltd.
Address: Building A, No. 1289 Yishan Road, Shanghai, China
Fax: 8621-33987871
Email: ir@fosunpharma.com

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice, statement, or enquiry (as the case may be) to the above address, apart from the registered office of the Company, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information will be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company endeavors to maintain an on-going dialogue with Shareholders and in particular, through AGMs and other general meetings. The chairman of the Board and the chairmen of all Board committees (or their delegates) will attend in person at the AGMs to meet with the Shareholders and answer their enquiries.

On 18 May 2018, based on the authorization from the general meeting, the Board passed the resolutions approving the amendments to Article 21 and 24 of the Articles of Association respectively. On 31 July 2018, based on the authorization from the general meeting, the Board passed the resolutions approving the amendments to Article 21 and 24 of the Articles of Association respectively. The updated version of the Articles of Association is available on the Company's website and the Hong Kong Stock Exchange's website.

To promote effective communication, the Company maintains a website at http://www.fosunpharma.com, where information and updates on the Company's business developments and operation, financial information, corporate governance practices and other information are available for public access.

Biographical Details of
Directors, Supervisors and Senior Management

DIRECTORS

Mr. Chen Qiyu (陳啟宇), aged 46, is the Company's executive Director and chairman of the Board. Mr. Chen joined the Group in April 1994 and was appointed as a Director in May 2005. Mr. Chen is the chairman of Fosun High Tech, an executive director and a co-president of Fosun International, a company listed on the Hong Kong Stock Exchange (stock code: 00656), a non-executive director and a vice chairman of Sinopharm (stock code: 01099), a non-executive director of Babytree Group (stock code: 01761) , a director of Beijing Sanyuan Foods Co., Ltd. (北京三元食品股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600429), and was a director of Maxigen Biotech Inc., a company listed on the Taiwan Stock Exchange (stock code: 1783) and a director of Dian Diagnostics Group Co., Ltd (迪安診斷技術集團股份有限公司)., a company listed on the growth enterprise board of the Shenzhen Stock Exchange (stock code: 300244). Mr. Chen is also the chairman of China Medical Pharmaceutical Material Association (中國醫藥物資協會), vice president of China Pharmaceutical Industry Research and Development Association (中國醫藥創新促進會), chairman of the Shanghai Biopharmaceutical Industry Association (上海市生物醫藥行業協會) and vice chairman of the Shanghai Society of Genetics (上海市遺傳學會). Mr. Chen obtained a bachelor degree in genetics from Fudan University (復旦大學) in July 1993 and an executive master of business administration from China Europe International Business School (中歐國際工商學院) ("CEIBS") in September 2005.

Mr. Yao Fang (姚方), aged 49, is the Company's executive Director and co-chairman of the Board. Mr. Yao joined the Group in April 2010 and was appointed as a Director in June 2010. Mr. Yao is the chief supervisor of Sinopharm, a company listed on the Hong Kong Stock Exchange (stock code: 01099). Prior to joining the Group, from 1993 to 2009, Mr. Yao was successively the assistant general manager of the international business department of Shanghai Wanguo Securities Company Limited (上海萬國證券有限公司), now known as Shenwan Hongyuan Group Co., Ltd. (申萬宏源集團股份有限公司), general manager of Shanghai Industrial Assets Management Company Limited (上海上實資產經營有限公司), general manager of Shanghai Industrial Management (Shanghai) Company Limited (上實管理(上海)有限公司), managing director of Shanghai Industrial Pharmaceutical Investment Company Limited (上海實業醫藥投資股份有限公司), a company delisted from the Shanghai Stock Exchange on 12 February 2010, chairman of Shanghai Overseas Company (上海海外公司), non-executive director of Lianhua Supermarket Holdings Co., Ltd. (聯華超市股份有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 00980), and executive director of Shanghai Industrial Holdings Limited (上海實業控股有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 00363). Mr. Yao was a non-executive director of Biosino Bio-Technology and Science Incorporation (中生北控生物科技股份有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 08247). Mr. Yao obtained a bachelor degree of economics from Fudan University (復旦大學) in July 1989 and a master degree of business administration from The Chinese University of Hong Kong in December 1993.

Mr. Wu Yifang (吳以芳), aged 49, is the Company's executive Director, president and chief executive officer. Mr. Wu is currently a non-executive director of Sisram Medical, a company listed on the Hong Kong Stock Exchange (stock code: 01696). Mr. Wu joined the Group in April 2004 and was appointed as an executive Director in August 2016. Prior to joining the Group, Mr. Wu was a technician, director, production officer, finance director, assistant to director of Xuzhou Biochemical Pharmaceutical Factory (徐州生物化學製藥廠), a deputy director of Xuzhou (Wanbang) Biopharmaceuticals Manufactures Plant (徐州(萬邦)生物化學製藥廠), the deputy general manager of Xuzhou Wanbang Biochemical Pharmaceutical Co., Ltd. (徐州萬邦生化製藥有限公司) and Jiangsu Wanbang (where Xuzhou Biochemical Pharmaceutical Factory (徐州生物化學製藥廠), Xuzhou (Wanbang) Biopharmaceuticals Manufactures Plant (徐州(萬邦)生物化學製藥廠), Xuzhou Wanbang Biochemical Pharmaceutical Co., Ltd. (徐州萬邦生化製藥有限公司) were predecessors of Jiangsu Wanbang) and the president of Jiangsu Wanbang. Mr. Wu is currently the chairman of Jiangsu Wanbang. He was the Company's senior vice president from July 2014 to January 2016 and the Company's senior vice president and chief operating officer from January 2016 to June 2016. He has been the Company's president and chief executive officer since June 2016 and has been the Company's executive Director since August 2016. Mr. Wu graduated from Nanjing University of Science and Technology (南京理工大學) majoring in international commerce in 1996 and obtained a master degree in business administration from Saint Joseph's University in 2005.

Mr. Wang Qunbin (汪群斌), aged 49, is the Company's non-executive Director. Mr. Wang joined the Group in January 1994, and was appointed as a Director in May 1995. Mr. Wang served as the Company's Director and general manager from 1995 to 2007 and was the chairman of the Board from October 2007 to June 2010. Currently, Mr. Wang is an executive director and Chief Executive Officer of Fosun International, a company listed on the Hong Kong Stock Exchange (stock code: 00656). Mr. Wang was a non-executive director of companies listed on the Shanghai Stock Exchange, namely Henan Lingrui Pharmaceutical Company Limited (河南羚銳製藥股份有限公司) (stock code: 600285) and Shanghai Yuyuan Tourist Mart Co., Ltd. (上海豫園旅游商城股份有限公司) (stock code: 600655), and a non-executive director of Sinopharm, a company listed on the Hong Kong Stock Exchange (stock code:01099). Mr. Wang obtained a bachelor degree of science from Fudan University (復旦大學) in July 1991.

Mr. Wang Can (王燦), aged 39, was appointed as the Company's non-executive Director in June 2016. Mr. Wang is currently a director, senior vice president and chief financial officer of Fosun High Tech, an executive director, senior vice president and chief financial officer of Fosun International, a company listed on the Hong Kong Stock Exchange (stock code: 00656),a non-executive director of Fosun Tourism Group, a company listed on the Hong Kong Stock Exchange (stock exchange: 01992) and a director of Shanghai Ganglian E-commerce Holdings Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 300226). Mr. Wang joined Fosun High Tech in November 2012 and worked as the general manager of Investment Management Support Center, the co-director of Fosun Technology Innovation Center, the general manager of the investment management department, the deputy chief financial officer, the general manager of financial analysis department, and vice president. Prior to joining Fosun High Tech, Mr. Wang worked for Kingdee Software (China) Co., Ltd.* (金蝶軟件(中國)有限公司), PricewaterhouseCoopers Zhong Tian LLP, Standard Chartered Bank (China) Limited and Huazhu Hotels Group Ltd., a company listed on Nasdaq (stock code: HTHT). Mr. Wang is a non-practicing member of the China Institute of Certified Public Accountants (CICPA), a member of the Association of International Accountants (AIA) and a member of The Association of Chartered Certified Accountants (ACCA). Mr. Wang graduated from Anhui University in 1997, and graduated from China Europe International Business School with an MBA degree in 2014.

Ms. Mu Haining (沐海寧), aged 46, was appointed as the Company's non-executive Director in June 2018. Ms. Mu is currently a senior assistant to president and the CHO of Fosun High Tech, and the vice chancellor of the Management Institute, and is the chief supervisor of Shanghai Ganglian E-Commerce Co., Ltd.* (上海鋼聯電子商務股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300226). Ms. Mu joined Fosun High Tech since July 2014, and was the executive general manager and co-general manager of human resources management department, and assistant to president and deputy CHO of Fosun High Tech. Ms. Mu was a senior consultant and the chief representative of EUSIA S.A. Shanghai Representative Office, and the consulting director for human resources business of Mercer Consulting (China) Co., Ltd.* (美世諮詢(中國)有限公司). Ms. Mu graduated from Southeast University with a bachelor of engineering degree in June 1994 and graduated from National University of Singapore with a master of business administration degree in July 2002.

Mr. Zhang Xueqing (張學慶), aged 52, was appointed as the Company's non-executive Director in June 2018. Mr. Zhang Xueqing is currently the vice chairman and general manager of Beijing Sanyuan Food Company Limited* (北京三元食品股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600429), and a vice chairman of SFHIH. Mr. Zhang joined Fosun High Tech since July 2014, and worked as a senior assistant to president of Fosun High Tech and the president of SFHIH. Prior to joining Fosun High Tech, Mr. Zhang was chief financial officer of Shanghai Nong Gong Shang Supermarket Co., Ltd.*, which is now known as Nong Gong Shang Supermarket (Group) Co., Ltd. (上海農工商超市(集團)有限公司), an investment director of the Company, the investment director and general manager of normal temperature division of Bright Dairy & Food Co., Ltd. (光明乳業股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600597), the chairman and general manager of Shanghai Global Children Supply Holdings Limited (上海全球兒童用品股份有限公司), and the supervisor of Shanghai La Chapelle Fashion Co., Ltd. , a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange (stock code: 06116, 603157). Mr. Zhang graduated from Shanghai University of Finance and Economics with a bachelor degree in economics in July 1989.

Mr. Cao Huimin (曹惠民), aged 64, was appointed as the Company's independent non-executive Director in June 2013. Mr. Cao is currently an independent director of Shanghai Industrial Development Co., Ltd. (上海實業發展股份有限公司) (stock code: 600748), a company listed on the Shanghai Stock Exchange, an independent director of Zhejiang Meorient Business Exhibition Co., Ltd (浙江米奧蘭特商務會展股份有限公司), a company listed on National Equities Exchange and Quotations (NEEQ) (stock code: 831822), and an independent director of Shanghai Hanxun Information Technology Co., Ltd. (上海瀚訊信息技術股份有限公司), a company listed on the GEM board of the Shenzhen Stock Exchange (stock code: 300762).Mr. Cao was a professor in accountancy at Shanghai Lixin University of Commerce (上海立信會計學院), an independent director of Shanghai HAND Enterprise Solution Company Ltd. (上海漢得信息技術股份有限公司), a company listed on Shenzhen Stock Exchange (stock code: 300170), an independent director of Shanghai Bailian Group Co., Ltd. (上海百聯集團股份有限公司), a company listed on Shanghai Stock Exchange (stock code: 600827) and an independent director of Shanghai Flyco Electrical Appliance Co., Ltd. (stock code: 603868). Mr. Cao graduated from Shanghai University of Finance and Economics (上海財經大學) with a master degree in economics (accounting) in January 1988.

Mr. Jiang Xian (江憲), aged 64, was appointed as the Company's independent non-executive Director in June 2015. Mr. Jiang is currently an independent director of Shanghai No.1 Pharmacy Co., Ltd. (上海第一醫藥股份有限公司), a company listed on Shanghai Stock Exchange (stock code: 600833), a partner and senior partner of Shanghai United Law Firm (上海市聯合律師事務所), an arbitrator of China International Economic and Trade Arbitration Commission, an arbitrator of Shanghai International Economic and Trade Arbitration Commission (Shanghai International Arbitration Center), a visiting professor of East China University of Political Science and Law (華東政法大學) (formerly known as East China College of Political Science and Law (華東政法學院)), a mediator of Shanghai Commercial Mediation, and an associated Mediator of Singapore Mediation Center. Mr. Jiang was a lecturer at Shanghai Law School (上海司法學校). Mr. Jiang obtained a bachelor degree of laws from a branch of the Fudan University (復旦大學) (now incorporated into the Shanghai University) in April 1983 and a master degree of laws from Fudan University (復旦大學) in July 1996, respectively. Mr. Jiang qualified as a lawyer in the PRC in 1985.

Dr. Wong Tin Yau Kelvin (黄天祐), Justice of Peace, aged 58, was appointed as the Company's independent non-executive Director in June 2015. Dr. Wong is currently an executive director and deputy managing director of COSCO SHIPPING Ports Limited, a company listed on the Hong Kong Stock Exchange (stock code: 01199), an independent non-executive director of each of I.T Limited (stock code: 00999), China ZhengTong Auto Services Holdings Limited (stock code: 01728) and Huarong International Financial Holdings Limited (stock code: 00993), all of which are companies listed on the Hong Kong Stock Exchange, and an independent non-executive director of Bank of Qingdao Co., Ltd. (stock code: 03866, 002948) and Xinjiang Goldwind Science & Technology Co., Ltd. (stock code: 02208, 02202), which are listed on both the Hong Kong Stock Exchange (stock code: 03866, 02208) and the Shenzhen Stock Exchange (stock code: 02208, 002202). Dr. Wong was an independent non-executive director of Xinjiang Goldwind Science & Technology Co., Ltd. (stock code: 02208, 002202), a company listed on both the Hong Kong Stock Exchange and the Shenzhen Stock Exchange, and an independent non-executive director of AAG Energy Holdings Limited (stock code: 02686) and Asia Investment Finance Group Limited (stock code: 00033), which are companies listed on the Hong Kong Stock Exchange. Dr. Wong is the is the chairman of the Financial Reporting Council, the immediate past chairman and past chairman (2009–2014) of The Hong Kong Institute of Directors and a committee member of the Operations Review Committee of the ICAC. Dr. Wong obtained his Master of Business Administration degree from Andrews University in 1992 and his Doctor of Business Administration degree from The Hong Kong Polytechnic University in 2007.

Mr. Wai Shiu Kwan Danny (韋少琨), aged 55, was appointed as the Company's independent non-executive Director in June 2016. Mr. Wai is currently the senior consultant at UBS AG (Hong Kong Branch), and the independent non-executive director of CanSino Biologics Inc. (stock code: 06185), a company listed on the Hong Kong Stock Exchange, with effect from 27 March 2019. Mr. Wai served as an Analyst and Senior Analyst of The MAC Group, Inc. (Hong Kong) (now part of The Cap Gemini Group), as the Financial Analyst of Postal Buddy Corporation, various positions as Director, Assistant Director, Manager, Assistant Manager and Executive in the Corporate Finance Department of Jardine Fleming Holdings Ltd. (now part of JP Morgan Chase & Co.), as a Vice President in the Global Mergers & Acquisitions Group of JP Morgan Chase & Co. (Hong Kong), and as Executive Director, Managing Director and Head of Asia in the Global Healthcare Group of the Investment Banking Department, UBS AG (Hong Kong Branch). Mr. Wai graduated from the University of Hong Kong with a Bachelor of Social Sciences degree in 1987, and the Anderson Graduate School of Management at UCLA with an MBA degree in 1992.

Mr. Guo Guangchang (郭廣昌), aged 51, served as the Company's Director from May 1995 to March 2018.

Ms. Kang Lan (康嵐), aged 49, served as the Company's non-executive Director from June 2013 to March 2018.

SUPERVISORS

Ms. Ren Qian (任倩), aged 50, has served as the chairman of the Supervisory Committee since January 2018. Ms. Ren joined the Group in May 2011 and has been serving as the deputy general manager and general manager of audit department of the Company. Prior to joining the Group, Ms. Ren served as an auditor of the audit department of Shanghai No.1 Department Store Company Limited (上海市第一百貨股份有限公司) (whereafter merged with Shanghai Bailian Group Company Limited (上海百聯集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600827)) and the manager of financial department of a subsidiary thereof, the chief officer of the second division of audit department of China Worldbest Group Company Limited (中國華源集團有限公司), the assistant to director of Shanghai Zhongzhou Certified Public Accountants Company Limited (上海中洲會計師事務所有限公司), and the deputy general manager of audit department of Shanghai China Fortune Company Limited (上海華鑫股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600621). Ms. Ren graduated from Shanghai University of Finance and Economics (上海財經大學) with a bachelor degree in economics in July 1991, and graduated from The Chinese University of Hong Kong with a master degree in accounting in November 2016.

Mr. Cao Genxing (曹根興), aged 72, has served as the Company's Supervisor since 26 May 2008. Mr. Cao currently serves as the secretary to the board of Dahua Group Limited (大華(集團)有限公司). Mr. Cao Genxing graduated from Central Agricultural Broadcasting and Television School (中央農業廣播電視學校) with a diploma in agricultural science in December 1985. Mr. Cao graduated from Shanghai Baoshan District Vocational University (上海寶山區業餘大學) with a diploma in party and government management in January 1991.

Mr. Guan Yimin (管一民), aged 68, was appointed as the Company's Supervisor on 30 June 2014. Mr. Guan is now an independent director of Shanghai International Port (Group) Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600018). Mr. Guan was an independent director of the Company from May 2007 to June 2013, and an independent non-executive director of the Company from October 2012 to June 2013. Mr. Guan was also a professor of Shanghai National Accounting Institute, an independent non-executive director of China Shipping Container Lines Company Limited (中海集裝箱運輸股份有限公司), which is now known as COSCO SHIPPING Development Co., Ltd., a company listed on the Hong Kong Stock Exchange (stock code: 02866) and the Shanghai Stock Exchange (stock code: 601866), an independent director of Porton Fine Chemicals Ltd. (重慶博騰製藥科技股份有限公司), a company listed on the GEM board of the Shenzhen Stock Exchange (stock code: 300363), an independent non-executive director of Tianjin Capital Environmental Protection Group Company Limited (天津創業環保股份有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 01065) and the Shanghai Stock Exchange (stock code: 600874), and an independent director of Bank of Shanghai Co. Ltd. (上海銀行股份有限公司). Mr. Guan obtained a bachelor degree in accounting from Shanghai University of Finance and Economics (SUFE) in January 1983.

Mr. Li Chun (李春), aged 55, served as the Company's Supervisor from June 2016 to January 2018.

SENIOR MANAGEMENT

Mr. Wu Yifang (吳以芳), is the Company's executive Director, president and chief executive officer. His biographical details are set out on page 82 of this annual report.

Mr. Chen Yuqing (陳玉卿), aged 43, joined the Group in January 2010 and is currently the Company's senior vice president. Mr. Chen was the Company's deputy HR supervisor of human resources department, deputy general manager of human resources department, general manager of human resources department, assistant to president and general manager of human resources department. He was the Company's vice president from April 2015 to June 2016. Prior to joining the Group, he was the chief human resources officer of Kubao Information Technology (Shanghai) Co., Ltd.. Mr. Chen obtained a bachelor degree in engineering from Shanghai University in July 1997.

Mr. Zhou Biao (周飈), aged 48, joined the Group in June 2013 and is currently the Company's senior vice president. He was the Company's vice president, senior vice president and the secretary to the Board and joint company secretary. Prior to joining the Group, Mr. Zhou served as a lawyer at Shanghai Jiu Cheng Law Firm (上海久誠律師事務所). Mr. Zhou obtained a bachelor degree of laws in economic law from Fudan University (復旦大學) in July 1993.

Ms. Guan Xiaohui (關曉暉), aged 47, joined the Group in May 2000 and is currently the senior vice president and chief financial officer of the Company and non-executive director of Sinopharm, a company listed on the Hong Kong Stock Exchange (stock code: 01099). Ms. Guan was the supervisor of China National Accord Medicines Corporation Ltd. (國藥一致藥業股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000028). Mr. Guan is qualified as Chinese Certified Public Account (CPA) and a member of The Association of Chartered Certified Accountants (ACCA). Ms. Guan obtained a bachelor degree of economics from Jiangxi University of Finance and Economics (江西財經大學) and acquired a master degree of professional accountancy from the Chinese University of Hong Kong in December 2007.

Mr. Wang Cheng (汪誠), aged 55, joined the Group in August 2011 and is currently the Company's senior vice president. Mr. Wang was a senior assistant to president of the Company. Prior to joining the Group, Mr. Wang worked for Kunming Pharmaceutical Group Corporation Limited (昆明製藥集團股份有限公司) as the vice president and chairman of the board, a company listed on the Shanghai Stock Exchange (stock code: 600422). Mr. Wang was the chairman of the board of Wuhan Jianmin Pharmaceutical Groups Corporation Limited (武漢健民藥業集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600976). Mr. Wang obtained a bachelor degree in literature in July 1988 and a master degree of business administration in July 1998 from Hangzhou University (杭州大學), now known as Zhejiang University (浙江大學).

Mr. Wang Kexin (王可心), aged 54, joined the Group in June 2010 and is currently the Company's senior vice president. He was the Company's vice president. Prior to joining the Group, Mr. Wang was the vice president of Chongqing Huali Pharmaceutical Industry Company Limited (重慶華立藥業股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000607). Mr. Wang obtained a bachelor degree of medicine from Shenyang Medical College (瀋陽醫學院) in July 1988.

Mr. Aimin Hui, aged 56, joined the Group in November 2017 and is currently the Company's senior vice president. Prior to joining the Group, Mr. Hui was a doctor at the Fourth Hospital of Hebei Medical University (河北醫科大學第四醫院), a trainee at National Cancer Center Hospital (國立癌中心醫院) in Japan, a PhD student at the School of Medicine of Shinshu University (信州大學醫學院) in Japan, a special researcher at National Cancer Center (國立癌中心) in Japan, an assistance professor and lecturer at the Faculty of Medicine of University of Tokyo (東京大學醫學院), a visiting scientist and researcher at National Cancer Institute in the U.S., a medical director of GE Healthcare Group, a medical director of Cephalon, Inc., a clinical oncology director and senior director of Takeda Pharmaceutical Company Limited, and a vice president of the global clinical research and development of Sanofi. Mr. Hui obtained a bachelor degree of medicine from Hebei Medical University (河北醫科大學) in August 1984 and a doctoral degree from the School of Medicine of Shinshu University (信州大學醫學院) in Japan in September 1994.

Mr. Hequn Yin, aged 54, joined the Group in February 2019 and is currently the Company's senior vice president. Prior to joining the Group, Mr. Yin was a research and development scientist at F. Hoffmann-La Roche Ltd., a research and development scientist, director, senior director and executive director at Novartis Pharmaceuticals Corporation, and vice president of research and development of Pfizer Inc.. Mr. Yin obtained a bachelor degree of science from Peking University (北京大學) in July 1985, a master degree of science from Shanghai Institute of Organic Chemistry, Chinese Academy of Sciences (中國科學院上海有機化學研究所) in June 1988, and a doctoral degree of pharmacology from the University of Rochester in May 1995. From November 1995 to April 1997, he conducted post-doctoral research in molecular biology at the University of California, San Francisco.

Mr. Wang Yao (汪曜), aged 45, joined the Group in September 2014 and is currently a vice president of the Company. Prior to joining the Group, Mr. Wang was the director in merger and acquisition of Asian-Pacific Region of PENTAIR LTD, a company listed on the New York Stock Exchange (stock code: PNR), during which he was concurrently the general manager of Beijing Pentair-Jieming Environmental Protection Equipment Co., Ltd. (北京濱特爾潔明環保設備有限公司), an affiliate of PENTAIR LTD. He was also the vice president of group investment and asset management of Suntech Power Holdings Co., Ltd., a company listed on the New York Stock Exchange (stock code: STP). Mr. Wang obtained a bachelor degree in metal casting from Shanghai University (上海大學) in 1995 and a master degree in business administration from CEIBS in 1999.

Ms. Mei Jingping (梅璟萍), aged 48, joined the Group in January 2013 and is currently a vice president of the Company. Ms. Mei was the assistant to chairman and general manager of strategic planning department of the Company from January 2013 to June 2015. Prior to joining the Group, Ms. Mei was the senior marketing manager of the marketing department of Wyeth Pharmaceutical Co., Ltd. and the investment analyst, senior investment analyst and research director of pharmaceutical industry at CLSA Limited. Ms. Mei obtained a bachelor degree in science from China Pharmaceutical University in 1992.

Mr. Wang Donghua (王冬華), aged 49, joined the Group in October 2015 and is currently a vice president of the Company. Mr. Wang was the senior assistant to president and general manager of the public affairs department of the Company from October 2015 to January 2016. Prior to joining the Group, Mr. Wang was the deputy manager and manager of the corporate culture department, deputy general manager of the investment development department, deputy general manager and spokesman of the brand development department, and deputy general manager, executive general manager and joint general manager of the public affairs department of Fosun High Tech. Mr. Wang obtained a bachelor degree in agriculture from Yangzhou University in July 1994, and a master degree in business administration from Shanghai University of Finance and Economics in February 2004.

Mr. Wen Deyong (文德鏞), aged 47, joined the Group in May 2002 and is currently a vice president of the Company. Mr. Wen was a general manager of the No. 2 marketing department and vice president and president of Yao Pharma, as well as the current vice chairman of the board of Yao Pharma. Mr. Wen graduated from West China University of Medical Sciences (華西醫科大學), which is now known as West China Medical Center of Sichuan University (四川大學華西醫學中心), in September 1995, and obtained a Master of Business Administration Degree from Donghua University (東華大學) in December 2007.

Ms. Dong Xiaoxian (董曉嫻), aged 37, joined the Group in 2003, and is currently a vice president, the secretary to the Board and the joint company secretary of the Company. Ms. Dong worked as the securities affairs assistant, securities affairs representative, deputy director and director of the Board Secretary Office of the Company. Ms. Dong graduated from Shanghai University (上海大學) with a Bachelor of Laws in July 2003, and graduated with a Master of Business Administration Degree from Fudan University (復旦大學) in January 2015.

Mr. Liu Yi (劉毅), aged 43, joined the Group in November 2015 and is currently a vice president of the Company and the executive Director and chairman of the board of directors of Sisram Medical, a company listed on the Hong Kong Stock Exchange (stock code: 01696). Mr. Liu was the chief technology officer of the medical devices division of the Company. Prior to joining the Group, Mr. Liu was a student in Young Cadre Training Class of Chinese Academy of Governance (國家行政學院青年幹部培訓班), a deputy section officer of medical equipment department and a section officer of market supervision department of State Food and Drug Administration, which is now known as CFDA and the deputy head and head of Beijing Medical Equipment Laboratory (北京市醫療器械檢驗所). Mr. Liu obtained a bachelor degree in engineering from Beijing Institute of Technology in July 1998, and a master degree in management from Peking University in January 2006.

Mr. Li Dongming (李東明), aged 50, joined the Group in April 2017 and is currently a vice president of the Company. Prior to joining the Group, Mr. Li was a technician trainee, deputy director, director, and the assistant to the plant manager and director in the workshop of Shanghai Yan'an Pharmaceutical Plan (上海延安製藥廠), a deputy general manager and director of the human resources department of Shanghai Yan'an Wanxiang Pharmaceutical Co., Ltd. (上海延安萬象藥業股份有限公司), a deputy factory director of Shanghai Sine Pharmaceuticals (信誼藥廠) (now known as Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd. (上海上藥信誼藥廠有限公司)), the strategic director of the strategy and investment committee office under the board of directors, as well as the vice president of the OTC sales business department of Shanghai Pharmaceuticals (Group) Limited, a director and deputy general manager of Shanghai Roche Pharmaceutical Co., Ltd., a director and general manager of Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd., and a director and general manager of Shanghai Pharmaceutical Group Pharma Sales Co., Ltd. (上海醫藥集團藥品銷售有限公司). Mr. Li obtained a bachelor degree in science from Fudan University in July 1989.

Mr. Li Dongjiu (李東久), aged 53, joined the Group in December 2009 and served as a senior vice president of the Company from June 2010 to January 2018.

Mr. Cui Zhiping (崔志平), aged 55, joined the Group in January 2006 and served as a vice president of the Company from January 2006 to January 2018.

Mr. Shao Ying (邵穎), aged 52, joined the Group in March 2012 and served as a vice president of the Company from October 2014 to May 2018.

Ms. Shi Jiajue (石加珏), aged 42, joined the Group in November 1997 and served as a vice president of the Company from August 2016 to September 2018.

JOINT COMPANY SECRETARIES

Ms. Dong Xiaoxian (董曉嫻), aged 37, the joint company secretary, is also a senior vice president of the Company and secretary to the Board. Please refer to page 88 of this annual report for her biography.

Ms. Lo Yee Har Susan (盧綺霞), aged 60, is an executive director of Tricor Services Limited ("Tricor"), also serving as the Head of Learning & Development of Tricor. Ms. Lo has over 30 years of experience in corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Lo is a Chartered Secretary and a Fellow of both The Hong Kong Institute of Chartered Secretaries ("HKICS") and The Institute of Chartered Secretaries and Administrators ("ICSA") in the United Kingdom. Ms. Lo graduated from The Hong Kong Polytechnic (now The Hong Kong Polytechnic University).

Independent Auditor's Report

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To the shareholders of Shanghai Fosun Pharmaceutical (Group) Co., Ltd.
(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 96 to 240, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

To the shareholders of Shanghai Fosun Pharmaceutical (Group) Co., Ltd.
(Established in the People's Republic of China with limited liability)

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill	
The carrying value of goodwill in the consolidated financial statements amounted to RMB8,853,913,000 as at 31 December 2018. In accordance with HKFRSs, the Group is required to perform impairment test for goodwill at least on an annual basis. In performing the impairment test, the goodwill generated from each acquisition is allocated to the corresponding subsidiary acquired as each of these acquired subsidiaries is a separate cash-generating unit. The impairment test is based on the recoverable amount of each cash-generating unit to which the goodwill is allocated. The recoverable amount of each cash-generating unit is its value in use using cash flow projections based on a financial budget. This matter is significant to our audit because the impairment test process is complex and involves significant judgements and estimates. The disclosures about impairment of goodwill are included in note 2.4 Summary of Significant Accounting Policies, note 3 Significant Accounting Judgements and Estimates and note 17 Goodwill, which specifically explain the key assumptions management used for the calculation of the recoverable amounts.	Our audit procedures included, among others, involving internal valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group, in particular, discount rate and growth rate beyond budget period. We paid attention to the forecasts used with respect to future revenues and operating results by comparing the forecasts with the historical performance and the business development plan of each cash-generating unit. We also focused on the adequacy of the disclosures in the consolidated financial statements.

To the shareholders of Shanghai Fosun Pharmaceutical (Group) Co., Ltd.
(Established in the People's Republic of China with limited liability)

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of indefinite-life intangible assets	
The carrying value of indefinite-life intangible assets (medicine licences, trademarks and operating concession rights) in the consolidated financial statements amounted to RMB1,217,322,000 as at 31 December 2018. In accordance with HKFRSs, the Group is required to perform impairment test for indefinite-life intangible assets at least on an annual basis. The impairment test is based on the recoverable amount of each individual asset or the corresponding cash-generating unit, which is its value in use using cash flow projections based on a financial budget. This matter is significant to our audit because the impairment test process is complex and involves significant judgements and estimates. The disclosures about impairment of indefinite-life intangible assets are included in note 2.4 Summary of Significant Accounting Policies, note 3 Significant Accounting Judgements and Estimates and note 18 Other Intangible Assets, which specifically explain the key assumptions management used for the calculation of the recoverable amounts.	Our audit procedures included, among others, involving internal valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group, in particular, discount rate and growth rate beyond budget period used in the cash flow forecast of each individual asset or the corresponding cash-generating unit. We paid attention to the forecasts used with respect to future revenues and operating results by comparing the forecasts with historical performance and product revenue plan of each individual asset or the corresponding cash-generating unit. We also focused on the adequacy of the disclosures in the consolidated financial statements.
Capitalisation of development expenditures	
During the year ended 31 December 2018, expenditure incurred on projects to develop new pharmaceutical products of RMB1,027,223,000 was capitalised in "other intangible assets — deferred development costs" in the consolidated financial statements. The expenditure on development activities was capitalised and deferred when all criteria mentioned in note 2.4 Summary of Significant Accounting Policies were satisfied. This matter is significant to our audit because significant management's estimation and judgements are required in determining whether development expenditure meet the capitalisation criteria. The disclosures about capitalisation of development expenditure are included in note 2.4 Summary of Significant Accounting Policies, note 3 Significant Accounting Judgements and Estimates and note 18 Other Intangible Assets.	Our audit procedures included, among others, assessing whether the capitalisation policy adopted to be in line with HKFRSs, obtaining an understanding of the Group's internal approval procedures regarding the capitalisation of development expenditures by conducting interview with key management members in charge of research, development and industrialisation of various projects, and obtaining certifications related to different stages of development activities and commercial and technical feasibility reports prepared by management. We also focused on the adequacy of the disclosures in the consolidated financial statements.

To the shareholders of Shanghai Fosun Pharmaceutical (Group) Co., Ltd.
(Established in the People's Republic of China with limited liability)

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

To the shareholders of Shanghai Fosun Pharmaceutical (Group) Co., Ltd.
(Established in the People's Republic of China with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

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

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

To the shareholders of Shanghai Fosun Pharmaceutical (Group) Co., Ltd.
(Established in the People's Republic of China with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The engagement partner on the audit resulting in this independent auditor's report is Siu Fung Terence Ho.

Ernst & Young
Certified Public Accountants
Hong Kong
25 March 2019

Consolidated
Statement of Profit or Loss

Year ended 31 December 2018

	Notes	**2018 RMB'000**	2017 RMB'000
REVENUE	5	**24,713,875**	18,361,608
Cost of sales		**(10,365,309)**	(7,608,953)
Gross profit		**14,348,566**	10,752,655
Other income	6	**280,978**	172,960
Selling and distribution expenses		**(8,487,533)**	(5,790,536)
Administrative expenses		**(2,290,879)**	(1,773,794)
Impairment losses on financial assets		**(27,162)**	—
Research and development expenses		**(1,479,612)**	(1,026,538)
Other gains	8	**845,454**	1,019,498
Other expenses		**(175,296)**	(145,534)
Interest income		**145,738**	79,224
Finance costs	9	**(929,658)**	(577,541)
Share of profits and losses of:			
Joint ventures		**(50,441)**	(15,525)
Associates		**1,399,438**	1,366,848
PROFIT BEFORE TAX	7	**3,579,593**	4,061,717
Income tax expense	12	**(559,711)**	(476,458)
PROFIT FOR THE YEAR		**3,019,882**	3,585,259
Attributable to:			
Owners of the parent		**2,707,923**	3,124,500
Non-controlling interests		**311,959**	460,759
		3,019,882	3,585,259
Earnings per share attributable to ordinary equity holders of the parent:	14		
Basic		**RMB1.07**	RMB1.27
Diluted		**RMB1.07**	RMB1.27

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
PROFIT FOR THE YEAR	**3,019,882**	3,585,259
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	—	(265,565)
Reclassification adjustments for loss included in the consolidated statement of profit or loss		
— Loss on disposal	—	(285,841)
Income tax effect	—	63,389
	—	(488,017)
Exchange differences on translation of foreign operations	**(396,940)**	120,212
Share of other comprehensive income of joint ventures	—	524
Share of other comprehensive loss of associates	**(88,783)**	(98,688)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(485,723)**	(465,969)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive loss:		
Changes in fair value	**(182,915)**	—
Income tax effect	**(47)**	—
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	**(182,962)**	—
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(668,685)**	(465,969)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,351,197**	3,119,290
Attributable to:		
Owners of the parent	**2,099,387**	2,691,338
Non-controlling interests	**251,810**	427,952
	2,351,197	3,119,290

Consolidated
Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**9,218,250**	8,352,848
Prepaid land lease payments	16	**1,522,752**	1,324,409
Goodwill	17	**8,853,913**	8,464,284
Other intangible assets	18	**7,669,365**	6,950,136
Investments in joint ventures	19	**446,567**	646,550
Investments in associates	20	**20,924,073**	17,747,138
Available-for-sale investments	21	**—**	2,673,249
Equity investments designated at fair value through other comprehensive income	21	**126,313**	—
Financial assets at fair value through profit or loss	27	**2,505,807**	—
Deferred tax assets	23	**173,135**	144,524
Other non-current assets	22	**1,052,572**	554,496
Total non-current assets		**52,492,747**	46,857,634
CURRENT ASSETS			
Inventories	24	**3,287,392**	2,750,517
Trade and bills receivables	25	**4,336,151**	3,825,549
Prepayments, other receivables and other assets	26	**1,215,538**	1,012,227
Financial assets at fair value through profit or loss	27	**616,124**	219,327
Cash and bank balances	28	**8,546,522**	7,248,867
Total current assets		**18,001,727**	15,056,487
CURRENT LIABILITIES			
Trade and bills payables	29	**2,333,283**	1,781,883
Other payables and accruals	30	**4,312,390**	4,054,058
Interest-bearing bank and other borrowings	31	**10,533,021**	10,472,013
Contract liabilities	32	**530,897**	—
Tax payable		**213,655**	292,518
Total current liabilities		**17,923,246**	16,600,472
NET CURRENT ASSETS/(LIABILITIES)		**78,481**	(1,543,985)
TOTAL ASSETS LESS CURRENT LIABILITIES		**52,571,228**	45,313,649

Consolidated
Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**52,571,228**	45,313,649
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	**12,670,119**	9,814,896
Deferred tax liabilities	23	**2,908,359**	2,981,149
Contract liabilities	32	**71,513**	—
Deferred income	33	**363,488**	397,135
Other long-term liabilities	34	**3,021,922**	2,435,902
Total non-current liabilities		**19,035,401**	15,629,082
Net assets		**33,535,827**	29,684,567
EQUITY			
Equity attributable to owners of the parent			
Share capital	35	**2,563,061**	2,495,131
Treasury shares	40	**(1,711)**	(9,523)
Reserves	36	**25,359,500**	22,784,373
		27,920,850	25,269,981
Non-controlling interests		**5,614,977**	4,414,586
Total equity		**33,535,827**	29,684,567

Chen Qiyu
Director

Wu Yifang
Director

Consolidated
Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to owners of the parent										
	Issued share capital RMB'000 *(note 35)*	Share premium RMB'000	Treasury shares RMB'000	Available-for-sale investment revaluation reserve RMB'000	Statutory surplus reserve RMB'000	Other reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	2,414,512	7,236,809	(26,819)	949,685	2,121,545	761,628	(108,499)	8,784,468	22,133,329	3,060,110	25,193,439
Profit for the year	—	—	—	—	—	—	—	3,124,500	3,124,500	460,759	3,585,259
Other comprehensive loss for the year:											
Changes in fair value of available-for-sale investments, net of tax	—	—	—	(487,103)	—	—	—	—	(487,103)	(914)	(488,017)
Share of other comprehensive loss of associates and joint ventures	—	—	—	(98,164)	—	—	—	—	(98,164)	—	(98,164)
Exchange differences on translation of foreign operations	—	—	—	—	—	—	152,104	—	152,104	(31,892)	120,212
Total comprehensive income for the year	—	—	—	(585,267)	—	—	152,104	3,124,500	2,691,337	427,953	3,119,290
Profit appropriation to reserves	—	—	—	—	133,428	—	—	(133,428)	—	—	—
Issue of H shares	80,657	1,956,630	—	—	—	—	—	—	2,037,287	—	2,037,287
Repurchase and cancellation of restricted A shares	(38)	(358)	396	—	—	—	—	—	—	—	—
Unlocking of restricted A shares	—	—	16,900	—	—	—	—	—	16,900	—	16,900
Establishment of new subsidiaries	—	—	—	—	—	—	—	—	—	183,903	183,903
Dividends declared to non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	(264,069)	(264,069)
Capital injections from non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	174,564	174,564
Acquisitions of subsidiaries	—	—	—	—	—	—	—	—	—	1,522,950	1,522,950
Disposal of associates	—	—	—	—	—	9,473	—	—	9,473	—	9,473
Disposal of a subsidiary	—	—	—	—	—	—	—	—	—	1,886	1,886
Equity-settled share-based payments *(note 40)*	—	28,206	—	—	—	(17,849)	—	—	10,357	—	10,357
Share of changes in equity other than comprehensive income and distributions received of associates	—	—	—	—	—	(99,408)	—	—	(99,408)	—	(99,408)
Acquisition of non-controlling interests	—	—	—	—	—	(91,674)	—	—	(91,674)	(382,692)	(474,366)
Deemed acquisition of additional interest in a subsidiary	—	—	—	—	—	(37,846)	—	—	(37,846)	37,846	—
Disposal of partial interest in a subsidiary without loss of control	—	—	—	—	—	1,197	—	—	1,197	23	1,220
Deemed disposal of partial interests in subsidiaries without loss of control	—	—	—	—	—	170,695	—	—	170,695	813,306	984,001
Fair value adjustment on the share redemption option granted to a non-controlling shareholder of a subsidiary	—	—	—	—	—	(698,370)	—	—	(698,370)	(1,161,194)	(1,859,564)
Final 2016 dividend declared and paid	—	—	—	—	—	—	—	(873,296)	(873,296)	—	(873,296)
At 31 December 2017	2,495,131	9,221,287*	(9,523)	364,418*	2,254,973*	(2,154)*	43,605*	10,902,244*	25,269,981	4,414,586	29,684,567

* These reserve accounts comprise the consolidated reserves of RMB22,784,373,000 (2016: RMB19,745,636,000) in the consolidated statement of financial position.

Consolidated
Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to owners of the parent										
	Issued share capital RMB'000 *(note 35)*	Share premium RMB'000	Treasury shares RMB'000	Available-for-sale investment revaluation/ Fair value reserve RMB'000	Statutory surplus reserve RMB'000	Other reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2017	2,495,131	9,221,287*	(9,523)	364,418*	2,254,973*	(2,154)*	43,605*	10,902,244*	25,269,981	4,414,586	29,684,567
Effect of adoption of HKFRS 9	—	—	—	(62,697)	—	—	—	46,018	(16,679)	(5,094)	(21,773)
At 1 January 2018	2,495,131	9,221,287*	(9,523)	301,721*	2,254,973*	(2,154)*	43,605*	10,948,262*	25,253,302	4,409,492	29,662,794
Profit for the year	—	—	—	—	—	—	—	2,707,923	2,707,923	311,959	3,019,882
Other comprehensive loss for the year:											
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax	—	—	—	(182,833)	—	—	—	—	(182,833)	(129)	(182,962)
Share of other comprehensive income of associates	—	—	—	(88,783)	—	—	—	—	(88,783)	—	(88,783)
Exchange differences on translation of foreign operations	—	—	—	—	—	—	(336,920)	—	(336,920)	(60,020)	(396,940)
Total comprehensive income for the year	—	—	—	(271,616)	—	—	(336,920)	2,707,923	2,099,387	251,810	2,351,197
Profit appropriation to reserves	—	—	—	—	120,025	—	—	(120,025)	—	—	—
Issue of H shares *(note 35)*	68,000	2,156,574	—	—	—	—	—	—	2,224,574	—	2,224,574
Repurchase and cancellation of restricted A shares	(70)	(669)	739	—	—	—	—	—	—	—	—
Unlocking of restricted A shares	—	—	7,073	—	—	—	—	—	7,073	—	7,073
Establishment of new subsidiaries	—	—	—	—	—	—	—	—	—	292,951	292,951
Disposal of partial interest in subsidiaries without loss of control	—	—	—	—	—	53,746	—	—	53,746	29,654	83,400
Deemed disposal of partial interest in subsidiaries without loss of control	—	—	—	—	—	1,007,601	—	—	1,007,601	1,012,837	2,020,438
Dividends declared to non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	(150,080)	(150,080)
Capital injections from non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	135,747	135,747
Acquisitions of subsidiaries *(note 37)*	—	—	—	—	—	—	—	—	—	172,490	172,490
Disposal of associates	—	—	—	—	—	(75,385)	—	—	(75,385)	—	(75,385)
Disposal of subsidiaries *(note 38)*	—	—	—	—	—	—	—	—	—	(19,800)	(19,800)
Deemed disposal of partial interest in associates	—	—	—	—	—	301,992	—	—	301,992	—	301,992
Acquisition of non-controlling interests	—	—	—	—	—	(1,277,762)	—	—	(1,277,762)	(599,065)	(1,876,827)
Equity-settled share-based payments *(note 40)*	—	9,519	—	—	—	(8,877)	—	—	642	—	642
A subsidiary's equity-settled share-based payment *(note 40)*	—	—	—	—	—	—	—	—	—	92,547	92,547
Fair value adjustment on the share redemption options granted to non-controlling shareholders of subsidiaries	—	—	—	—	—	(927,150)	—	—	(927,150)	(13,606)	(940,756)
Share of changes in equity other than comprehensive income and distributions received of associates	—	—	—	—	—	226,793	—	—	226,793	—	226,793
Final 2017 dividend declared and paid	—	—	—	—	—	—	—	(973,963)	(973,963)	—	(973,963)
At 31 December 2018	2,563,061	11,386,711*	(1,711)	30,105*	2,374,998*	(701,196)*	(293,315)*	12,562,197*	27,920,850	5,614,977	33,535,827

* These reserve accounts comprise the consolidated reserves of RMB25,359,500,000 (2017: RMB22,784,373,000) in the consolidated statement of financial position.

Consolidated
Statement of Cash Flows

Year ended 31 December 2018

	Notes	**2018 RMB'000**	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**3,579,593**	4,061,717
Adjustments for:			
Finance costs	9	**929,658**	577,541
Share of profits and losses of joint ventures		**50,441**	15,525
Share of profits and losses of associates		**(1,399,438)**	(1,366,848)
Depreciation of items of property, plant and equipment	7	**887,151**	723,470
Amortisation of prepaid land lease payments	7	**29,384**	26,534
Amortisation of other intangible assets	7	**430,381**	195,906
Loss/(gain) on disposal of items of property, plant and equipment and other tangible assets	7	**19,366**	(37,453)
Gain on disposal of interests in associates and joint ventures	8	**(350,704)**	(336,289)
Gain on disposal of financial assets at fair value through profit or loss	8	**(67,023)**	(7,298)
Gain on disposal of a subsidiary	8	**(44,467)**	(12,920)
Gain on disposal of available-for-sale investments	8	**—**	(567,983)
Dividend income from available-for-sale investments	6	**—**	(31,176)
Dividend income from financial assets at fair value through profit or loss	6	**(4,136)**	—
Dividend income from equity investments at fair value through other comprehensive income	6	**(128)**	—
Impairment of inventories	7	**17,190**	18,505
Impairment losses on financial assets	7	**27,162**	—
Impairment of trade and other receivables	7	**—**	23,197
Impairment of available-for-sale investments	7	**—**	20,706
Impairment of goodwill	7	**80,000**	—
Fair value gain on financial assets at fair value through profit or loss	7	**(204,362)**	(44,072)
Equity settled share-based payment		**72,328**	—
		4,052,396	3,259,062
Increase in inventories		**(564,697)**	(491,055)
Increase in trade and bills receivables		**(510,634)**	(748,312)
Increase in prepayments and other assets		**(150,960)**	(142,936)
Increase in trade and bills payables		**556,496**	157,063
Increase in contract liabilities		**588,923**	—
(Decrease)/Increase in other payables and accruals		**(399,529)**	979,909
Decrease in pledged bank balances to secure bills payable		**128,146**	146,186
Cash generated from operations		**3,700,141**	3,159,917
Income tax paid		**(750,036)**	(579,691)
Net cash flows from operating activities		**2,950,105**	2,580,226

	Notes	**2018 RMB'000**	2017 RMB'000
Net cash flows from operating activities		**2,950,105**	2,580,226
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment, prepaid land lease payments, other intangible assets and other non-current assets		**(3,174,911)**	(2,170,617)
Receipt of government grants		**—**	—
Acquisitions of subsidiaries, net of cash acquired	37	**(642,885)**	(7,833,151)
Acquisition of interests in associates and joint ventures		**(2,015,558)**	(1,502,357)
Purchases of available-for-sale investments		**—**	(932,426)
Purchases of equity investments at fair value through profit or loss		**(115,535)**	(77,282)
Disposal and partial disposal of joint ventures and associates		**402,951**	192,245
Deposit payment for planned acquisition		**(15,000)**	(13,602)
Disposal of available-for-sale investments		**—**	799,097
Disposal of financial assets at fair value through profit or loss		**300,326**	24,404
Disposal of subsidiaries	38	**20,296**	10,554
Dividends from associates		**525,863**	496,138
Dividends from available-for-sale investments		**—**	30,735
Dividends received from financial assets at fair value through profit or loss		**13,905**	—
Dividends received from equity investments at fair value through other comprehensive income		**315**	—
Proceeds from disposal of items of property, plant and equipment, prepaid land lease payments, other intangible assets and other non-current assets		**29,179**	100,176
Deposit for construction projects		**26,996**	62,024
(Increase)/decrease in non-pledged time deposits with original maturity of three months or more when acquired and deposits for other acquisitions		**(600,748)**	293,592
Other receipts relating to investing activities		**(109)**	16,368
Net cash flows used in investing activities		**(5,244,915)**	(10,504,102)

Consolidated
Statement of Cash Flows

Year ended 31 December 2018

	Notes	**2018 RMB'000**	2017 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings	39	**12,535,348**	18,214,886
Repayment of bank and other borrowings	39	**(10,228,281)**	(9,318,046)
Interest paid		**(801,800)**	(562,131)
Proceeds from issuance of new shares		**2,224,574**	2,037,287
Capital injections from non-controlling shareholders of subsidiaries		**2,626,800**	980,351
Dividends paid to owners of the parent		**(973,734)**	(871,406)
Dividends paid to non-controlling shareholders of subsidiaries		**(205,015)**	(175,288)
Acquisitions of non-controlling interests		**(2,074,897)**	(396,751)
Partial disposal of subsidiaries without losing control		**34,540**	—
Other payments relating to financing activities		**—**	(275)
Net cash flows from financing activities		**3,137,535**	9,908,627
NET INCREASE IN CASH AND CASH EQUIVALENTS		**842,725**	1,984,751
Cash and cash equivalents at beginning of year		**6,350,319**	4,538,037
Effect of foreign exchange rate changes, net		**(18,039)**	(172,469)
CASH AND CASH EQUIVALENTS AT END OF YEAR	28	**7,175,005**	6,350,319

1. CORPORATE AND GROUP INFORMATION

The Company was established as a joint stock company with limited liability on 31 May 1995 in the PRC. The Company's A Shares have been listed on the Shanghai Stock Exchange since 7 August 1998. The Company's H shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") since 30 October 2012. The operating term is from 31 December 1998 to an indefinite period.

The holding company of the Company is Shanghai Fosun High Technology (Group) Co., Ltd. ("Fosun High Tech"). The ultimate holding company of the Company is Fosun International Holdings Limited. The ultimate controlling shareholder of the Company is Mr. Guo Guangchang.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the development, manufacture and sale of pharmaceutical products and medical equipment, import and export of medical equipment and the provision of related and other consulting services and investment management.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Company name*	Place of incorporation/ registration and business	Nominal value of issued/registered share capital ('000)	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
Shanghai Henlius Biotech Co., Ltd. ("Henlix") (上海復宏漢霖生物技術股份有限公司)****	PRC/ Mainland China	RMB474,433.1	—	61.09	Research and development of biopharmaceutical drugs
Chongqing Fochon Pharmaceutical Research Co., Ltd ("Chongqing Fochon") (重慶復創醫藥研究有限公司)***	PRC/ Mainland China	USD14,288	—	76	Research and development of chemical drugs
Fosun Industrial Co., Ltd.("Fosun Industrial") (復星實業(香港)有限公司)	Hong Kong	USD550,138	100	—	Investment management
Shanghai Fosun Pingyao Investment Management Co., Ltd. ("Pingyao Investment") (上海復星平耀投資管理有限公司)**	PRC/ Mainland China	RMB10,000	100	—	Investment management
Shanghai Fosun Hospital Investment (Group) Co., Ltd. ("Hospital Investment") (上海復星醫院投資(集團)有限公司)**	PRC/ Mainland China	RMB1,500,000	96	4	Investment management
Ample Up Limited ("Ample Up") (能悦有限公司)	Hong Kong	USD61,587	—	100	Investment management
Fosun Pharma USA Inc.	USA	US$10,000	100	—	Investment management
Fosun Pharma Industrial Pte. Ltd.	Singapore	US$450,000	—	100	Investment management
Fosun Pharmaceutical AG	Switzerland	CHF1,000	—	100	Investment management

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Particulars of the Company's principal subsidiaries are as follows: (Continued)

Company name*	Place of incorporation/ registration and business	Nominal value of issued/registered share capital ('000)	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
Chongqing Yao Pharmaceutical Co., Ltd. ("Yao Pharmaceutical") (重慶藥友製藥有限責任公司)****	PRC/ Mainland China	RMB196,540	—	51	Manufacture and trading of medicine
Jiangsu Wanbang (Group) Biopharmaceutical Co., Ltd. ("Jiangsu Wanbang") (江蘇萬邦生化醫藥集團有限責任公司)****	PRC/ Mainland China	RMB440,455	—	100	Manufacture and trading of medicine
Guilin South Pharma Co., Ltd. (桂林南藥股份有限公司)****	PRC/ Mainland China	RMB285,030	—	96.19	Manufacture and trading of medicine
Shanghai Fosun Long March Medical Science Co., Ltd. ("Fosun Long March") (上海復星長征醫學科學有限公司)**	PRC/ Mainland China	RMB156,854	100	—	Manufacture and sale of diagnostic products
Shanghai Fosun Pharmaceutical Industrial Development Co., Ltd. ("Industrial Development") (上海復星醫藥產業發展有限公司)**	PRC/ Mainland China	RMB2,253,308	100	—	Investment management
Jinzhou Aohong Pharmaceutical Co., Ltd. ("Aohong Pharma") (錦州奧鴻藥業有限責任公司)****	PRC/ Mainland China	RMB107,875	—	100	Manufacture and trading of medicine
Chongqing Pharmaceutical Research Institute Co., Ltd. (重慶醫藥工業研究院有限責任公司)****	PRC/ Mainland China	RMB55,000	—	56.89	Research and development of medicine
Yueyang Guangji Hospital Co., Ltd. ("Guangji Hospital") (岳陽廣濟醫院有限公司)****	PRC/ Mainland China	RMB111,120	—	100	Healthcare services
Yaneng Bioscience (Shenzhen) Co., Ltd. (亞能生物技術(深圳)有限公司)***	PRC/ Mainland China	HKD11,635	—	50.1	Manufacture and trading of diagnostic drugs
Dalian Aleph Biomedical Co., Ltd. ("Dalian Aleph") (大連雅立峰生物製藥有限公司)****	PRC/ Mainland China	RMB52,000	—	100	Manufacture and sale of biologic pharmaceutical products

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Particulars of the Company's principal subsidiaries are as follows: (Continued)

Company name*	Place of incorporation/ registration and business	Nominal value of issued/registered share capital ('000)	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
Shine Star (Hubei) Biological Engineering Co., Ltd. (湖北新生源生物工程有限公司)****	PRC/ Mainland China	RMB51,120	—	51	Manufacture and trading of medicine
Chindex Medical Limited (美中互利醫療有限公司)	Hong Kong	HKD754,520	—	100	Investment management
Shenyang Hongqi Pharmaceutical Co., Ltd. ("Hongqi Pharma") (瀋陽紅旗製藥有限公司)****	PRC/ Mainland China	RMB100,000	—	100	Manufacture and trading of medicine
Anhui Jimin Cancer Hospital (安徽濟民腫瘤醫院)*****	PRC/ Mainland China	RMB10,000	—	70	Healthcare services
Suqian Zhongwu Hospital Co., Ltd. (宿遷市鐘吾醫院有限責任公司)****	PRC/ Mainland China	RMB17,500	—	55	Healthcare services
Alma Lasers Ltd. ("Alma")	State of Israel	Not applicable	—	100	Manufacture and sale of medical devices
Hunan Dongting Pharmaceutical Co., Ltd. ("Dongting Pharma") (湖南洞庭藥業股份有限公司)****	PRC/ Mainland China	RMB110,064	44.4	51	Manufacture and trading of medicine
Foshan City Chancheng District Central Hospital Co., Ltd. ("Chancheng Hospital") (佛山市禪城區中心醫院有限公司)****	PRC/ Mainland China	RMB50,000	—	87.41	Healthcare services
Suzhou Erye Pharmaceutical Co., Ltd. ("Erye Pharma") (蘇州二葉製藥有限公司)****	PRC/ Mainland China	RMB118,420	—	65	Manufacture and trading of medicine
Jiangsu Huanghe Pharmaceutical Co., Ltd. ("Huanghe Pharma") (江蘇黃河藥業股份有限公司)****	PRC/ Mainland China	RMB55,070	—	51	Manufacture and trading of medicine

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Particulars of the Company's principal subsidiaries are as follows: (Continued)

Company name*	Place of incorporation/ registration and business	Nominal value of issued/registered share capital ('000)	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
Breas Medical Holdings AB ("Breas")	Sweden	Not applicable	—	80	Manufacture and trading of medical devices
Gland Pharma Limited ("Gland Pharma")	India	Not applicable	—	74	Manufacture and trading of medicine
Tridem Pharma S.A.S ("Tridem Pharma")	France	Not applicable	—	82	Manufacture and trading of medicine
Shenzhen Hengsheng Hospital ("Hengsheng Hospital") (深圳恒生醫院)****	PRC/ Mainland China	RMB60,000	—	60	Healthcare services

* The English names of the companies registered in the PRC represent the best efforts made by the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

** These subsidiaries are registered as wholly-owned enterprises under PRC law.

*** These subsidiaries are registered as Sino-foreign equity joint ventures under PRC law.

**** These subsidiaries are registered as limited liability companies under PRC law.

***** Anhui Jimin Cancer Hospital is registered as a non-profit medical institution under PRC law.

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results of the Group for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

There was no subsidiary that had a non-controlling interest that was material to the Group during the year.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Except for the amendments to HKFRS 4 and *Annual Improvements to HKFRSs 2014–2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) Amendments to HKFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled sharebased payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group.

(b) 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 recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("**ECLs**").

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) (Continued)

Classification and measurement (Continued)

A reconciliation between the carrying amounts under HKAS 39 to the balances reported under HKFRS 9 as of 1 January 2018 is as follows:

In RMB'000	HKAS 39 Amount	Re-classification	Re-measurement ECL	Other	HKFRS9 Amount
Trade and bills receivables	3,825,549	—	(27,061)	—	3,798,488
Financial assets included in prepayments, other receivables and other assets	430,530	—	—	—	430,530
Cash and cash equivalents	7,248,867	—	—	—	7,248,867
Available-for-sale investments	2,673,249	—	—	—	—
To: Non-current portion of financial assets at fair value through profit or loss	—	(1,767,436)	—	—	—
To: Current portion of financial assets at fair value through profit or loss	—	(592,716)	—	—	—
To: Equity investments designated at fair value through other comprehensive income	—	(313,097)	—	—	—
Non-current portion of financial assets at fair value through profit or loss	—	—	—	—	—
From: Available-for-sale investments	—	1,767,436	—	8,137	1,775,573
Current portion of financial assets at fair value through profit or loss	—	—	—	—	—
From: Available-for-sale investments	—	592,716	—	—	592,716
Equity investments designated at fair value through other comprehensive income *(note i)*	—	—	—	—	—
From: Available-for-sale investments	—	313,097	—	(7,679)	305,418

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) (Continued)

Classification and measurement (Continued)

	HKAS 39 measurement Category	HKFRS 9 measurement Category
Trade and bills receivables	L&R[1]	AC[2]
Financial assets included in prepayments, other receivables and other assets	L&R	AC
Cash and cash equivalents	L&R	AC
Available-for-sale investments	AFS[3]	N/A
Financial assets at fair value through profit or loss	N/A	FVPL[4]
Equity investments designated at fair value through other comprehensive income	N/A	FVOCI[5]

1 L&R: Loans and receivables
2 AC: Financial assets at amortised cost
3 AFS: Available-for-sale investments
4 FVPL: Financial assets at fair value through profit or loss
5 FVOCI: Financial assets at fair value through other comprehensive income

Note i: The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) (Continued)

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9.

In RMB'000	Impairment allowances under HKAS 39 at 31 December 2017	Re-measurement	ECL allowances under HKFRS 9 at 1 January 2018
Trade and bills receivables per HKAS 39/ trade and bills receivables under HKFRS 9	135,454	27,061	162,515

Impact on reserves and retained profits

The impact of transition to HKFRS 9 on reserves and retained profits is as follows:

	Reserves and retained profits RMB'000
Fair value reserve (available-for-sale investment revaluation reserve under HKAS 39)	
Closing balance under HKAS 39 (31 December 2017)	41,899
Reclassification from available-for-sale investments to FVPL	(54,640)
Re-measurement impact of the available-for-sale investments at cost to FVOCI	(8,057)
Opening balance under HKFRS 9 (1 January 2018)	(20,798)
Retained profits	
Closing balance under HKAS 39 (31 December 2017)	10,902,244
Reclassification from available-for-sale investments to FVPL	54,640
Re-measurement impact of the available-for-sale investments at cost to FVPL	7,535
Recognition of ECLs under HKFRS 9	(16,157)
Opening balance under HKFRS 9 (1 January 2018)	10,948,262
Total change in equity due to adopting HKFRS 9	(16,679)
Total change in non-controlling interests	(5,094)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(c) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition.

The Group has adopted 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018, if any. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

	Note	**Increase/ (decrease)** RMB'000
Liabilities		
Other payables and accruals	(iii)	(520,863)
Deferred income	(iii)	(6,269)
Current portion of contract liabilities	(iii)	520,863
Non-current portion of contract liabilities	(iii)	6,269
Total liabilities		—
Equity		
Retained profits		—
Non-controlling interests		—
		—

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(c) (Continued)

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no impact on comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under HKFRS 15 and the second column shows what the amounts would have been had HKFRS 15 not been adopted:

The consolidated statement of profit or loss for the year ended 31 December 2018 would have been the same if HKFRS 15 had not been adopted.

Consolidated statement of financial position as at 31 December 2018:

		Amounts prepared under		
	Note	**HKFRS 15** RMB'000	**Previous HKFRS** RMB'000	**Increase/ (decrease)** RMB'000
Other payables and accruals	(iii)	4,312,390	4,843,287	(530,897)
Deferred income	(iii)	363,488	435,001	(71,513)
Current portion of contract liabilities	(iii)	530,897	—	530,897
Non-current portion of contract liabilities	(iii)	71,513	—	71,513
		5,278,288	5,278,288	—

The Group is involved in the business of providing drugs, medical devices, diagnostic products and healthcare services

(i) Sale of goods

The Group's contracts with customers for the sale of drugs, medical devices and diagnostic products generally include one performance obligation. The Group has concluded that revenue from the sale of drugs, medical devices and diagnostic products should be recognised at the point in time when control of the asset is transferred to the customer, generally when the significant risks and rewards of ownership have been transferred to the buyer. Therefore, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition.

(ii) Rendering of services

The Group's healthcare services segment provides healthcare services that generally include one performance obligation. The Group has concluded that revenue from providing healthcare services should be recognised at the point in time when the services were completed. Therefore, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition of healthcare services.

The Group's pharmaceutical manufacturing and R&D segment provides technical consultancy services and the Group's medical devices and medical diagnosis segment provides maintenance services. The Group has concluded that revenue from the rendering of technical consultancy services and maintenance services should be recognised over time, using an input method to measure progress towards complete satisfaction of the service. Therefore, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition of technical consultancy services and maintenance services.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(c) (Continued)

(iii) Advances received from customers

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as other payables and deferred income. Under HKFRS 15, the amount is classified as contract liabilities which are included in other payables and accruals and deferred income.

Therefore, upon adoption of HKFRS 15, the Group reclassified RMB520,863,000 from other payables and accruals to the current portion of contract liabilities as at 1 January 2018 and RMB6,269,000 from deferred income to the non-current portion of contract liabilities in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, RMB530,897,000 from other payables and accruals was reclassified to the current portion of contract liabilities, and RMB71,513,000 from deferred income was reclassified to the non-current portion of contract liabilities in relation to the consideration received from customers in advance for the sale of products and services.

The adoption of HKFRS 15 did not have a material impact on retained profits.

(d) Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17.Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases.

HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application.

The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of RMB372,688,000 and lease liabilities of RMB372,688,000 will be recognised at 1 January 2019.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates and joint ventures (Continued)

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

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

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

Fair value measurement

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

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

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

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

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, goodwill and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(b) (Continued)

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Land	Indefinite
Buildings	10 to 45 years
Plant and machinery	3 to 16 years
Medical devices	5 to 10 years
Office equipment	2 to 15 years
Motor vehicles	3 to 10 years
Leasehold improvements	The shorter of the lease terms and their useful lives

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery under construction or installation and testing which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction or installation and testing and capitalised borrowing costs on related borrowed funds during the period of construction or installation and testing. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Trademarks

Trademarks with finite useful lives are measured initially at cost and are amortised on the straight-line basis over the respective estimated useful lives of 10 years. Trademarks with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful lives of trademarks are reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Medicine licences, technical know-how and operating concession rights

Medicine licences with finite useful lives are measured initially at cost and are amortised on the straight-line basis over the respective estimated useful lives of 10 years. Medicine licences, technical know-how and operating concession rights with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful lives of medicine licences, technical know-how and operating concession rights are reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Patents

Purchased patents are stated at cost less any impairment losses and are amortised on the straight-line basis over the respective estimated useful lives of 5 to 20 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Office software

Purchased office software is stated at cost less any impairment losses and is amortised on the straight-line basis over the estimated useful life of 2 to 10 years.

Business networks

Business networks are stated at cost less any impairment losses and are amortised on the straight-line basis over the respective estimated useful lives.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, 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. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

Financial assets at amortised cost (debt instruments) (Continued)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets designated at fair value through other comprehensive in0come (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

Financial assets at fair value through profit or loss (Continued)

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

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

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

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. 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, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

General approach (Continued)

The Group considers a financial asset in default when contractual payments are 180 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. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade and bill receivables which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade and bill receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade and bill receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (Continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (Continued)

Available-for-sale financial investments (Continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings and payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, interest-bearing bank and other borrowings and other long-term liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss (policies under HKFRS 9 applicable from 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (Continued)

Financial liabilities at fair value through profit or loss (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at fair value through profit or loss (policies under HKAS 39 applicable before 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings

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

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

Financial guarantee contracts (policies under HKFRS 9 applicable from 1 January 2018)

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Financial guarantee contracts (policies under HKAS 39 applicable before 1 January 2018)

A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

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

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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

Treasury shares

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and bank balances

For the purpose of the consolidated statement of cash flows, cash and bank balances comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the consolidated statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits.

Provision

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provision (Continued)

The Group provides for warranties in relation to the sale of certain industrial products and the provision of construction services for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries or areas in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (applicable from 1 January 2018) (Continued)

Revenue from contracts with customers (Continued)

(a) *Sale of industrial products*

Revenue from the sale of industrial products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

(b) *Healthcare services, technology transfer services and consigned processing services*

Revenue from rendering healthcare services, technology transfer services and consigned processing services are recognised at the point in time when the services were completed. As the customers can't control the service or consume the benefit and have no obligation to pay until each service completed and accepted.

(c) *Rendering of technical consultancy services and maintenance services*

Revenue from rendering technical consultancy services and maintenance services are recognised over time as the customer simultaneously receives and consumes the benefits provided by the Group.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, including processing fees, import and export agent fees, consulting fees, when the relevant services have been rendered and it is probable that economic benefits will flow to the Group and the relevant fees can be measured reliably;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial asset to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Contract costs (applicable from 1 January 2018)

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Contracts for services (applicable before 1 January 2018)

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends and interim dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

Retirement benefits

The full-time employees of the Group in the PRC are covered by various government-regulated defined contribution retirement benefit schemes under which the employees are entitled to a monthly pension. The Group contributes a percentage of the employees' salaries to these retirement benefit schemes on a monthly basis. Under these schemes, the Group has no legal obligation for retirement benefits beyond the contributions made. Contributions to these schemes are expensed as incurred.

Accommodation benefits

According to the relevant PRC rules and regulations, the PRC companies now comprising the Group and their employees are each required to make contributions which are in proportion to the salaries and wages of the employees to an accommodation fund administered by government agencies in the PRC. There is no further obligation on the part of the Group except for such contributions to the accommodation fund. Contributions to an accommodation fund administered by government agencies are charged to the statement of profit or loss as and when they are incurred.

Share-based payments

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

The cost of equity-settled transactions with employees and non-employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes option pricing model.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

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

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

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

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments — Group as lessee

The Group has entered into property, plant and equipment leases with various lessors. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that the lessors retain all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 17 to the financial statements.

Provision for expected credit losses on trade and bills receivables

The Group uses a provision matrix to calculate ECLs for trade and bills receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade and bill receivables cost is disclosed in note 25 to the financial statements, respectively.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Business combinations and goodwill

When the Group completes a business combination, the identifiable assets acquired and the liabilities assumed are recognised at their fair value. Management estimation is required to determine the fair values of the assets acquired, the liabilities assumed, and the purchase consideration, and on the allocation of the purchase consideration to the identifiable assets and liabilities. The fair values of the identifiable assets acquired and the liabilities assumed are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable market where possible, but where this is not feasible, a degree of judgement and estimation is required in establishing fair values. Management must estimate the expected future cash flows and discount rate in order to calculate the fair values.

Impairment of available-for-sale investments

Before 1 January 2018, the Group classified certain investments as available for sale and recognised movements of their fair values in other comprehensive income. When the fair value declined, management made judgements about the decline in value to determine whether there was an impairment that should be recognised in the statement of profit or loss.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to be incurred to completion and sale. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in customers' needs and prices change when the products' expiration date is approaching. Management reassesses these estimates at the end of the reporting period.

Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations, or competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Useful lives of intangible assets (other than goodwill)

The Group determines the estimated useful lives for its intangible assets. This estimate is based on the historical experience of the actual useful lives of intangible assets of similar nature and functions. It could change significantly as a result of technical innovations, or competitor actions in response to severe industry cycles. Management will increase the amortisation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, and carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Unrecognised deductible temporary differences and tax losses are set out in note 23 to the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding to future economic benefits.

4. OPERATING SEGMENT INFORMATION

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

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

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

(c) the medical devices and medical diagnosis segment mainly engages in the production and sale of medical equipment and diagnostic products;

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

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

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

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

Segment assets exclude financial assets at fair value through profit or loss, equity investments designated at fair value through other comprehensive income and unallocated head office and corporate assets as these assets are managed on a group basis.

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

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2018

	Pharma-ceutical manufacturing and R&D RMB'000	Healthcare Service RMB'000	Medical devices and medical diagnosis RMB'000	Pharma-ceutical distribution and retail RMB'000	Other business operations RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue:							
Sales to external customers	18,499,188	2,555,106	3,626,965	—	32,616	—	24,713,875
Intersegment sales	18,058	4,223	26,300	—	107,093	(155,674)	—
Total revenue	18,517,246	2,559,329	3,653,265	—	139,709	(155,674)	24,713,875
Segment results*	1,784,976	300,822	558,135	—	61,501	(105,054)	2,600,380
Other income	231,040	16,455	23,384	—			270,879
Other gains	294,809	16,753	38,002	—	469	(846)	349,187
Interest income	78,612	36,433	20,769	—	333	(4,632)	131,515
Finance costs	(101,768)	(6,666)	(11,363)	—	(13,449)	90,925	(42,321)
Other expenses	(82,981)	1,808	(82,726)	—	16	272	(163,611)
Share of profits and losses of:							
Joint ventures	(52,373)	—	2,766	—	(834)	—	(50,441)
Associates	103,204	(58,721)	(30,159)	1,514,745	(129,631)	—	1,399,438
Unallocated other income, interest income and other gains							520,589
Unallocated finance costs							(887,337)
Unallocated expenses							(548,685)
Profit before tax	2,255,519	306,884	518,808	1,514,745	(81,595)	(19,335)	3,579,593
Tax	(500,609)	(98,367)	(79,091)	—	(393)	—	(678,460)
Unallocated tax							118,749
Profit for the year	1,754,910	208,517	439,717	1,514,745	(81,988)	(19,335)	3,019,882
Segment assets	33,884,934	10,282,181	6,935,325	11,638,727	4,716,388	(849,525)	66,608,030
Including:							
Investments in joint ventures	423,273	—	12,331	—	10,963	—	446,567
Investments in associates	2,115,275	3,207,581	422,090	11,638,727	3,540,400	—	20,924,073
Unallocated assets							3,886,444
Total assets							70,494,474
Segment liabilities	13,837,163	1,368,632	1,156,439	—	323,293	(7,681,602)	9,003,925
Unallocated liabilities							27,954,722
Total liabilities							36,958,647
Other segment information:							
Depreciation and amortisation	1,041,804	152,350	122,073	—	30,689	—	1,346,916
Provision for impairment of inventories	7,511	—	9,679	—	—	—	17,190
Provision for impairment of goodwill	—	—	80,000	—	—	—	80,000
Impairment losses on financial assets	41,446	(2,679)	(15,979)	—	4,374	—	27,162
Capital expenditure**	2,027,974	774,218	387,126	—	127,822	—	3,317,140

* Segment results are obtained as segment revenue less cost of sales, selling and distribution expenses, administrative expenses and research and development expenses.

** Capital expenditure consists of additions to property, plant and equipment, other intangible assets and prepaid land lease payments (not including the addition from acquisitions of subsidiaries).

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2017

	Pharma-ceutical manufacturing and R&D RMB'000	Healthcare service RMB'000	Medical devices and medical diagnosis RMB'000	Pharma-ceutical distribution and retail RMB'000	Other business operations RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue:							
Sales to external customers	13,043,250	2,086,652	3,203,656	—	28,050	—	18,361,608
Intersegment sales	43,874	3,446	16,375	—	72,715	(136,410)	—
Total revenue	13,087,124	2,090,098	3,220,031	—	100,765	(136,410)	18,361,608
Segment results*	1,860,298	289,721	479,866	—	39,723	(82,142)	2,587,466
Other income	103,629	10,024	15,688	—	—	—	129,341
Other gains	268,542	486	(91)	—	—	—	268,937
Interest income	36,221	14,570	11,112	—	268	(6,726)	55,445
Finance costs	(103,164)	(4,219)	(28,857)	—	(9,604)	97,970	(47,874)
Other expenses	(46,481)	(22,490)	24,983	—	(537)	—	(44,525)
Share of profits and losses of:							
Joint ventures	(19,695)	666	3,054	—	450	—	(15,525)
Associates	143,883	14,609	(30,383)	1,416,391	(177,652)	—	1,366,848
Unallocated other income, interest income and other gains							817,959
Unallocated finance costs							(529,667)
Unallocated expenses							(526,688)
Profit before tax	2,243,233	303,367	475,372	1,416,391	(147,352)	9,102	4,061,717
Tax	(405,386)	(80,145)	(87,889)	—	(165)	—	(573,585)
Unallocated tax							97,127
Profit for the year	1,837,847	223,222	387,483	1,416,391	(147,517)	9,102	3,585,259
Segment assets	30,273,422	8,913,568	6,209,538	10,344,380	3,134,225	(412,484)	58,462,649
Including:							
Investments in joint ventures	420,989	201,310	12,392	—	11,859	—	646,550
Investments in associates	1,686,143	2,737,611	517,315	10,344,380	2,461,689	—	17,747,138
Unallocated assets							3,451,472
Total assets							61,914,121
Segment liabilities	11,800,058	1,280,256	771,379	—	363,139	(4,793,840)	9,420,992
Unallocated liabilities							22,808,562
Total liabilities							32,229,554
Other segment information:							
Depreciation and amortisation	696,066	116,456	107,590	—	25,798	—	945,910
Provision for impairment of inventories	13,773	—	4,732	—	—	—	18,505
Provision for impairment of trade and other receivables	2,554	14,305	8,338	—	(2,000)	—	23,197
Capital expenditure**	1,521,960	262,760	113,142	—	444,446	—	2,342,308

* Segment results are obtained as segment revenue less cost of sales, selling and distribution expenses, administrative expenses and research and development expenses.

** Capital expenditure consists of additions to property, plant and equipment, other intangible assets and prepaid land lease payments (not including the addition from acquisitions of subsidiaries).

4. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

(a) Revenue from external customers

	2018 RMB'000	2017 RMB'000
Mainland China	**18,807,653**	15,010,824
Overseas countries and regions	**5,906,222**	3,350,784
	24,713,875	18,361,608

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

(b) Non-current assets

	2018 RMB'000	2017 RMB'000
Mainland China	**37,417,024**	33,337,200
Overseas countries and regions	**12,270,468**	10,702,661
	49,687,492	44,039,861

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

No revenue amounting to 10% or more of the Group's total revenue was derived from sales to a single customer for the years ended 31 December 2018 and 2017.

5. REVENUE

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

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers		
Sale of goods	**21,617,452**	16,013,459
Rendering of services	**3,067,408**	2,334,830
Sale of materials	**29,015**	13,319
	24,713,875	18,361,608

5. REVENUE (Continued)

Revenue from contracts with customers

(i) Disaggregated revenue information
Year ended 31 December 2018

Segments	Pharmaceutical manufacturing and R&D RMB'000	Healthcare service RMB'000	Medical devices and medical diagnosis RMB'000	Pharmaceutical distribution and retail RMB'000	Other business operations RMB'000	Total RMB'000
Type of goods or services						
Sale of goods	18,069,806	43,954	3,503,692	—	—	21,617,452
Rendering of services	402,213	2,511,152	121,427	—	32,616	3,067,408
Sale of materials	27,169	—	1,846	—	—	29,015
Total revenue from contracts with customers	18,499,188	2,555,106	3,626,965	—	32,616	24,713,875
Geographical markets						
Mainland China	14,022,480	2,555,106	2,200,846	—	29,221	18,807,653
Overseas countries and regions	4,476,708	—	1,426,119	—	3,395	5,906,222
Total revenue from contracts with customers	18,499,188	2,555,106	3,626,965	—	32,616	24,713,875
Timing of revenue recognition						
Goods and materials transferred at a point in time	18,096,975	43,954	3,505,538	—	—	21,646,467
Services transferred at a point in time	398,882	2,511,152	64,407	—	32,616	3,007,057
Services transferred over time	3,331	—	57,020	—	—	60,351
Total revenue from contracts with customers	18,499,188	2,555,106	3,626,965	—	32,616	24,713,875

5. REVENUE (Continued)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2018 RMB'000
Revenue recognised that was included in contract liabilities as at 1 January 2018:	
Advances from customers	460,512
Warranty services	60,351
	520,863
Revenue recognised from performance obligations satisfied in previous periods:	—

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of the products and payment is generally due within 90 to 180 days from delivery, except for new customers, where payment in advance is normally required.

Healthcare services, technology transfer services and consigned processing services

The performance obligation is satisfied upon completion of healthcare services, technology transfer services and consigned processing services and short-term advances are normally required before rendering the services.

Technical consultancy services and maintenance services

The performance obligation is satisfied over time as services are rendered and advances are normally required before rendering the services.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 are as follows:

	2018 RMB'000
Within one year	530,897
More than one year	71,513
	602,410

The amounts disclosed above do not include variable consideration which is constrained.

6. OTHER INCOME

	2018 RMB'000	2017 RMB'000
Dividend income from financial assets at fair value through profit or loss	**4,136**	—
Dividend income from equity investments at fair value through other comprehensive income	**128**	—
Dividend income from available-for-sale investments	**—**	31,176
Government grants	**276,714**	141,784
	280,978	172,960

7. PROFIT BEFORE TAX

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

	Notes	**2018 RMB'000**	2017 RMB'000
Cost of inventories sold		**8,648,685**	5,996,714
Cost of services provided		**1,716,624**	1,612,239
Staff costs (including directors', supervisors' and chief executive's remuneration *(note 10)*):			
Salaries and other staff costs		**3,582,280**	2,688,660
Retirement benefits:			
Defined contribution fund		**230,344**	198,375
Accommodation benefits:			
Defined contribution fund		**116,660**	91,565
Share-based payment expense	40	**72,328**	10,357
		4,001,612	2,988,957
Research and development expenses:			
Current year expenditure excluding amortisation of other intangible assets		**1,412,318**	959,380
Less: Government grants for R&D projects*		**(26,974)**	(17,055)
		1,385,344	942,325
Auditors' remuneration		**4,500**	4,500
Operating lease payments		**121,272**	78,988
Depreciation of items of property, plant and equipment	15	**887,151**	723,470
Amortisation of prepaid land lease payments	16	**29,384**	26,534
Amortisation of other intangible assets	18	**430,381**	195,906
Impairment of inventories		**17,190**	18,505
Impairment losses on financial assets	25&26	**27,162**	—
Impairment of trade and other receivables	25&26	**—**	23,197
Impairment of available-for-sale investments	21	**—**	20,706
Impairment of goodwill	17	**80,000**	—
Fair value gain on financial assets at fair value through profit or loss	8	**(204,362)**	(44,072)
Foreign exchange (gain)/loss, net		**(96,038)**	30,260
Loss/(gain) on disposal of items of property, plant and equipment and other intangible assets		**19,366**	(37,453)
Donations		**9,754**	11,139

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

8. OTHER GAINS

	2018 **RMB'000**	2017 RMB'000
Gain on disposal of interests in associates and joint ventures	**350,704**	336,289
Gain on disposal of available-for-sale investments	**—**	567,983
Gain on disposal of financial assets at fair value through profit or loss	**67,023**	7,298
Gain on disposal of subsidiaries	**44,467**	12,920
Gain on disposal of items of property, plant and equipment and other intangible assets	**—**	37,453
Fair value gain on financial assets at fair value through profit or loss	**204,362**	44,072
Foreign exchange gain, net	**96,038**	—
Gain on settlement of payable balance not to be paid	**68,518**	3,673
Others	**14,342**	9,810
	845,454	1,019,498

9. FINANCE COSTS

	2018 **RMB'000**	2017 RMB'000
Interest on bank loans and other borrowings	**937,579**	588,702
Less: Interest capitalised *(note 15)*	**(7,921)**	(11,161)
Interest expenses, net	**929,658**	577,541

10. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors', supervisors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018 RMB'000	2017 RMB'000
Fees	1,200	1,200
Other emoluments:		
Salaries, allowances and benefits in kind	16,991	13,792
Performance-related bonuses	17,134	14,321
Pension scheme contributions	200	183
Equity-settled share incentive scheme expense	836	2,482
	36,361	31,978

During the year and in prior years, restricted A-shares were granted to an executive director in respect of his services to the Group, further details of which are included in the disclosures in note 40 to the financial statements. The fair value of these restricted A-shares, which has been recognised in the statement of profit or loss over the lock-up period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the executive directors' remuneration disclosures below.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2018 RMB'000	2017 RMB'000
Mr. Cao Huimin	300	300
Mr. Jiang Xian	300	300
Dr. Huang Tianyou	300	300
Mr. Wei Shaokun	300	300
	1,200	1,200

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

10. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors, non-executive directors, supervisors and the chief executive

	Fees RMB'000	Salaries, allowances, and benefits in kind RMB'000	Performance-related bonuses RMB'000	Pension scheme contributions RMB'000	Share incentive scheme expense RMB'000	Total remuneration RMB'000
2018						
Executive directors						
Mr. Chen Qiyu	—	4,731	9,470	50	—	14,251
Mr. Yao Fang	—	4,009	5,305	50	536	9,900
Mr. Wu Yifang	—	—	—	—	—	—
	—	8,740	14,775	100	536	24,151
Non-executive directors						
Mr. Guo Guangchang*	—	—	—	—	—	—
Mr. Wang Qunbin	—	—	—	—	—	—
Ms. Kang Lan**	—	—	—	—	—	—
Mr. Wang Can	—	—	—	—	—	—
Ms. Mu Haining	—	—	—	—	—	—
Mr. Zhang Xueqing	—	—	—	—	—	—
	—	—	—	—	—	—
Supervisors						
Mr. Li Chun***	—	202	660	—	69	931
Ms. Ren Qian****	—	921	739	50	36	1,746
Mr. Guan Yimin	—	—	—	—	—	—
Mr. Cao Genxing	—	—	—	—	—	—
	—	1,123	1,399	50	105	2,677
Chief Executive						
Mr. Wu Yifang	—	7,128	960	50	195	8,333
	—	7,128	960	50	195	8,333
	—	16,991	17,134	200	836	35,161
2017						
Executive directors						
Mr. Chen Qiyu	—	4,612	5,932	46	—	10,590
Mr. Yao Fang	—	3,784	4,669	46	1,481	9,980
Mr. Wu Yifang	—	—	—	—	—	—
	—	8,396	10,601	92	1,481	20,570
Non-executive directors						
Mr. Guo Guangchang	—	—	—	—	—	—
Mr. Wang Qunbin	—	—	—	—	—	—
Mr. Wang Can	—	—	—	—	—	—
Ms. Kang Lan	—	—	—	—	—	—
	—	—	—	—	—	—
Supervisors						
Mr. Li Chun	—	2,109	960	45	460	3,574
Mr. Guan Yimin	—	—	—	—	—	—
Mr. Cao Genxing	—	—	—	—	—	—
	—	2,109	960	45	460	3,574
Chief executive						
Mr. Wu Yifang	—	3,287	2,760	46	541	6,634
	—	3,287	2,760	46	541	6,634
	—	13,792	14,321	183	2,482	30,778

* Mr. Guo Guangchang retired as a non-executive director of the Company in March 2018.

** Ms. Kang Lan retired as a non-executive director of the Company in March 2018.

*** Mr. Li Chun retired as a supervisor of the Company in January 2018.

**** Ms. Ren Qian was elected as Chairman of the Board of supervisor in January 2018.

10. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors, non-executive directors, supervisors and the chief executive (Continued)

There was no arrangement under which a director, a supervisor or the chief executive waived or agreed to waive any remuneration during the year (2017: Nil).

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors including the chief executive (2017: three directors including the chief executive), details of whose remuneration are set out in note 10 above. Details of the remuneration for the year of the remaining two (2017: two) highest paid employees who are not a director, supervisor, or the chief executive of the Company are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	3,537	5,205
Performance-related bonuses	9,220	5,054
Pension scheme contributions	100	92
Equity-settled share incentive scheme expense	130	941
	12,987	11,292

The number of non-director, non-supervisor and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2018	2017
HKD5,000,001 to HKD5,500,000	—	1
HKD6,000,001 to HKD6,500,000	1	—
HKD8,000,001 to HKD8,500,000	—	1
HKD8,500,001 to HKD9,000,000	1	—
	2	2

12. INCOME TAX

The provision for Mainland China current income tax is based on a statutory rate of 25% of the assessable profits of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in Mainland China, which are taxed at preferential rates of 0% to 20%.

12. INCOME TAX (Continued)

Taxes on profits assessable elsewhere have been calculated at the tax rates prevailing in the jurisdictions in which the Group operates. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. The provision for current income tax of Alma, a subsidiary of the Group incorporated in Israel, is based on a preferential rate of 8.44%. The provision for current tax of Gland Pharma, a subsidiary of the Group incorporated in India, is based on a statutory rate of 34.61% before 1 April 2018, and 34.94% after 1 April 2018. The provision for current tax of Breas, a subsidiary of the Group incorporated in Sweden, is based on a statutory rate of 22%. The provision for current tax of Tridem Pharma, a subsidiary of the Group incorporated in France, is based on a statutory rate of 33.33%.

	2018 **RMB'000**	2017 RMB'000
Current	**665,717**	549,828
Deferred *(note 23)*	**(106,006)**	(73,370)
Total tax charge for the year	**559,711**	476,458

A reconciliation of the tax expense applicable to profit before tax at the statutory tax rate applicable in Mainland China to the tax expense at the Group's effective tax rate is as follows:

	2018 **RMB'000**	2017 RMB'000
Profit before tax	**3,579,593**	4,061,717
Tax at the statutory tax rate	**949,929**	1,030,656
Lower tax rates for certain entities	**(245,443)**	(240,369)
Adjustments in respect of current tax of previous years	**(67,959)**	(50,375)
Profit attributable to joint ventures and associates	**(353,298)**	(353,939)
Income not subject to tax	**(5,831)**	(6,776)
Expenses not deductible for tax	**58,985**	61,286
Influence of the change of tax rate on the deferred income tax balance	**5,046**	—
Tax losses utilised from previous periods	**(18,805)**	(62,065)
Tax incentives on eligible expenditures	**(64,230)**	(29,272)
Deductible temporary differences and tax losses not recognised	**301,317**	127,312
Tax charge at the Group's effective rate	**559,711**	476,458

13. DIVIDENDS

Cash dividend

	2018 **RMB'000**	2017 RMB'000
Proposed final — RMB0.32 (2017: RMB0.38) per ordinary share	**820,179**	948,150

The Company proposed to distribute a cash dividend of RMB0.32 (inclusive of tax) for each ordinary share to all shareholders. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and the final dividend amount will be determined by the number of the ordinary shares on the dividend payment date.

The amount of the proposed final dividend of RMB820,179,000 is calculated based on the total number of ordinary shares of the Company of 2,563,060,895 shares on the record of 25 March 2019.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent excluding cash dividend attributable to the shareholders of restricted shares expected to be unlocked in the future as of the end of the reporting period and the weighted average number of ordinary shares of 2,522,578,937 (2017: 2,459,816,726) in issue excluding restricted shares during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Continued)

The calculation of basic and diluted earnings per share is based on:

	2018 RMB'000	2017 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**2,707,923***	3,124,500*
Less: Cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future	**—**	(317)
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**2,707,923**	3,124,183

	Number of shares 2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,522,578,937**	2,459,816,726
Effect of dilution — weighted average number of ordinary shares:		
Restricted shares	**588,839**	2,246,656
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**2,523,167,776***	2,462,063,382*

* Because the diluted earnings per share amount is increased when taking restricted shares into account, the restricted shares had an anti-dilutive effect on the basic earnings per share for the years ended 31 December 2018 and 2017 and were ignored in the calculation of diluted earnings per share. Therefore, the diluted earnings per share amount is based on the profit for the year ended 31 December 2018 of 2,707,923,000 (2017: 3,124,500,000), and the weighted average number of ordinary shares of 2,522,578,937 (2017: 2,459,816,726) in issue during the year ended 31 December 2018.

15. PROPERTY, PLANT AND EQUIPMENT

	Year ended 31 December 2018								
	Land RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Medical devices RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:									
At 1 January 2018	180,453	4,326,548	5,035,867	505,454	403,227	104,921	84,819	1,759,866	12,401,155
Additions	—	207,249	270,102	66,289	144,988	13,879	79,085	1,165,700	1,947,292
Acquisitions of subsidiaries *(note 37)*	—	71,651	21,101	37,009	5,824	7,177	12,670	4,336	159,768
Disposals	—	(126,998)	(366,842)	(28,169)	(21,857)	(9,196)	(5,263)	(78,375)	(636,700)
Disposal of a subsidiary *(note 38)*	—	(23,123)	(57,231)	—	(4,041)	(436)	—	—	(84,831)
Transferred from construction in progress	—	444,932	347,311	4,135	8,151	7,198	—	(811,727)	—
exchange	(10,355)	(7,758)	(37,011)	3	(583)	(320)	—	—	(56,024)
At 31 December 2018	170,098	4,892,501	5,213,297	584,721	535,709	123,223	171,311	2,039,800	13,730,660
Accumulated depreciation:									
At 1 January 2018	—	(1,026,218)	(2,390,553)	(311,648)	(202,178)	(64,177)	(47,841)	—	(4,042,615)
Depreciation charge for the year *(note 7)*	—	(224,624)	(457,388)	(86,794)	(77,663)	(13,849)	(26,833)	—	(887,151)
Acquisitions of subsidiaries *(note 37)*	—	(4,203)	(12,204)	(15,097)	(1,589)	(4,052)	(2,640)	—	(39,785)
Disposals	—	65,921	305,268	23,672	16,036	6,739	1,203	—	418,839
Disposal of a subsidiary *(note 38)*	—	10,368	17,367	—	118	32	—	—	27,885
Exchange realignment	—	2,166	14,138	(2)	(282)	89	—	—	16,109
At 31 December 2018	—	(1,176,590)	(2,523,372)	(389,869)	(265,558)	(75,218)	(76,111)	—	(4,506,718)
Impairment losses:									
At 1 January 2018	—	(3,272)	(2,144)	—	(276)	—	—	—	(5,692)
Disposals	—	—	—	—	—	—	—	—	—
At 31 December 2018	—	(3,272)	(2,144)	—	(276)	—	—	—	(5,692)
Net carrying amount:									
At 31 December 2018	170,098	3,712,639	2,687,781	194,852	269,875	48,005	95,200	2,039,800	9,218,250
At 1 January 2018	180,453	3,297,058	2,643,170	193,806	200,773	40,744	36,978	1,759,866	8,352,848

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Year ended 31 December 2017								
	Land RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Medical devices RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:									
At 1 January 2017	—	3,684,872	3,742,102	383,314	285,155	92,469	56,552	1,164,729	9,409,193
Additions	—	23,890	234,620	57,858	72,000	13,841	17,035	1,018,337	1,437,581
Acquisitions of subsidiaries	180,453	333,231	1,031,100	98,310	55,687	8,382	12,040	182,208	1,901,411
Disposals	—	(140,198)	(122,858)	(34,028)	(14,821)	(10,808)	(808)	(23,509)	(347,030)
Transferred from construction in progress	—	424,753	150,903	—	5,206	1,037	—	(581,899)	—
At 31 December 2017	180,453	4,326,548	5,035,867	505,454	403,227	104,921	84,819	1,759,866	12,401,155
Accumulated depreciation:									
At 1 January 2017	—	(879,282)	(1,756,346)	(214,538)	(118,690)	(56,445)	(35,805)	—	(3,061,106)
Depreciation charge for the year *(note 7)*	—	(193,548)	(393,012)	(63,209)	(55,657)	(10,728)	(7,316)	—	(723,470)
Acquisitions of subsidiaries	—	(63,802)	(341,119)	(67,105)	(36,335)	(3,999)	(4,720)	—	(517,080)
Disposals	—	110,414	99,924	33,204	8,504	6,995	—	—	259,041
At 31 December 2017	—	(1,026,218)	(2,390,553)	(311,648)	(202,178)	(64,177)	(47,841)	—	(4,042,615)
Impairment losses:									
At 1 January 2017	—	(17,347)	(4,985)	—	(276)	—	—	—	(22,608)
Disposals	—	14,075	2,841	—	—	—	—	—	16,916
At 31 December 2017	—	(3,272)	(2,144)	—	(276)	—	—	—	(5,692)
Net carrying amount:									
At 31 December 2017	180,453	3,297,058	2,643,170	193,806	200,773	40,744	36,978	1,759,866	8,352,848
At 1 January 2017	—	2,788,243	1,980,771	168,776	166,189	36,024	20,747	1,164,729	6,325,479

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The carrying amounts of construction in progress of the Group included capitalised interest of approximately RMB7,921,000 (2017: RMB11,161,000) charged for the year (note 9) prior to being transferred to property, plant and equipment.

The net carrying amount of the Group's fixed assets held under finance leases included in the total amounts of plant and machinery at 31 December 2018 was RMB24,217,000 (2017: RMB21,015,000).

As at 31 December 2018, the Group has not obtained title certificates for certain of the buildings with an aggregate net carrying amount of approximately RMB82,483,000 (2017: RMB326,754,000). The directors were of the opinion that the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2018.

As at 31 December 2018, certain of the Group's property, plant and equipment with a net carrying amount of approximately RMB215,801,000 (2017: RMB77,387,000) were pledged to secure certain of the Group's bank and other borrowings (note 31).

16. PREPAID LAND LEASE PAYMENTS

	2018 **RMB'000**	2017 RMB'000
Net carrying amount at 1 January	**1,324,409**	1,030,485
Additions	**224,226**	306,459
Acquisitions of subsidiaries *(note 37)*	**7,148**	15,201
Disposals	**(714)**	(1,202)
Disposal of subsidiaries *(note 38)*	**(2,933)**	—
Amortisation for the year *(note 7)*	**(29,384)**	(26,534)
Net carrying amount at 31 December	**1,522,752**	1,324,409

As at 31 December 2018, certain of the Group's prepaid land lease payments with a net carrying amount of RMB30,431,000 (2017: RMB30,169,000) were pledged to secure certain of the Group's bank and other borrowings (note 31).

17. GOODWILL

	2018 **RMB'000**	2017 RMB'000
Cost and net carrying amount at 1 January	**8,464,284**	3,473,110
Acquisitions of subsidiaries *(note 37)*	**309,466**	5,043,721
Disposal of subsidiaries *(note 38)*	**(19,636)**	—
Provision for impairment of goodwill	**(80,000)**	—
Exchange realignment	**179,799**	(52,547)
Net carrying amount at 31 December	**8,853,913**	8,464,284

	2018 **RMB'000**	2017 RMB'000
At 31 December		
Cost	**9,136,413**	8,666,784
Accumulated impairment	**(282,500)**	(202,500)
Net carrying amount	**8,853,913**	8,464,284

17. GOODWILL (Continued)

	2018 RMB'000	2017 RMB'000
Goodwill of Wanbang Pharma	**51,109**	51,109
Goodwill of Shenyang Hongqi	**205,952**	205,952
Goodwill of Aohong Pharma	**852,999**	852,999
Goodwill of Dalian Aleph	**183,920**	183,920
Goodwill of Zhongwu Hospital	**69,125**	69,125
Goodwill of Alma@	**743,635**	697,349
Goodwill of Dongting Pharma	**298,517**	298,517
Goodwill of Chancheng Hospital	**273,427**	273,427
Goodwill of Huanghe Pharma	**59,244**	59,244
Goodwill of Erye Pharma	**503,373**	503,373
Goodwill of QiLu Clinical Laboratory	**55,454**	55,454
Goodwill of Breas@	**285,646**	348,139
Goodwill of Gland Pharma@	**3,909,509**	3,794,491
Goodwill of Tridem Pharma#	**172,400**	171,411
Goodwill of Hengsheng Hospital	**636,933**	636,933
Goodwill of Zhuhai Jiqun Warehouse & Logistic Co.,Ltd.*/ Zhuhai Chancheng Hospital Co., Ltd.*	**71,852**	71,852
Goodwill of Avic (Tieling) Pharmaceutical Co., Ltd* ("Avic Pharma")	**123,915**	—
Goodwill of Wuhan Jihe Hospital* ("Jihe Hospital")	**105,507**	—
Goodwill of Beijing Jianyouchengye Automobile Sales Co., Ltd.* ("JYCY")	**65,288**	—
Goodwill of other subsidiaries	**186,108**	190,989
	8,853,913	8,464,284

@ Goodwill of Alma, Breas and Gland Pharma is measured in USD.
# Goodwill of Tridem Pharma is measured in EUR.

The additions of the Group's goodwill in 2018 resulted from the acquisitions of Avic Pharma, Jihe Hospital, Shanghai Bohao Laboratory Co., Ltd.* ("Bohao Laboratory") and JYCY.

* The English names of the companies registered in the PRC represent the best efforts made by the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

During the year, an impairment loss of RMB80,000,000 was recognised in the consolidated statement of profit or loss as other expenses, in respect of the goodwill resulted from the acquisition of a subsidiary of the Group, Breas. During the impairment test, Breas was considered as a separate cash-generating unit ("Breas CGU"). The impairment charges are driven by the lower recoverable amount of the Breas CGU resulting in the directors' reassessment of estimated future business performance.

17. GOODWILL (Continued)

Impairment testing of goodwill

The cash flows generated from each subsidiary acquired are independent from those of the other subsidiaries of the Group. Therefore, each of these acquired subsidiaries is a separate cash-generating unit. Management considered that the synergies arising from each acquisition mainly benefited the corresponding acquired subsidiary. Therefore, in performing the impairment test, the goodwill generated from each acquisition is allocated to the corresponding subsidiary acquired. The cash-generating units are consistent with the prior years' and those as acquired.

Pharmaceutical manufacturing and R&D

Goodwill of Gland Pharma

Gland Pharma, founded in 1978 and headquartered in Hyderabad, India, is a generic injection company with R&D capabilities for original pharmaceuticals and preparations. At present, it mainly provides manufacturing services of generic injection for large-scale pharmaceutical companies worldwide. Gland Pharma is the first Indian manufacturer of injectable pharmaceuticals approved by USFDA, and has the ability to register and sell drugs in the regulatory market. Its products are mainly sold to the US and Europe. The Group regularly evaluates the above-mentioned operating activities and, based on this, unifies the resource allocation. Therefore, Gland Pharma as a whole is recognized as an asset group.

Gland Pharma's long-term assets related to goodwill include property, plant and equipment and other intangible assets. At the end of 2018, the carrying amount of Gland Pharma's goodwill was RMB3,909,509,000, and the carrying amount of the asset group was RMB9,319,442,000 (including the amount of goodwill and the unrecognized amount of goodwill attributed to the minority shareholders). The recoverable amount is also determined by the present value of the estimated future cash flows of the asset group according to the cash flow projections based on a nine-year financial budget. Gland Pharma's income is mainly derived from the sales of pharmaceutical products. The Group, comprehensively considering the influence of factors such as brand, variety, price and customer relationship of Gland Pharma's products, predicts the growth rate of Gland Pharma 's income during the period to be 9% to 33%. The discount rate used for the Gland Pharma's asset group's cash flow projections is 16.9% (2017: 15.2%), and the growth rate used to infer the cash flow of the Gland Pharma's asset group after 9 years is 3% (2017: 3%). According to the calculation, the present value of the estimated future cash flow is higher than the carrying amount of the Gland Pharma's asset group. The Group believes that there is no impairment of the goodwill arising from the acquisition.

Goodwill of Aohong Pharma

Aohong Pharma is a high-tech biopharmaceutical company mainly engaged in the R&D and production of biochemical drugs. Aohong Pharma has a long-term commitment to the R&D and production of the series of calf serum products. Among them, "Aodejin" is the leading brand of Chinese calf blood neuroprotective agents, and "Bangting" is a well-known brand of Chinese hemagglutinase hemostatic drugs. The Group regularly evaluates the above-mentioned operating activities and, based on this, unifies the resource allocation. Therefore, Aohong Pharma as a whole is recognized as an asset group.

17. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Pharmaceutical manufacturing and R&D (Continued)

Goodwill of Aohong Pharma (Continued)

Aohong Pharma's long-term assets related to goodwill mainly include property, plant and equipment, prepaid land lease payments and other intangible assets. At the end of 2018, the carrying amount of Aohong Pharma's goodwill was RMB852,999,000, and the carrying amount of Aohong Pharma's assets group was RMB1,824,480,000 (including the amount of goodwill and the unrecognized amount of goodwill attributed to the minority shareholders). The recoverable amount is also determined by the present value of the estimated future cash flows of the asset group according to the cash flow projections based on a nine-year financial budget. The income of Aohong Pharma is mainly derived from the sales of pharmaceuticals. The Group, comprehensively considering the influence of factors such as brand, variety, price and sales network of Aohong Pharma's products, predicts the growth rate of operating income during the period to be 3% to 10%. The discount rate used by the Aohong Pharma asset group's cash flow forecast is 14.7% (2017: 15%), and the growth rate used to infer the cash flow of the Aohong Pharma's asset group after 9 years is 3% (2017: 3%). According to the calculation, the present value of the estimated future cash flow is higher than the carrying amount of the Aohong Pharma's asset group. The Group believes that there is no impairment of goodwill arising from the acquisition.

Goodwill of Erye Pharma

Erye Pharma is a comprehensive pharmaceutical company that produces APIs, powder injections (including penicillins, cephalosporins), freeze-dried powders and oral preparations. All of the company's dosage forms have passed the national GMP certification. The Group regularly evaluates the above-mentioned business activities and, based on this, unifies the resource allocation. Therefore, Erye Pharma as a whole is recognised as an asset group.

Erye Pharma's long-term assets related to goodwill mainly include property, plant and equipment, prepaid land lease payments and other intangible assets. At the end of 2018, the carrying amount of Erye Pharma's goodwill was RMB503,373,000, and the carrying amount of Erye Pharma's asset group was RMB1,337,116,000 (including the amount of goodwill and the unrecognized amount of goodwill attributed to the minority shareholders). The recoverable amount is also determined by a present value of the estimated future cash flows of the asset group according to the cash flow projections based on a nine-year financial budget. The income of Erye Pharma is mainly derived from the sales of pharmaceuticals. The Group, comprehensively considering the influence of factors such as brand, variety, price and sales network of Erye Pharma's products, predicts the growth rate of operating income during the period to be 5% to 26%. The discount rate used by the Erye Pharma asset group's cash flow forecast is 14.7% (2017: 15%), and the growth rate used to infer the cash flow of the Erye Pharma's asset group after 9 years is 3% (2017: 3%). According to the calculation, the present value of the estimated future cash flow is higher than the carrying amount of the Erye Pharma's asset group. The Group believes that there is no impairment of the goodwill arising from the acquisition.

Goodwill of Dalian Aleph

Dalian Aleph is a high-tech enterprise specialising in the R&D, production, and sales of preventive biological products. It is also the research base of the specific biological topic of national science and technology plan. At present, the company's production workshops mainly include the influenza vaccine stock solution workshop and the rabies vaccine stock solution production workshop. At the same time, it has a R&D laboratory in the double D port bio-industry park in the development zone as an incubation base for subsequent R&D products. The Group regularly evaluates the above-mentioned operating activities and, based on this, unifies the resource allocation. Therefore, Dalian Aleph as a whole is recognised as an asset group.

17. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Pharmaceutical manufacturing and R&D (Continued)

Goodwill of Dalian Aleph (Continued)

Dalian Aleph's long-term assets related mainly include property, plant and equipment, prepaid land lease payments and other intangible assets. At the end of 2018, the carrying amount of Dalian Aleph's goodwill was RMB183,920,000, and the carrying amount of Dalian Aleph's assets group was RMB797,081,000 (including the amount of goodwill and the unrecognised amount of goodwill attributed to the minority shareholders). The recoverable amount is also determined by the present value of the estimated future cash flows of the asset group according to the cash flow projections based on a nine-year financial budget. The income of Dalian Aleph is mainly derived from the sales of vaccines. The Group, comprehensively considering the influence of factors such as brand, variety, price and sales network of Dalian Aleph's products, predicts the growth rate of operating income during the period to be 15% to 30%. The discount rate used by the Dalian Aleph asset group's cash flow forecast is 14.5% (2017: 14%), and the growth rate used to infer the cash flow of the Dalian Aleph's asset group after 9 years is 3% (2017: 3%). Considering that Dalian Aleph has made provision for impairment of goodwill of RMB202,500,000 in 2015, according to the calculation, the present value of the estimated future cash flow is higher than the carrying amount of the Dalian Aleph's asset group at the end of 2018. The Group believes that there is no further impairment of the goodwill arising from the acquisition.

The Group's calculation of the present value (recoverable amount) of the estimated future cash flows of the above four asset groups is also referred to the results of Shanghai Orient Appraisal Co., Ltd.'s reports on 22 March 2019, including No. 0268 of Orient Appraisal Evaluation Report [2019] "The assessment report of the recoverable amount of the Gland Pharma's related asset group for the purpose of financial reporting of Shanghai Fosun Pharmaceutical (Group) Co., Ltd.", No. 0257 of Orient Appraisal Evaluation Report [2019] "The assessment report of the recoverable amount of the Aohong Pharma's related asset group for the purpose of financial reporting of Shanghai Fosun Pharmaceutical (Group) Co., Ltd.", No. 0180 of Orient Appraisal Evaluation Report [2019] "The assessment report of the recoverable amount of the Erye Pharma's related asset group for the purpose of financial reporting of Shanghai Fosun Pharmaceutical (Group) Co., Ltd." and No. 0256 of Orient Appraisal Evaluation Report [2019] "The assessment report of the recoverable amount of the Dalian Aleph's related asset group for the purpose of financial reporting of Shanghai Fosun Pharmaceutical (Group) Co., Ltd."

The goodwill arising from other mergers of pharmaceutical manufacturing and R&D segment is allocated to the corresponding subsidiaries, and each subsidiary is recognised as an asset group for goodwill impairment test. The recoverable amount of the goodwill asset group is determined by the carrying amount of the estimated future cash flows of the asset group according to the cash flow projections based on a nine-year financial budget. The growth rate of income during the projection period is 3% to 35%, and the discount rate used for asset group cash flow projections is 14% to 17%, which is used to infer that the cash flow growth rate after the projection period is 3%, which is the inflation rate.

Medical devices and medical diagnosis

Goodwill of Alma

Alma is a manufacturer of medical lasers, photonics and RF equipment in Israel. Its medical laser and optical equipment are mainly used in dermatology, orthopedics, burn surgery, laser and many other fields, and are dedicated to provide the comprehensive solution with core of top technology for the medical beauty market. The company ranks in the forefront of the medical beauty market, and has formed a strong competitive advantage in design capabilities, cost control, and customer base. The Group regularly evaluates the above-mentioned business activities and, based on this, unifies resource allocation. Therefore, Alma as a whole is recognized as an asset group.

17. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Medical devices and medical diagnosis (Continued)

Goodwill of Alma (Continued)

Alma's long-term assets related to goodwill mainly include property, plant and equipment and other intangible assets. At the end of 2018, the carrying amount of Alma's goodwill was RMB743,635,000, and the carrying amount of Alma's asset group was RMB1,153,906,000 (including the amount of goodwill and the unrecognised amount of goodwill attributed to the minority shareholders). The recoverable amount is also determined by the present value of the estimated future cash flows of the asset group according to the cash flow projections based on a nine-year financial budget. Alma's operating income is mainly derived from the sales revenue of medical beauty equipment. The Group, comprehensively considering the influence of factors such as brand, price and sales network of Alma's products, predicts the growth rate of sales revenue during the period to be 9% to 10%. The discount rate used in the Alma asset group's cash flow projections is 14.8% (2017: 15%), which is used to infer that the cash flow growth rate of the Alma asset group portfolio after 5 years is 3% (2017: 3%). It is estimated that the present value of the estimated future cash flow is higher than the carrying amount of the Alma asset group combination. The Group believes that there is no impairment of the goodwill arising from the acquisition.

Goodwill of Breas

Breas is a company specialising in the production of respiratory medical equipment formed in Gothenburg, Sweden. It provides innovative products for the global market in the field of home medical mechanical ventilation care and treatment of sleep-disordered diseases. The business covers more than 40 countries and regions, and its products include three series and 11 products. On 15 March 2017, Fosun Medical, a controlling subsidiary of the Group, acquired 80% of Breas' equity in US$84,642,000 through share transfer and subscription of additional shares, and obtained control of Breas. The Group regularly evaluates the overall business activities of Breas and, based on this, unifies the resource allocation. Therefore, Breas as a whole is recognised as an asset group.

After the merger on 15 March 2017, Breas established a subsidiary in Mainland China to further explore the Chinese market by reclaiming the agency rights in China, and strived to promote the sales of Breas products in the Chinese market. The Chinese market is subject to the government's restrictions on the registration of medical devices. The technology and design of the original products sold in China did not meet the registration approval requirements, and the new products have a longer registration period in the Chinese market, so there is a gap between Breas-related products in the Chinese market. At the same time, the development progress of Breas' new products was delayed compared with expectations, and the overall operating results were different from the expected expectations at the time of acquisition.

Breas' long-term assets related to goodwill include property, plant and equipment and other intangible assets. At the end of 2018, the carrying amount of Breas' goodwill was RMB285,646,000, and the carrying amount of Breas' asset group combination was RMB602,853,000 (including goodwill amount and unconfirmed amount of goodwill attributable to minority shareholders). The recoverable amount is also determined using the present value of the estimated future cash flows of the asset group portfolio based on the cash flow projections based on a nine-year financial budget. Breas' operating income is mainly derived from the sales revenue of respiratory medical equipment products. The Group comprehensively considering the influence of factors such as brand, price and sales network of Breas' products, predicts the growth rate of sales revenue during the period to be 5% to 24%. The discount rate used for the Breas asset group cash flow projection is 14.7% (2017: 14.8%), which is used to infer that the growth rate of the cash flow of the Breas asset group after 9 years is 3% (2017: 3%).

17. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Medical devices and medical diagnosis (Continued)

Goodwill of Breas (Continued)

After the impairment test, the Group recognised an impairment loss of RMB80,000,000 in 2018.

The Group's calculation of the present value (recoverable amount) of the expected future cash flows of the above two asset groups is also referred to the results of Shanghai Orient Appraisal Co., Ltd.'s reports on March 22 2019, including No.0181 of Orient Appraisal Evaluation Report [2019] "The recoverable value assessment report about the related asset group of Alma Lasers, Ltd. for the purpose of financial reporting on Shanghai Fosun Pharmaceutical (Group) Co., Ltd." and No.0182 of Orient Appraisal Evaluation Report [2019]" The recoverable value assessment report about the related asset group of Breas Medical Holdings AB for the purpose of financial reporting on Shanghai Fosun Pharmaceutical (Group) Co., Ltd."

The goodwill arising from other mergers of medical devices and medical diagnostics segment is allocated to the corresponding subsidiaries, and the subsidiary is recognized as an asset group for goodwill impairment test. The recoverable amount of the goodwill asset group is determined based on the present value of the asset group's estimated future cash flows, and its estimated future cash flows are determined based on a nine-year financial budget. The growth rate of sales revenue during the period was 3%–35%, and the discount rate used for cash flow projections is 14%–16%, which is used to infer that the cash flow growth rate after the projection period is 3%, which is the inflation rate.

Healthcare service

Goodwill of Chancheng Hospital

Chancheng Hospital is a large-scale modern comprehensive hospital integrating medical treatment, first aid, prevention, health care, teaching and scientific research in downtown Foshan. Chancheng Hospital is mainly engaged in healthcare service and is a Grade-A Tertiary Hospital. In 2018, Chancheng Hospital passed the JCI certification of the International Hospital with high marks, becoming the first Grade-A Tertiary General Hospital in the country to pass the sixth edition of the JCI standard. The Group regularly evaluates the above-mentioned operating activities, based on this, unifies the resource allocation. Chancheng Hospital specialises in healthcare service and generates operating cash flow independently. Therefore, Chancheng Hospital as a whole is recognised as an asset group.

Chancheng Hospital's long-term assets related to goodwill mainly include property, plant and equipment, prepaid land lease payments and other intangible assets. At the end of 2018, the carrying amount of Chancheng Hospital's goodwill was RMB273,427,000, and the carrying amount of Chancheng Hospital's asset group was RMB1,460,929,000 (including the amount of goodwill and the unrecognised amount of goodwill attributed to the minority shareholders). The recoverable amount is also determined by the present value of the estimated future cash flows of the asset group according to the cash flow projections based on a nine-year financial budget. The income of Chancheng Hospital is mainly derived from the healthcare service. The Group, comprehensively considering the influence of factors such as brand, service content, medical market of Chancheng Hospital, predicts the growth rate of operating income during the period to be 5% to 12%. The discount rate used by the Chancheng Hospital asset group's cash flow forecast is 15% (2017: 14%), and the growth rate used to infer the cash flow of the Chancheng Hospital's asset group after 9 years is 3%(2017: 3%). According to the calculation, the present value of the estimated future cash flow is higher than the carrying amount of the Chancheng Hospital's asset group. The Group believes that there is no impairment of the goodwill arising from the acquisition.

17. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Healthcare service (Continued)

Goodwill of Hengsheng Hospital

Hengsheng Hospital is a large-scale modern comprehensive Tertiary Hospital approved by the Health Commission of Guangdong Province, which integrates medical treatment, scientific research, teaching, rehabilitation and preventive health care. It is mainly engaged in healthcare service and is the designated medical institution for social medical insurance in Shenzhen. Shenzhen Workers' Injury Insurance Hospital, Shenzhen Children's Medical Insurance Hospital, Shenzhen 120 Emergency Medical Center Network Hospital, Shenzhen Hospital Association First Board of Directors, Shenzhen Baoan District Science Education Base, China Cervical Cancer Prevention and Control Project Hospital . The Group regularly evaluates the above-mentioned operating activities, based on this, unifies resource allocation. Hengsheng Hospital specialises in healthcare service and generates operating cash flow independently. Therefore, Hengsheng Hospital as a whole is recognised as an asset group.

Hengsheng Hospital's long-term assets related to goodwill mainly include property, plant and equipment and other intangible assets. At the end of 2018, the carrying amount of Hengsheng Hospital's goodwill was RMB636,933,000, and the carrying amount of Hengsheng Hospital's assets group was RMB1,527,828,000 (including the amount of goodwill and the unrecognised amount of goodwill attributed to the minority shareholders). The recoverable amount is also determined by the present value of the estimated future cash flows of the asset group according to the cash flow projections based on a nine-year financial budget. The income of Hengsheng Hospital is mainly derived from the healthcare service. The Group, comprehensively considering the influence of factors such as brand, service content, price, medical market of Hengsheng Hospital, predicts the growth rate of operating income during the period to be 5% to 31%. The discount rate used by the Hengsheng Hospital assets group's cash flow forecast is 14.8% (2017: 13.5%), and the growth rate used to infer the cash flow of the Hengsheng Hospital's asset group after 9 years is 3%(2017: 3%). According to the calculation, the present value of the estimated future cash flow is higher than the carrying amount of the Hengsheng Hospital's asset group. The Group believes that there is no impairment of the goodwill arising from the acquisition.

The Group's calculation of the present value (recoverable amount) of the estimated future cash flows of Hengsheng Hospital is also referred to the result of Shanghai Orient Appraisal Co., Ltd.'s report on March 22, 2019, which is No. 0259 of Orient Appraisal Evaluation Report [2019] "The assessment report of the recoverable amount of the Hengsheng Hospital's related asset group for the purpose of financial reporting of Shanghai Fosun Pharmaceutical (Group) Co., Ltd."

The goodwill arising from other mergers of healthcare service segment is allocated to the corresponding subsidiary, and the subsidiary of goodwill is recognized as an asset group for goodwill impairment test. The recoverable amount of the goodwill asset group is determined by the present value of the estimated future cash flows of the asset group according to the cash flow projections based on a nine-year financial budget. The growth rate of income during the projection period is 3%–40%, and the discount rate used for asset group cash flow projections is 14%–15%, which is used to infer that the cash flow growth rate after the projection period is 3%, which is the inflation rate.

17. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Healthcare service (Continued)

Goodwill of Hengsheng Hospital (Continued)

Assumptions were used in the value-in-use calculation of all the cash-generating units for 31 December 2018 and 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

(1) The Company under evaluation continues to operate and there are no major changes affecting the key aspects of production and operations and the current situation in terms of business scope, sales model, channels and management.

(2) The socio-economic environment in which the company under evaluation is located does not cause major changes and there are no major changes in relevant laws, regulations, policies and regulations.

(3) The business scope, operating mode, and management mode of the company under evaluation are consistent and continuously improve with the development of the economy.

(4) The interest rate, exchange rate, tax base and tax rate will not change significantly within the normal range prescribed by the state.

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margin achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.

Discount rates — The discount rates used are the rates of return on investment required by the Group.

The growth rates beyond the forecast period — The growth rates beyond the forecast period are the rate of inflation.

The values assigned to key assumptions on market development of the related products and industry are consistent with historical experience of the Group and external information sources.

18. OTHER INTANGIBLE ASSETS

	Year ended 31 December 2018							
	Medicine licences RMB'000	Patents and technical know-how RMB'000	Office software RMB'000	Trademarks RMB'000	Business networks RMB'000	Deferred development costs RMB'000	Operating concession rights RMB'000	Total RMB'000
Cost:								
At 1 January 2018	583,283	3,602,490	115,460	268,496	1,695,832	1,028,120	424,810	7,718,491
Additions	2,187	51,713	38,712	3,215	19,800	1,027,223	1,800	1,144,650
Acquisition of subsidiaries *(note 37)*	—	108,571	260	—	59,900	—	—	168,731
Transfer	4,325	7,050	—	—	—	(11,375)	—	—
Disposals	—	(21,974)	(13,304)	—	—	(1,486)	—	(36,764)
Disposal of subsidiaries *(note 38)*	—	(57,017)	—	—	—	—	—	(57,017)
Exchange realignment	10	(75,959)	1,641	8,212	(16,391)	—	—	(82,487)
At 31 December 2018	589,805	3,614,874	142,769	279,923	1,759,141	2,042,482	426,610	8,855,604
Accumulated amortisation:								
At 1 January 2018	(13,902)	(386,477)	(55,059)	(2,318)	(221,314)	(1,711)	(2,485)	(683,266)
Amortisation for the year *(note 7)*	(6,923)	(216,946)	(30,258)	(146)	(174,743)	—	(1,365)	(430,381)
Acquisition of subsidiaries *(note 37)*	—	(361)	(160)	—	(666)	—	—	(1,187)
Disposals	—	8,191	10,821	—	—	—	—	19,012
Disposal of subsidiaries *(note 38)*	—	9,219	—	—	—	—	—	9,219
Exchange realignment	—	(5,327)	(1,720)	(30)	(7,470)	—	—	(14,547)
At 31 December 2018	(20,825)	(591,701)	(76,376)	(2,494)	(404,193)	(1,711)	(3,850)	(1,101,150)
Impairment losses:								
At 1 January 2018 and 31 December 2018	(64,000)	(20,614)	—	—	—	—	(475)	(85,089)
Net carrying amount:								
At 31 December 2018	504,980	3,002,559	66,393	277,429	1,354,948	2,040,771	422,285	7,669,365
At 1 January 2018	505,381	3,195,399	60,401	266,178	1,474,518	1,026,409	421,850	6,950,136

18. OTHER INTANGIBLE ASSETS (Continued)

	Year ended 31 December 2017							
	Medicine licences RMB'000	Patents and technical know-how RMB'000	Office software RMB'000	Trademarks RMB'000	Business networks RMB'000	Deferred development costs RMB'000	Operating concession rights RMB'000	Total RMB'000
Cost:								
At 1 January 2017	583,283	1,091,887	59,075	253,310	607,577	571,914	3,100	3,170,146
Additions	—	53,587	28,862	—	167	515,652	—	598,268
Acquisition of subsidiaries	—	2,399,697	28,715	25,132	1,101,114	21,330	421,710	3,997,698
Transfer	—	67,878	—	—	—	(67,878)	—	—
Disposals	—	—	(1,432)	—	—	(12,898)	—	(14,330)
Exchange realignment	—	(10,559)	240	(9,946)	(13,026)	—	—	(33,291)
At 31 December 2017	583,283	3,602,490	115,460	268,496	1,695,832	1,028,120	424,810	7,718,491
Accumulated amortisation:								
At 1 January 2017	(7,847)	(267,690)	(23,767)	(2,195)	(159,464)	(1,711)	(2,305)	(464,979)
Amortisation for the year *(note 7)*	(6,055)	(116,842)	(10,856)	(123)	(61,850)	—	(180)	(195,906)
Acquisition of subsidiaries	—	(1,945)	(21,559)	—	—	—	—	(23,504)
Disposals	—	—	1,123	—	—	—	—	1,123
At 31 December 2017	(13,902)	(386,477)	(55,059)	(2,318)	(221,314)	(1,711)	(2,485)	(683,266)
Impairment losses:								
At 1 January 2017 and 31 December 2017	(64,000)	(20,614)	—	—	—	—	(475)	(85,089)
Net carrying amount:								
At 31 December 2017	505,381	3,195,399	60,401	266,178	1,474,518	1,026,409	421,850	6,950,136
At 1 January 2017	511,436	803,583	35,308	251,115	448,113	570,203	320	2,620,078

18. OTHER INTANGIBLE ASSETS (Continued)

As at 31 December 2018, the indefinite life intangible assets of the Group are as follows:

Asset types	Holders	Net carrying amount RMB'000	Reasons of indefinite life
Medicine licences	Aohong Pharma, Dalian Aleph, Dongting Pharma, Hongqi Pharma, Erye Pharma	495,000	The extension cost is low and the assets can be used indefinitely
Trademarks	Aohong Pharma, Dalian Aleph, Dongting Pharma, Huanghe Pharma, Erye Pharma	53,000	The extension cost is low and the assets can be used indefinitely
Trademarks	CML, Alma	198,691	The extension cost is low and the assets can be used indefinitely
Operating concession rights	Hengsheng Hospital	421,710	The extension cost is low and the assets can be used indefinitely
Patents and technical know-how	Henlix	48,921	The extension cost is low and the assets can be used indefinitely
		1,217,322	

The Group performs impairment tests for the above individual intangible assets or the respective cash-generating unit depending on whether the recoverable amount of each individual intangible asset can be reliably estimated.

Medicine licences

The recoverable amounts of medicine licences have been determined based on a value-in-use calculation using cash flow projections based on a financial budget covering a five to nine years period approved by senior management. The discount rates applied to the cash flow projections are in the range of 17% to 18%. The growth rate used to extrapolate the cash flows beyond the forecast period is 3%, which is also an estimate of the rate of inflation.

18. OTHER INTANGIBLE ASSETS (Continued)

Trademarks

The recoverable amounts of trademarks have been determined based on a value-in-use calculation using cash flow projections based on a financial budget covering a five to nine years period approved by senior management. The discount rates applied to the cash flow projections are in the range of 17% to 18%. The growth rate used to extrapolate the cash flows beyond the five-year period is 3%, which is also an estimate of the rate of inflation.

Operating concession rights

The recoverable amounts of operating concession rights have been determined based on a value-in-use calculation using cash flow projection based on a financial budget covering a nine-year period approved by senior management. The discount rate applied to the cash flow projection is 18%. The growth rate used to extrapolate the cash flows beyond the forecast period is 3%, which is also an estimate of the rate of inflation.

Assumptions were used in the value-in-use calculation for 31 December 2018 and 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of indefinite life intangible assets:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margin achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.

Discount rates — The discount rates used are the rates of return on investment required by the group.

The growth rates beyond the forecast period — The growth rates beyond the forecast period are the rate of inflation.

The values assigned to key assumptions are consistent with historical experience of the Group and external information sources.

19. INVESTMENTS IN JOINT VENTURES

	2018 RMB'000	2017 RMB'000
Share of net assets	**308,673**	508,656
Goodwill on acquisition	**137,894**	137,894
	446,567	646,550

Particulars of the Group's principal joint venture is as follows:

Company name*	Place of registration and business	Nominal value of issued/ registered share capital ('000)	Percentage of Ownership interest	Voting power	Profit sharing	Principal activities
Fosun Kite Biotechnology Co., Ltd	PRC/ Mainland China	USD56,000	50	50	50	Research and development of medicine

* The English name of the company registered in the PRC represents the best efforts made by the management of the Company in directly translating the Chinese name of this company as no English name has been registered.

The above investment in joint venture is indirectly held by the Company.

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2018 RMB'000	2017 RMB'000
Share of the joint ventures' loss for the year	**(50,441)**	(15,525)
Share of the joint ventures' other comprehensive income	**—**	524
Share of the joint ventures' total comprehensive loss	**(50,441)**	(15,001)
Aggregate carrying amount of the Group's investments in the joint ventures	**446,567**	646,550

20. INVESTMENTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Share of net assets	**18,305,782**	15,813,664
Goodwill on acquisition	**2,626,891**	1,942,074
	20,932,673	17,755,738
Provision for impairment	**(8,600)**	(8,600)
	20,924,073	17,747,138

Particulars of the Group's principal associates are as follows:

Company name*	Place of incorporation/ registration and business	Nominal value of issued/registered share capital ('000)	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
Sinopharm Industrial Investment Co., Ltd. (國藥產業投資有限公司)	PRC/ Mainland China	RMB100,000	49	—	Manufacture and trading of medicine
Tianjin Pharmaceutical Group Co., Ltd. (天津藥業集團有限公司)#	PRC/ Mainland China	RMB674,970	25	—	Manufacture and sale of medicine
Beijing Jinxiang Fosun Pharmaceuticals Joint Stock Co., Ltd. (北京金象復星醫藥股份有限公司)#	PRC/ Mainland China	RMB127,418	50	—	Distribution and retail of medicine
Chengde Jingfukang Pharmaceutical Co., Ltd. (頸復康藥業集團有限公司)#	PRC/ Mainland China	RMB60,000	—	25	Manufacture and trading of medicine
Nature's Sunshine Products, Inc. ("NSP")#/@	U.S.A./U.S.A.	Not applicable	15.26	—	Manufacture and trading of nutrition products
Sinopharm medical investment management co., Ltd. (國藥控股醫療投資管理有限公司)#	PRC/ Mainland China	RMB1,000,000	45	—	Investment management
Healthy Harmony Holdings, L.P. ("HHH")	Cayman Islands/ Mainland China	Not applicable	—	42.909	Healthcare services
Amerigen Pharmaceuticals Ltd. ("AMG")#	Cayman Islands/ Mainland China and U.S.A.	Not applicable	—	24.14	Research and development of medicine
Sovereign Medical Services, Inc. ("SMS")	U.S.A./U.S.A.	Not applicable	30	—	Healthcare services

20. INVESTMENTS IN ASSOCIATES (Continued)

Particulars of the Group's principal associates are as follows: (Continued)

Company name*	Place of incorporation/ registration and business	Nominal value of issued/registered share capital ('000)	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
Fosun Group Finance Corporation Limited ("Fosun Finance")	PRC/ Mainland China	RMB1,500,000	20	—	Advisory on deposits and loans, finance and funding, etc. for Fosun Group member companies
Saladax Biomedical, Inc. ("Saladax")#	U.S.A./U.S.A.	Not applicable	28.5	—	Diagnosis and detection
We Doctor Group Limited ("掛號網")#/@	Cayman Islands/ Mainland China	Not applicable	—	7.9636	Heath consultation services
Fosun Health Finance Leasing (Shanghai) Co., Ltd. (復星康健融資租賃(上海)有限公司)	PRC/ Mainland China	RMB500,000	—	20	Finance Leasing
C.Q. Pharmaceutical Holding Co., Ltd. (重藥控股股份有限公司)#/@	PRC/ Mainland China	RMB1,728,185	2.05	0.01	Manufacture and sale of medicine
Huaihai Hospital Management (Xuzhou) Co., Ltd. (淮海醫院管理(徐州)有限公司)#	PRC/ Mainland China	RMB714,290	—	35	Investment management
Shanghai Lingjian Information Technology Co., Ltd (上海領健信息技術有限公司)#	PRC/ Mainland China	RMB12,587	—	32.29	Heath consultation services
Mitrassist Holdings Limited#/@	Cayman Islands/ Israel	Not applicable	—	16.90	Medical devices
Qingdao Shan Da Qilu Hospital Investment Management Co., Ltd.#	PRC/ Mainland China	RMB800,000	—	49	Investment management

* The English names of the companies registered in the PRC represent the best efforts of the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

\# The statutory financial statements of these associates were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

@ The Group's investments in these associates are accounted for under the equity method of accounting because the Group has significant influence over these entities by way of representation on the board of directors and participation in the policy-making process, despite the fact that the Group's direct or indirect equity interests in these associates were lower than 20% for the year ended 31 December 2018.

The above table lists the associates of the Group which, in the opinion of the directors of the Company, principally affected the results of the Group for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

20. INVESTMENTS IN ASSOCIATES (Continued)

Sinopharm Industrial Investment Co., Ltd. ("Sinopharm Industrial"), which is considered a material associate of the Group, has significant impact on the share of profits and losses of associates and is accounted for using the equity method.

The following table illustrates the summarised financial information of Sinopharm Industrial, adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2018 RMB'000	2017 RMB'000
Revenues	344,525,821	277,717,018
Profit for the year	9,419,136	7,798,184
Other comprehensive loss	(15,081)	(10,879)
Total comprehensive income for the year	9,404,055	7,787,305
Profit for the year attributable to owners of the parent of Sinopharm Industrial	3,101,479	2,963,151
Current assets	204,374,173	144,627,268
Non-current assets	31,360,068	24,872,748
Current liabilities	(160,076,137)	(110,924,141)
Non-current liabilities	(7,101,005)	(7,059,961)
Net assets	68,557,099	51,515,914
Net assets attributable to owners of the parent of Sinopharm Industrial	23,043,294	20,371,669
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	49%	49%
Group's share of net assets of the associate	11,291,214	9,982,118
Goodwill on acquisition (less cumulative impairment)	—	—
Carrying amount of the investment	11,291,214	9,982,118
Dividend received by the Group	436,100	387,100

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2018 RMB'000	2017 RMB'000
Share of the associates' loss for the year	(120,287)	(85,096
Share of the associates' other comprehensive loss	(85,015)	(99,805)
Share of the associates' total comprehensive loss	(205,302)	(184,901)
Aggregate carrying amount of the Group's investments in the associates	9,632,859	7,765,020

21. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	2018 **RMB'000**	2017 RMB'000
Equity investments designated at fair value through other comprehensive income		
Listed equity investments, at fair value		
Check-cap Limited	**2,157**	—
Unlisted equity investments, at fair value		
Maxigen Biotech Inc	**40,908**	—
Tyto Care Limited	**37,626**	—
Qingdao Hengda Company Limited	**15,000**	—
Astute Medical, Inc.	**—**	—
Others	**30,622**	—
	124,156	—
	126,313	—

	2018 **RMB'000**	2017 RMB'000
Available-for-sale investments		
Listed equity investments, at fair value	**—**	1,097,643
Unlisted debt investment, at cost	**—**	33,201
Unlisted equity investments, at cost	**—**	1,542,405
Non-current portion of available-for-sale investments	**—**	2,673,249

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

During the year ended 31 December 2018, the Group received dividends in the amounts of RMB67,000 and RMB61,000 from Maxigen Biotech Inc, and others respectively.

22. OTHER NON-CURRENT ASSETS

	2018 RMB'000	2017 RMB'000
Prepayments for purchase of items of property, plant and equipment	251,252	97,428
Prepayments for acquisitions	19,163	134,419
Deposits for purchase of prepaid land lease payments	323,637	19,689
Prepayments for purchase of other intangible assets	219,766	214,670
Prepayments for deferred development costs	28,659	28,785
Loans to a related party	67,562	33,781
Others	142,533	25,724
	1,052,572	554,496

23. DEFERRED TAX

The movements in deferred tax assets/(liabilities) during the year are as follows:

Deferred tax assets

	Losses available for offsetting against future taxable profits RMB'000	Provision for impairment of assets RMB'000	Depreciation and amortisation RMB'000	Accrued expenses RMB'000	Unrealised profit RMB'000	Deferred income RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2017	5,365	34,227	7,462	40,960	26,132	65,317	179,463
Acquisitions of subsidiaries	—	23	—	4,505	—	—	4,528
Deferred tax (charged)/credited to the statement of profit or loss during the year	385	(4,006)	(5,777)	20,159	(4,565)	3,259	9,455
Gross deferred tax assets at 31 December 2017	5,750	30,244	1,685	65,624	21,567	68,576	193,446
Effect of adoption of HKFRS9	—	5,089	—	—	—	—	5,089
Gross deferred tax assets at 1 January 2018 (restated)	5,750	35,333	1,685	65,624	21,567	68,576	198,535
Acquisitions of subsidiaries *(note 37)*	—	743	—	964	—	—	1,707
Deferred tax credited/(charged) to the statement of profit or loss during the year	7,113	7,271	(1,391)	15,339	(5,759)	3,468	26,041
Gross deferred tax assets at 31 December 2018	12,863	43,347	294	81,927	15,808	72,044	226,283

23. DEFERRED TAX (Continued)

Deferred tax liabilities

	Deemed disposal of associates RMB'000	Fair value adjustments arising from financial assets at fair value through profit or loss RMB'000	Fair value adjustments of equity investment designated of fair value RMB'000	Fair value adjustments of available-for sale investments RMB'000	Fair value adjustments arising from acquisitions of subsidiaries RMB'000	Depreciation RMB'000	Total RMB'000
Gross deferred tax liabilities at 1 January 2017	1,166,986	—	—	88,791	513,065	67,497	1,836,339
Acquisitions of subsidiaries	—	—	—	—	1,222,672	95,509	1,318,181
Deferred tax credited to the statement of profit or loss during the year	(1,153)	—	—	(35,804)	(58,165)	(4,598)	(99,720)
Deferred tax charged/(credited) to reserves during the year	—	—	—	(27,587)	2,858	—	(24,729)
Gross deferred tax liabilities at 31 December 2017	1,165,833	—	—	25,400	1,680,430	158,408	3,030,071
Effect of adoption of HKFRS 9	—	25,559	100	(25,400)	—	—	259
Gross deferred tax liabilities at 1 January 2018 (restated)	1,165,833	25,559	100	—	1,680,430	158,408	3,030,330
Acquisitions of subsidiaries *(note 37)*	—	—	—	—	44,154	6,076	50,230
Deferred tax (credited)/charged to the statement of profit or loss during the year	(218)	13	—	—	(98,361)	18,601	(79,965)
Deferred tax (credited)/charged to reserves during the year	—	—	(47)	—	—	—	(47)
Exchange differences	—	—	—	—	(39,041)	—	(39,041)
Gross deferred tax liabilities at 31 December 2018	1,165,615	25,572	53	—	1,587,182	183,085	2,961,507

23. DEFERRED TAX (Continued)

Net deferred tax assets and net deferred tax assets as at the respective reporting dates are as follows:

	2018		2017	
	Offset amount RMB'000	Net amount RMB'000	Offset amount RMB'000	Net amount RMB'000
Deferred tax assets	53,148	173,135	48,922	144,524
Deferred tax liabilities	53,148	2,908,359	48,922	2,981,149

Deferred tax assets have not been recognised in respect of the following items as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the following items can be utilised:

	2018 RMB'000	2017 RMB'000
Tax losses	2,895,931	2,038,404
Deductible temporary differences	248,010	81,042
	3,143,941	2,119,446

There are no income tax consequences attaching to the payments of dividends by the Company to its shareholders.

24. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	1,333,739	1,068,036
Work in progress	597,397	459,007
Finished goods	1,296,738	1,230,116
Spare parts and consumables	83,631	58,037
Others	46,588	13,522
	3,358,093	2,828,718
Less: Provision	(70,701)	(78,201)
	3,287,392	2,750,517

25. TRADE AND BILLS RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**3,623,640**	3,247,537
Bills receivable	**712,511**	578,012
	4,336,151	3,825,549

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

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

	2018 RMB'000	2017 RMB'000
Within 1 year	**3,559,594**	3,204,112
1 to 2 years	**80,773**	98,414
2 to 3 years	**70,289**	30,146
Over 3 years	**70,012**	50,319
	3,780,668	3,382,991
Less: loss allowance for impairment	**(157,028)**	(135,454)
	3,623,640	3,247,537

Movements in the loss allowance for impairment of trade receivables are as follows:

	2018 RMB'000	2017 RMB'000
At beginning of year	**135,454**	117,238
Effect of adoption of HKFRS 9	**27,061**	—
At beginning of year (restated)	**162,515**	117,238
Impairment losses, net	**7,402**	22,323
Amounts written off as uncollectible	**(12,889)**	(4,107)
At end of year	**157,028**	135,454

25. TRADE AND BILLS RECEIVABLES (Continued)

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

		Past due							
	Current	Less than 3 month	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	1.48%	4.01%	4.77%	8.39%	23.54%	42.29%	100.00%	100.00%	4.15%
Gross carrying amount (RMB'000)	2,679,707	587,392	272,190	73,627	71,044	67,141	12,450	17,117	3,780,668
Expected credit losses (RMB'000)	39,609	23,580	12,976	6,177	16,725	28,394	12,450	17,117	157,028

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables of RMB24,426,000, with a carrying amount before provision of RMB63,386,000.

The individually impaired trade receivables as at 31 December 2017 related to customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

An ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	2,992,855
Less than 3 months past due	193,283
3 to 6 months past due	38,008
6 months to 1 year past due	9,308
Over 1 year past due	14,083
	3,247,537

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

25. TRADE AND BILLS RECEIVABLES (Continued)

Impairment under HKAS 39 for the year ended 31 December 2017 (Continued)

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Included in the Group's trade receivables are amounts due from the Group's associates of RMB510,355,000 (2017: RMB404,136,000), the Group's joint ventures of RMB1,180,000 (2017: RMB802,000) and other related companies of RMB10,953,000 (2017: RMB15,600,000). Included in the Group's bills receivable are amounts due from the Group's associates of RMB133,926,000 (2017: RMB130,227,000) and none from other related companies (2017: nil). These balances due from associates, joint ventures and other related companies were trade in nature, non-interest-bearing and collectible on credit terms similar to those offered to the major customers of the Group.

As at 31 December 2018, trade receivables with a book value of RMB20,300,000 (2017: Nil) were used to obtain bank loans.

26. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 RMB'000	2017 RMB'000
Advances to suppliers	**472,145**	273,400
Deposits	**79,078**	121,519
Other receivables	**694,696**	629,840
	1,245,919	1,024,759
Impairment allowance	**(30,381)**	(12,532)
	1,215,538	1,012,227

26. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (Continued)

An ageing analysis of prepayments, other receivables and other assets as at the respective reporting dates, net of loss allowance, is as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	**1,174,609**	952,574
1 to 2 years	**45,287**	44,195
2 to 3 years	**10,635**	10,189
Over 3 years	**15,388**	17,801
	1,245,919	1,024,759
Less: Loss allowance for impairment of other receivables	**(30,381)**	(12,532)
	1,215,538	1,012,227

The changes in the provision for bad debts for other receivables based on 12-month and the entire life expectancy expected credit losses are as follows:

	Stage 1 12-month ECLs RMB'000	Stage 2 Lifetime ECLs RMB'000	Stage 3 Lifetime ECLs RMB'000	Total RMB'000
at 1 January 2018	12,532	—	—	12,532
The balance of 1 January 2018 in this year	—	—	—	—
— transfer to the stage 2	(1,911)	1,911	—	—
— transfer to the stage 3	—	(1,911)	1,911	—
Provision for impairment losses for this year	20,034	—	—	20,034
Impairment losses reversed for this year	(274)	—	—	(274)
Amounts written off as uncollectible for this year	—	—	(1,911)	(1,911)
	30,381	—	—	30,381

26. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (Continued)

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

	2017 RMB'000
At beginning of year	12,261
Impairment losses recognised	933
Impairment losses reversed	(59)
Amounts written off as uncollectible	(603)
At end of year	12,532

Included in the Group's prepayments, other receivables and other assets are amounts due from the Group's associates of RMB82,079,000 (2017: RMB7,847,000), the Group's joint ventures of RMB27,873,000 (2017: RMB28,777,000) and other related companies of RMB7,651,000 (2017: RMB2,529,000), respectively. These balances were non-interest-bearing and collectible on demand.

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 **RMB'000**	2017 RMB'000
Listed equity investments, at fair value	**966,638**	219,327
Other unlisted investments, at fair value	**2,155,293**	—
	3,121,931	219,327
Current portion	**2,505,807**	—
Non-current portion	**616,124**	219,327

The above equity investments at 31 December 2018 were classified as financial assets at fair value through profit or loss as they were held for trading.

28. CASH AND BANK BALANCES

	2018 RMB'000	2017 RMB'000
Cash on hand	2,837	3,862
Cash at banks, unrestricted	6,640,886	5,893,100
Deposits in Fosun Finance*	531,282	453,357
Cash and cash equivalents as stated in the consolidated statement of cash flows	7,175,005	6,350,319
Pledged bank balances to secure bills payable	512,197	640,343
Term deposits with original maturity of more than three months	859,320	258,205
Cash and bank balances as stated in the consolidated statement of financial position	8,546,522	7,248,867

* Fosun Group Finance Corporation Limited ("Fosun Finance") is a licensed financial institution registered with the China Banking Regulatory Commission. Fosun Finance is a subsidiary of Fosun High Tech. Details of the deposits are given in note 43(d) to the financial statements.

As at 31 December 2018, the cash and bank balances of the Group denominated in foreign currencies amounted to RMB2,042,000,000 (2017: RMB2,097,000,000). The RMB is not freely convertible into other currencies. However, under Mainland China's prevailing rules and regulations over foreign exchange, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between seven days and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. Term deposits with original maturity of more than three months earn interest at fixed interest rates for varying periods of between three months and three years. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. Details of interest earned on deposits in Fosun Finance are set out in note 43(e) to the financial statements.

29. TRADE AND BILLS PAYABLES

	2018 **RMB'000**	2017 RMB'000
Trade payables	**2,184,280**	1,652,025
Bills payable	**149,003**	129,858
	2,333,283	1,781,883

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

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

	2018 **RMB'000**	2017 RMB'000
Within 1 year	**2,136,439**	1,614,865
1 to 2 years	**30,222**	24,297
2 to 3 years	**9,072**	5,597
Over 3 years	**8,547**	7,266
	2,184,280	1,652,025

Included in the Group's trade payables are amounts due to the Group's associates, joint ventures and other related companies of RMB69,705,000(2017: RMB40,380,000),RMB1,179,000(2017:Nil) and RMB1,395,000 (2017: RMB15,668,000), respectively. These balances due to associates, joint ventures and other related companies were trade in nature, non-interest-bearing and repayable on credit terms similar to those offered by the associates, joint ventures and other related companies to their major customers.

30. OTHER PAYABLES AND ACCRUALS

	Notes	2018 RMB'000	2017 RMB'000
Advances from customers		—	527,264
Payables relating to purchases of items of property, plant and equipment		208,853	203,302
Deposits received		553,992	523,789
Payroll		578,701	558,830
Value-added tax		225,281	130,991
Other taxes		39,970	56,563
Accrued interest expenses		187,344	153,945
Dividends payable to non-controlling shareholders of subsidiaries and shareholders of the Company		125,421	116,813
Other accrued expenses		1,542,225	1,137,788
Current portion of deferred warranty revenue *(note 33)*		—	60,351
Payables for acquisitions of non-controlling interests, and subsidiaries	(i)	325,585	690,159
Loans from third parties	(ii)	181,660	178,513
Current portion of government grants *(note 33)*		6,913	6,913
Subscription to restricted shares		211,239	8,578
The share redemption option granted to non-controlling shareholders of subsidiaries	(iv)	205,896	—
Others	(iii)	31,958	37,343
		4,425,038	4,391,142
Less: Non-current portion of payables for acquisitions of non-controlling interests and subsidiaries *(note 33)*	(i)	(112,648)	(337,084)
		4,312,390	4,054,058

Notes:

(i) The balances as at 31 December 2018 mainly represent the cash considerations for the acquisitions of Aohong Pharma, Jihe Hospital, Gland Pharma and Guangji Hospital of RMB170,590,000, RMB42,000,000, RMB102,948,000 and RMB7,700,000, respectively. The non-current portion of payables for acquisitions of the non-controlling interests and subsidiaries as at 31 December 2018 mainly consists of the non-current portion of unpaid cash considerations of RMB102,948,000 and RMB9,700,000 for the acquisitions of equity interests in Gland Pharma and Guangji Hospital, respectively, which will be paid after 12 months.

(ii) Loans from third parties of RMB181,660,000 as at 31 December 2018 (2017: RMB178,513,000) bear no interest (2017: Nil) and are repayable on demand.

(iii) Other payables are non-interest-bearing and repayable on demand.

Included in the Group's other payables are amounts due to the Group's associates, joint ventures and other related companies of RMB573,000 (2017: RMB13,638,000), RMB6,512,000 (2017: RMB5,174,000) and RMB14,789,000 (2017: RMB7,189,000), respectively. These balances were non-interest-bearing and repayable on demand.

(iv) The share redemption option granted to non-controlling shareholders of Breas is RMB205,896,000, represents liability of the Group to acquire the non-controlling interests owned by the non-controlling shareholders as at 31 December 2018.

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018			2017		
	Effective interest rate (%) Effective	**Maturity**	**RMB'000**	Effective interest rate (%) Effective	Maturity	RMB'000
Current						
Bank loans — unsecured	**0.45–4.85**	**2019**	**5,567,193**	1.50–5.66	2018	9,694,866
Bank loans — secured *(note (a))*	**4.31–5.00**	**2019**	**40,000**	4.48–4.79	2018	20,000
Current portion of long term						
bank loans — unsecured	**0.98–5.70**	**2019**	**1,862,489**	2.65–4.49	2018	299,362
bank loans — secured *(note (a))*	**0.98–7.50**	**2019**	**70,171**	2.65–4.90	2018	58,231
Corporate bonds — unsecured	**3.35–3.35**	**2019**	**2,993,168**	3.95–3.95	2018	399,554
			10,533,021			10,472,013
Non-current						
Bank loans — unsecured	**0.98–5.28**	**2020–2026**	**8,404,516**	0.45–5.00	2019–2026	5,519,334
Bank loans — secured *(note (a))*	**0.98–7.50**	**2020–2021**	**226,146**	3.77–4.90	2019–2020	60,180
			8,630,662			5,579,514
Corporate bonds *(note (b))*	**4.47–5.10**	**2022–2023**	**4,039,457**	3.35–4.50	2021–2022	4,235,382
			12,670,119			9,814,896
			23,203,140			20,286,909

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	2018 RMB'000	2017 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**7,539,853**	10,072,459
In the second year	**3,591,947**	4,524,099
In the third to fifth years, inclusive	**4,944,655**	961,355
Beyond five years	**94,060**	94,060
	16,170,515	15,651,973
Other borrowings repayable:		
Within one year	**2,993,168**	399,554
In the second year	**—**	—
In the third to fifth years, inclusive	**4,039,457**	4,235,382
Beyond five years	**—**	—
	7,032,625	4,634,936
	23,203,140	20,286,909

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Foreign currency loans

	2018 RMB'000	2017 RMB'000
USD:		
Secured	14,902	72,411
Unsecured	10,396,564	10,697,896
	10,411,466	10,770,307
EURO:		
Secured	—	—
Unsecured	733,152	601,526
	733,152	601,526
SEK:		
Secured	10,800	—
Unsecured	14,890	—
	25,690	—
TWD:		
Secured	4,624	—
Unsecured	11,460	—
	16,084	—

Notes:

(a) Certain of the Group's bank loans are secured by:

(i) mortgages over the Group's buildings, which had an aggregate carrying value at the end of the reporting period of approximately RMB82,977,000 (2017: RMB77,387,000);

(ii) mortgages over the Group's equipment, which had an aggregate carrying value at the end of the reporting period of approximately RMB132,824,000 (2017: Nil);

(iii) mortgages over the Group's prepaid land lease payments, which had an aggregate carrying value at the end of the reporting period of approximately RMB30,431,000 (2017: RMB30,169,000); and

(iv) the pledge of certain of the Group's trade receivables totalling RMB20,300,000 (2017: Nil).

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Foreign currency loans (Continued)

Notes: (Continued)

(b) On 4 March 2016, the Company issued corporate bonds with a maturity of five years in an aggregate amount of RMB3,000,000,000, which bear interest at 3.35% per annum. Interest is payable annually in arrears and the maturity date is 4 March 2021. Since holders of these corporate bonds have the right, at their option, to require the Company to repurchase the corporate bonds for cash in whole or in part at interest payment date of the third interest-bearing year (i.e. 2019), the corporate bond was presented as current liabilities as at 31 December, 2018.

On 14 March 2017, the Company issued corporate bonds with a maturity of five years in an aggregate amount of RMB1,250,000,000, which bear interest at 4.50% per annum. Interest is payable annually in arrears and the maturity date is 14 March 2022.

On 13 August 2018, the Company issued corporate bonds with a maturity of five years in an aggregate amount of RMB1,300,000,000, which bear interest at 5.10% per annum. Interest is payable annually in arrears and the maturity date is 13 August 2023.

On 30 November 2018, the Company issued corporate bonds with a maturity of five years in aggregate amounts of RMB500,000,000 and RMB1,000,000,000, which bear interest at 4.47% and 4.69% per annum, respectively. Interest is payable annually in arrears and the maturity dates are 30 November 2022 and 30 November 2023, respectively.

32. CONTRACT LIABILITIES

Details of contract liabilities as at 31 December 2018 are as follows:

	31 December 2018 RMB'000
Warranty services	55,451
Advances from customers	546,959
Total contract liabilities	602,410
Current portion	530,897
Non-current portion	71,513

Contract liabilities include advances received and warranty services.

33. DEFERRED INCOME

	Notes	2018 RMB'000	2017 RMB'000
Government grants	(i)	**356,421**	348,935
Less: Government grants classified as current portion *(note 30)*		**(6,913)**	(6,913)
Deferred warranty income	(ii)	**—**	66,620
Less: Deferred warranty income classified as current portion *(note 30)*		**—**	(60,351)
Others		**13,980**	48,844
		363,488	397,135

Notes:

(i) Government grants were received by the Group as financial subsidies for some research and development projects, industrial development funds and value-added tax refund. Government grants are recognised as income over the periods necessary to match the grants on a systematic basis to the costs that they are intended to compensate. There are no unfulfilled conditions or contingencies relating to these grants.

The movements in government grants during the year are as follows:

	2018 RMB'000	2017 RMB'000
At 1 January	**348,935**	327,099
Additions	**47,017**	65,716
Recognised as income during the year	**(39,531)**	(43,880)
At 31 December	**356,421**	348,935

(ii) Deferred warranty income represents the consideration received for either standalone warranty service contracts or extended warranty sold with sales of certain equipment. This deferred income is amortised on the straight-line basis during the service period or warranty term as applicable. Since 1 January 2018, it was recognized as contract liabilities, which are disclosed in note 32.

34. OTHER LONG-TERM LIABILITIES

	Notes	2018 RMB'000	2017 RMB'000
Staff placement fees	(i)	**22,915**	23,518
Payables for acquisitions of non-controlling interests and subsidiaries	(ii)	**112,648**	337,084
Share redemption option granted to non-controlling shareholders of subsidiaries	(iii)	**2,605,032**	1,859,564
Finance lease payable		**18,794**	3,774
Loans from third parties		**29,733**	28,768
Others		**232,800**	183,194
		3,021,922	2,435,902

Notes:

(i) Staff placement fees represent liabilities incurred by certain subsidiaries of the Group before 2008 in respect of the retirement benefits of certain employees and retirees.

(ii) Payables for acquisitions of non-controlling interests and subsidiaries as at 31 December 2018 mainly represent the non-current portion of unpaid cash considerations of RMB102,948,000 and RMB7,700,000 for the acquisitions of non-controlling interests in Gland Pharma and Guangji Hospital, respectively, which will be paid after 12 months (note 30(i)).

(iii) The share redemption option granted to non-controlling shareholders of Gland Pharma, a subsidiary acquired by the Group during the year of 2017, amounted to RMB2,605,032,000, representing a liability of the Group to acquire the non-controlling interests owned by the non-controlling shareholders as at 31 December 2018.

35. SHARE CAPITAL

	2018		2017	
	Number of shares '000	Nominal value RMB'000	Number of shares '000	Nominal value RMB'000
Shares				
Restricted shares:				
A Shares of RMB1 each	100,599	100,599	101,381	101,381
Unrestricted shares:				
A Shares of RMB1 each	1,910,521	1,910,521	1,909,809	1,909,809
H Shares of RMB1 each	551,941	551,941	483,941	483,941
	2,563,061	2,563,061	2,495,131	2,495,131

Movements in the issued share capital during the year were as follows:

	Notes	2018 Number of shares '000	2018 Nominal value RMB'000	2017 Number of shares '000	2017 Nominal value RMB'000
At 1 January		2,495,131	2,495,131	2,414,512	2,414,512
Issue of H Shares	(i)	68,000	68,000	80,657	80,657
Repurchase and cancellation of restricted A shares	(ii)	(70)	(70)	(38)	(38)
At 31 December		2,563,061	2,563,061	2,495,131	2,495,131

Notes:

(i) On 26 July 2018 the Company completed an issue of 68,000,000 H-shares. Part of the proceeds, amounting to RMB68,000,000, was credited as issued and fully paid share capital, and the remaining balance of RMB2,156,574,000 was credited to share premium.

(ii) The Company repurchased and cancelled 70,150 restricted A-shares on 18 May 2018.

36. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statements of changes in equity on pages 100 to 101 of the financial statements.

Statutory surplus reserve

According to the relevant PRC regulations and the articles of association of the Company in the PRC, the Company is required to transfer 10% of its profit after income tax, as determined under the Chinese Accounting Standards, to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital. The transfer to this reserve must be made before the distribution of dividends to equity owners. The statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into paid-in capital/issued share capital in proportion to the existing interests of equity owners, provided that the balance after such conversion is not less than 25% of its registered capital. This reserve is non-distributable other than in liquidation.

37. BUSINESS COMBINATIONS

The major acquisitions of subsidiaries accounted for as business combinations are set out as follows:

In October 2018, Yao Pharmaceutical, a subsidiary of the Group, acquired a 75.74% equity interest in Avic Pharma at a consideration of RMB297,715,000. The acquisition was completed on 25 October 2018 when the Group obtained control of the operating and financial policies of Avic Pharma.

In September 2018, Hospital Investment, a subsidiary of the Group, acquired a 55% equity interest in Jihe Hospital at a consideration of RMB165,000,000. The acquisition was completed on 29 September 2018 when the Group obtained control of operating and financial policies of Jihe Hospital.

In December 2018, Qianda (Tianjin) International Trade Co., Ltd.*, a subsidiary of the Group, acquired a 55% equity interest in JYCY at a consideration of RMB131,992,000. The acquisition was completed on 26 December 2018 when the Group obtained control of the operating and financial policies of JYCY.

In September 2018, Fosun Long March, a subsidiary of the Group, acquired a 65% equity interest in Bohao Laboratory at a consideration of RMB29,718,000. The acquisition was completed on 28 September when the Group obtained control of the operating and financial policies of Bohao Laboratory.

* The English names of the companies registered in the PRC represent the best efforts made by the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

37. BUSINESS COMBINATIONS (Continued)

The above acquisitions were undertaken under the Group's strategy to further improve the Group's pharmaceutical manufacturing, research and development business and expand the business for the Group's healthcare services.

The Group has elected to measure the non-controlling interests in all the subsidiaries acquired at the non-controlling interests' proportionate share of the acquired subsidiaries' identifiable net assets.

The fair values of the identifiable assets and liabilities of all the subsidiaries acquired during the year ended 31 December 2018 were as follows:

	Notes	**Fair value recognised on acquisition** RMB'000
Property, plant and equipment	15	119,982
Prepaid land lease payments	16	7,148
Other intangible assets	18	167,544
Financial assets at fair value through profit or loss		41,032
Deferred tax assets	23	1,707
Other non-current assets		218
Inventories		56,886
Trade and bills receivables		61,556
Prepayments, other receivables and other assets		67,505
Cash and bank balances		105,623
Trade and bills payables		(18,522)
Other payables and accruals		(37,970)
Contract liabilities		(15,645)
Tax payable		(5,456)
Interest-bearing bank and other borrowings	39	(9,849)
Deferred tax liabilities	23	(50,230)
Other long-term liabilities		(4,080)
Total identifiable net assets at fair value		487,449
Non-controlling interests		(172,490)
Goodwill on acquisitions	17	309,466
		624,425
Satisfied by:		
Cash consideration paid		410,433
Cash consideration payable		213,992
		624,425

37. BUSINESS COMBINATIONS (Continued)

The fair values of the trade and bills receivables and other receivables as at the dates of acquisitions amounted to RMB61,556,000 and RMB49,938,000, respectively. The gross contractual amount of trade and bills receivables was RMB76,314,000, among which RMB14,758,000 was expected to be uncollectible. The gross contractual amount of other receivables was RMB69,539,000, among which RMB19,601,000 was expected to be uncollectible.

The Group incurred transaction costs of RMB438,000 for these acquisitions. These transaction costs have been expensed and are included in other expenses in the consolidated statement of profit or loss.

The goodwill of RMB309,466,000 recognised above is due to the new markets entered into by the Group to achieve product and business diversification. The above factor is neither separable nor contractual and therefore does not meet the criteria for recognition as intangible assets under HKAS 38 Intangible Assets. None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisitions of subsidiaries is as follows:

	RMB'000
Cash consideration paid	(410,433)
Cash and cash equivalents acquired	105,623
	(304,810)
Payment of unpaid cash consideration as at 31 December 2017	(338,075)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(642,885)
Transaction costs of the acquisitions included in cash flows from operating activities	(438)
	(643,323)

Since the acquisitions, all the acquired subsidiaries contributed RMB45,840,000 to the Group's revenue and RMB3,664,000 to the Group's profit after tax for the year ended 31 December 2018.

Had the combinations taken place at the beginning of the year ended 31 December 2018, the revenue and the profit after tax of the Group for the year ended 31 December 2018 would have been RMB24,999,015,000 and RMB3,052,897,000, respectively.

38. DISPOSAL OF SUBSIDIARIES

On 11 April 2018, Jiangsu Wanbang, a subsidiary of the Group, entered into an equity interest transfer agreement with a third party to dispose of a 51% equity interest in Heilongjiang Wanbang Pharmaceutical Co., Ltd.* ("Heilongjiang Wanbang") at a consideration of RMB1. The disposal was completed on 11 April 2018, and Heilongjiang Wanbang was not included in the consolidated financial statements of the Group hereafter.

On 8 November 2017, Hospital Investment, a subsidiary of the Group, entered into an equity interest transfer agreement with a third party to dispose of a 45% equity interest in Hunan Jingren Medical Investment Management Co., Ltd.* (Hunan Jingren") at a consideration of RMB38,590,000. The disposal was completed on 17 January 2018, and Hunan Jingren was not included in the consolidated financial statements of the Group hereafter.

On 23 November 2018, Pingyao Investment, a subsidiary of the Group, entered into an equity interest transfer agreement with a third party to dispose of a 100% equity interest in Anji Innovation Technology Co., Ltd.* ("Anji Innovation") at a consideration of RMB42,070,000. The disposal was completed on 10 December 2018, and Anji Innovation was not included in the consolidated financial statements of the Group hereafter.

On 29 October 2018, Jiangsu Wanbang, a subsidiary of the Group, entered into an equity interest transfer agreement with a third party to dispose of a 35% equity interest in Hangzhou Wanbang Tiancheng Pharmaceutical Co., Ltd.* ("Wanbang Tiancheng") at a consideration of RMB4,900,000. The disposal was completed on 29 October 2018, and Wanbang Tiancheng was not included in the consolidated financial statements of the Group hereafter.

* The English names of the companies registered in the PRC represent the best efforts made by the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

38. DISPOSAL OF SUBSIDIARIES (Continued)

The financial information of above subsidiaries at the date of disposal is as follows:

	Note	**As of the disposal date** RMB'000
Net assets disposed of:		
Property, plant and equipment	15	56,946
Prepaid land lease payments	16	2,933
Goodwill	17	19,636
Other intangible assets	18	47,798
Other non-current assets		818
Inventories		9,091
Trade and bills receivables		18,820
Prepayments, other receivables and other assets		8,575
Cash and cash equivalents		21,825
Trade and bills payables		(23,618)
Other payables and accruals		(78,480)
Non-controlling interests		(19,800)
		64,544
Fair value of the retained interest in a subsidiary disposed of		(23,451)
Gain on disposal of a subsidiary	8	44,467
		85,560
Satisfied by:		
Cash consideration received		56,720
Other receivables		28,840

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	RMB'000
Cash consideration received	56,720
Cash and cash equivalents disposed of	(21,825)
Advance receipt of cash consideration in previous year	(14,599)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	20,296

39. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank and other loans RMB'000	Loans from third parties included in other payables and accruals RMB'000	Loans from third parties included in other long-term liability RMB'000
At 1 January 2018	20,286,909	178,513	28,768
Changes from financing cash flows	2,302,955	3,147	965
Foreign exchange movement	599,352	—	—
Interest expense	4,075	—	—
Increase arising from acquisitions of subsidiaries	9,849	—	—
At 31 December 2018	23,203,140	181,660	29,733

40. SHARE-BASED PAYMENTS

(a) Restricted A-share incentive schemes

The Company adopted a share incentive scheme (the "Restricted A-share Incentive Scheme") for the purpose of further refining the corporate governance structure of the Company, facilitating the establishment of the restricted incentive mechanism, fully motivating the directors and key personnel of the Company, as well as balancing the interests of the shareholders, the Company and management for the long-term development of the Company.

Restricted A-share Incentive Scheme I

The Restricted A-share Incentive Scheme I was approved by the shareholders of the Company (the "Shareholders") at the 2013 first extraordinary general meeting of the Company, the 2013 first class meeting of A shareholders and the 2013 first class meeting of H shareholders convened on 20 December 2013. On 7 January 2014, relevant resolutions were considered and passed at the Company's 12th meeting of the 6th session of the board of directors and the 1st meeting of the 6th session of the Supervisory Committee, pursuant to which the date of grant for the Restricted A-share Incentive Scheme I of the Company was set on 7 January 2014.

On 7 January 2014 (the "Date of Grant"), pursuant to the Restricted A-share Incentive Scheme I, 4,035,000 A-shares of the Company were granted to 28 eligible participants of the Restricted A-share Incentive Scheme I (the "Share Incentive Participants") at a grant price of RMB6.08 per share. The Share Incentive Participants include executive directors and the members of senior management of the Company and core technical and management personnel of the Company and its subsidiaries.

27 out of 28 of the Share Incentive Participants have accepted and subscribed with their own funds under the Restricted A-share Incentive Scheme I and a total of 3,935,000 Restricted A-shares (the "Restricted Shares") have been issued by the Company to the relevant Share Incentive Participants.

The Restricted A-share Incentive Scheme I shall be valid for a term of four years, commencing from the Date of Grant of the Restricted Shares and ending on the date on which all the Restricted Shares granted have been unlocked or otherwise repurchased and cancelled.

40. SHARE-BASED PAYMENTS (Continued)

(a) Restricted A-share incentive schemes (Continued)

Restricted A-share Incentive Scheme I (Continued)

Restricted Shares shall be locked up immediately upon grant. All of the Restricted Shares granted to the Share Incentive Participants shall be subject to various lock-up periods of 1 year, 2 years and 3 years, respectively, immediately from the Date of Grant. Restricted Shares held by the Share Incentive Participants shall be unlocked (or repurchased and cancelled by the Company) in three tranches in the proportion of 33%, 33% and 34% of the total number of the Restricted Shares granted upon the expiry of each lock-up period. Details of the unlock period and conditions are summarised as follows:

Unlock period	Performance target	% of unlocked shares to the total Restricted A-shares granted
First unlock period: commencing from the first trading day after expiry of the 12-month period from the Date of Grant and ending on the last trading day of the 24-month period from the Date of Grant	Net profit (after extraordinary gain or loss) attributable to the shareholders of the Company for the year 2013 shall not be less than RMB1 billion; the operating revenue for the year 2013 shall not be less than RMB9 billion; the percentage of research and development expenditure on the pharmaceutical manufacturing segment to the total sales revenue from the pharmaceutical business for the year 2013 shall not be less than 4.8%.	33%
Second unlock period: commencing from the first trading day after expiry of the 24-month period from the Date of Grant and ending on the last trading day of the 36-month period from the Date of Grant	Net profit (after extraordinary gain or loss) attributable to the shareholders of the Company for the year 2014 shall not be less than RMB1.25 billion; the operating revenue for the year 2014 shall not be less than RMB10.5 billion; the percentage of research and development expenditure on the pharmaceutical manufacturing segment to the total sales revenue from the pharmaceutical business for the year 2014 shall not be less than 4.9%.	33%
Third unlock period: commencing from the first trading day after expiry of the 36-month period from the Date of Grant and ending on the last trading day of the 48-month period from the Date of Grant	Net profit (after extraordinary gain or loss) attributable to the shareholders of the Company for the year 2015 shall not be less than RMB1.56 billion; the operating revenue for the year 2015 shall not be less than RMB12.5 billion; the percentage of research and development expenditure on the pharmaceutical manufacturing segment to the total sales revenue from the pharmaceutical business for the year 2015 shall not be less than 5.0%.	34%

40. SHARE-BASED PAYMENTS (Continued)

(a) Restricted A-share incentive schemes (Continued)

Restricted A-share Incentive Scheme I (Continued)

In addition, during the lock-up period of the Restricted Shares, net profit attributable to the shareholders of the Company and net profit (after extraordinary gain or loss) attributable to the shareholders of the Company for each year shall not be less than the average of their respective amounts of the three preceding financial years prior to the Date of Grant, and shall not be negative.

Where the performance target at company level has been achieved, a Share Incentive Participant is only entitled to unlock the Restricted Shares upon achieving the benchmark of "Pass" or above in his performance target for the preceding year according to the Company's Administrative Measures in respect of the Remuneration and Performance Appraisal (《與績效考核相關管理辦法》).

In February 2015, the Company repurchased and cancelled the Restricted A-shares granted to Mr. Wu Yijian ("Mr. Wu"), Mr. Hu Jianglin ("Mr. Hu") and Mr. Ni Xiaowei ("Mr. Ni"), following the resignation of Mr. Wu, Mr. Hu and Mr. Ni from their respective positions in the Company or the relevant subsidiary (the "Repurchase"). A total of 231,000 Restricted A-shares, which have been granted to Mr. Wu, Mr. Hu and Mr. Ni but have not been unlocked, were repurchased and cancelled at a repurchase price of RMB6.08 per share for a total repurchase amount of approximately RMB1,404,000. The aforementioned repurchased shares have been cancelled on 12 February 2015.

The aggregate fair value of the Restricted Shares granted amounted to approximately RMB66,413,000, of which RMB43,893,000 has been charged to profit or loss and the capital reserve as costs of share-based compensation in aggregate from the Date of Grant to the date on which the unlocking conditions are being fulfilled and the shares may be circulated according to the law, after netting of the total considerations received for the issue of the Restricted Shares amounting to RMB22,520,000. Since the shares of Restricted A-share Incentive Scheme I had been all unlocked during the year ended 31 December 2018, the Group had no restricted share repurchase obligation at the year end. The Group has no expenses recognised for the year ended 31 December 2018 (2017: Nil).

Restricted A-share Incentive Scheme II

The Restricted A-share Incentive Scheme II was approved by the shareholders at the 2015 first extraordinary general meeting of the Company, the A shareholders' class meeting and the H shareholders' class meeting held on 19 November 2015. On 19 November 2015 (the "Date of Grant"), pursuant to the Restricted A-share Incentive Scheme II, 2,695,000 A-shares of the Company were granted to 45 eligible participants of the Restricted A-share Incentive Scheme II at a grant price of RMB10.54 per share.

40. SHARE-BASED PAYMENTS (Continued)

(a) Restricted A-share incentive schemes (Continued)

Restricted A-share Incentive Scheme II (Continued)

Restricted Shares granted by the Restricted A-share Incentive Scheme II held by the Share Incentive Participants shall be unlocked in three tranches. When the unlock conditions of the Restricted A-share Incentive Scheme II are fulfilled during each lock-up period, the Share Incentive Participants can apply for the unlocking and trading of those shares. Details of the unlock period and conditions are summarised as follows:

Unlock period	Performance target	% of unlocked shares to the total Restricted A-shares granted
First unlock period: commencing from the first trading day after expiry of the 12-month period from the Date of Grant and ending on the last trading day of the 24-month period from the Date of Grant	Net profit (after extraordinary gain or loss) attributable to the shareholders of the Company for the year 2015 shall not be less than RMB1.56 billion; the operating revenue for the year 2015 shall not be less than RMB12.5 billion; the percentage of the research and development expenditure on pharmaceutical manufacturing segment to the total sales revenue from the pharmaceutical business for the year 2015 shall not be less than 5.0%.	33%
Second unlock period: commencing from the first trading day after expiry of the 24-month period from the Date of Grant and ending on the last trading day of the 36-month period from the Date of Grant	Net profit (after extraordinary gain or loss) attributable to the shareholders of the Company for the year 2016 shall not be less than RMB1.79 billion; the operating revenue for the year 2016 shall not be less than RMB14.4 billion; the percentage of research and development expenditure on the pharmaceutical manufacturing segment to the total sales revenue from the pharmaceutical business for the year 2016 shall not be less than 5.0%.	33%
Third unlock period: commencing from the first trading day after expiry of the 36-month period from the Date of Grant and ending on the last trading day of the 48-month period from the Date of Grant	Net profit (after extraordinary gain or loss) attributable to the shareholders of the Company for the year 2017 shall not be less than RMB2.06 billion; the operating revenue for the year 2017 shall not be less than RMB16.6 billion; the percentage of research and development expenditure on the pharmaceutical manufacturing segment to the total sales revenue from the pharmaceutical business for the year 2017 shall not be less than 5.0%.	34%

40. SHARE-BASED PAYMENTS (Continued)

(a) Restricted A-share incentive schemes (Continued)

Restricted A-share Incentive Scheme II (Continued)

The aggregate fair value of the Restricted Shares granted amounted to approximately RMB68,102,000, of which RMB39,697,000 will be charged to profit or loss and the capital reserve as costs of share-based compensation in aggregate from the Date of Grant to the date on which the unlocking conditions are being fulfilled and the shares may be circulated according to the law, after netting of the total considerations received for the issue of the Restricted Shares amounting to RMB28,405,000.The Group has recorded RMB1,711,000 in other payables and accruals and credited to the treasury shares as at 31 December 2018 due to the restricted share repurchase obligation of the Company till the end of the unlock period. The Group has recognised an amount of RMB642,000 as expenses for the year ended 31 December 2018 (2017: RMB10,357,000).

In November 2016, the Company has decided to repurchase and cancel the Restricted A-shares granted to Mr. Bai Huan ("Mr. Bai") and Mr. Chen Yi ("Mr. Chen"), following the resignation of Mr. Bai, and Mr. Chen from their respective positions in the Company or the relevant subsidiary (the "Repurchase"). A total of 37,500 Restricted A-shares, which have been granted to Mr. Bai and Mr. Chen but have not been unlocked, were repurchased and cancelled at a repurchase price of RMB10.54 per share for a total repurchase amount of approximately RMB395,250. The aforementioned repurchased shares have been cancelled on 24 February 2017.

In October 2017, the Company has decided to repurchase and cancel the Restricted A-shares granted to (i) Mr. Dong Zhi Chao ("Mr. Dong") and Mr. Wang Shu Hai ("Mr. Wang"), following the resignation of Mr. Dong and Mr. Wang from their respective positions in the Company or the relevant subsidiary, (ii) Mr. Deng Jie ("Mr. Deng"), since Mr. Deng had not achieved the benchmark of "Pass" in his performance target for the year 2016, which did not meet the incentive criteria (the "Repurchase"). A total of 70,150 Restricted A-shares, which have been granted to Mr. Dong, Mr. Wang and Mr. Deng but have not been unlocked, were repurchased and cancelled at a repurchase price of RMB10.54 per share for a total repurchase amount of approximately RMB739,381. The aforementioned repurchased shares have been cancelled at the year end.

In November 2018, the Company has decided to repurchase and cancel the Restricted A-shares granted to (i) Mr. Li Chun ("Mr. Li"), Mr. Li Dongjiu, Mr. Shao Yin ("Mr. Shao"), Ms. Shi Jiajue ("Ms. Shi"), Ms. Zhou Ting ("Ms. Zhou"), Ms. Yan Jia ("Ms. Yan"), Ms. Zhang Ye ("Ms. Zhang") and Mr. Deng Jie ("Mr. Deng"), following the resignation of them from their respective positions in the Company or the relevant subsidiary, (ii) Mr. Song Dajie ("Mr Song"), since Mr. Song had not achieved the benchmark of "Pass" in his performance target for the year 2017, which did not meet the incentive criteria (the "Repurchase"). A total of 162,350 Restricted A-shares, which have been granted to them but have not been unlocked, were repurchased and cancelled at a repurchase price of RMB10.54 per share for a total repurchase amount of approximately RMB1,711,169. The aforementioned repurchased shares have not been cancelled at the year end.

(b) A subsidiary's share-based payment

As at 14 April 2018, the second extraordinary general meeting of Henlix, a subsidiary of the Group, passed a share incentive scheme and granted 22,750,000 restricted shares to eligible participants at a price of RMB9.21 per share. Henlix has recognised an amount of RMB92,547,000 as related expenses and R&D investment for the year ended 31 December 2018.

41. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group's subsidiaries lease the property, plant and equipment under operating lease agreements, with leases negotiated for terms ranging from two to twenty years.

At 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018 **RMB'000**	2017 RMB'000
Within 1 year	**34,725**	18,965
1 to 3 years, inclusive	**27,854**	3,230
Over 3 years	**21,944**	274
	84,523	22,469

(b) As lessee

As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	2018 **RMB'000**	2017 RMB'000
Within 1 year	**167,470**	76,679
1 to 3 years, inclusive	**172,152**	86,886
Over 3 years	**108,542**	84,152
	448,164	247,717

42. COMMITMENTS

In addition to the operating lease commitments detailed in note 41(b) to the financial statements, the Group had the following capital commitments as at 31 December 2018:

	2018 **RMB'000**	2017 RMB'000
Contracted, but not provided for:		
Prepared land lease payments, plant and machinery	**1,920,414**	1,167,395
Investments in a subsidiary and associates	**433,483**	1,716,440
Investments in financial assets at fair value through profit or loss	**284,476**	—
Investments in available-for-sale financial assets	**—**	333,932
Authorized, but not signed:		
Prepaid land lease payments, plant and machinery	**4,651,565**	—
	7,289,938	3,217,767

43. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere, the Group had the following transactions with related parties during the year:

(a) Sales of pharmaceutical products and rendering of services

	2018 RMB'000	2017 RMB'000
Sinopharm Group Co., Ltd and its subsidiaries *(notes 4, 7 & 9)*	**2,328,131**	1,756,747
C.Q.pharmaceutical Holding Co., Ltd and its subsidiaries *(notes 1, 7 & 11)*	**366,319**	325,649
Zhejiang Di'an Diagnostics Co., Ltd. *(notes 3 & 7)*	**36,072**	39,805
Shanghai Xingyao Medical Technology Development Co., Ltd. *(notes 2 & 7)*	**23,484**	19,516
Chindex International., Inc. *(notes 4 & 7)*	**20,628**	2,320
Fosun International Limited and its subsidiaries *(notes 6, 7 & 12)*	**9,383**	476
Gland Chemicals Pvt Ltd *(notes 3 & 7)*	**4,644**	5,906
Shanghai Lingjian Information Technology Co., Ltd *(notes 1 & 7)*	**4,396**	2,852
Shanghai Diai Medical Instrument Co., Ltd *(notes 1 & 7)*	**3,668**	2,052
Shanghai Lonza Fosun Pharmaceutical Science and Technology Development *(notes 2 & 7)*	**3,034**	3,376
Healthy Harmony Holdings L.P. *(notes 1 & 7)*	**1,657**	1,684
Intuitive Surgical-Fosun Medical Technology (Shanghai) Co., Ltd. *(notes 1 & 7)*	**861**	10
Fosun Kite Biological Technology Co., Ltd *(notes 2 & 7)*	**406**	1,812
Tongde Equity Investment and Management (Shanghai) Co., Ltd. *(notes 5 & 7)*	**40**	40
Jingfukang Pharmaceutical Group Co., Ltd *(notes 1 & 7)*	**31**	—
Shanghai Anbo Pharmaceutical Co., Ltd. *(notes 4 & 7)*	**11**	14
SINNOWA Medical Science & Technology Co., Ltd. *(notes 1 & 7)*	**1**	2
CMIC(Suzhou) Pharmaceutical Technology Co., Ltd. *(notes 1 & 7)*	**—**	350
Shanghai Yi Xing Sports Development Co., Ltd. *(notes 7 & 18)*	**—**	1
Shanghai Xinglian Commercial Factoring Co., Ltd. *(notes 7 & 18)*	**—**	3
	2,802,766	2,162,615

43. RELATED PARTY TRANSACTIONS (Continued)

(b) Purchases of pharmaceutical products and rendering of services

	2018	2017
	RMB'000	RMB'000
Sinopharm Group Co., Ltd and its subsidiaries *(notes 4, 7 & 9)*	**194,478**	166,276
Gland Chemicals Pvt Ltd *(notes 3 & 7)*	**101,283**	25,473
Zhejiang Di'an Diagnostics Co., Ltd. *(notes 3 & 7)*	**6,961**	6,555
Fosun International Limited and its subsidiaries *(notes 6, 7& 13)*	**1,096**	3,560
Saladax Biomedical, Inc. *(notes 1 & 7)*	**2,722**	1,762
Shanghai Xingyao Medical Technology Development Co., Ltd. *(notes 2 & 7)*	**2,681**	2,005
CMIC(Suzhou) Pharmaceutical Technology Co., Ltd. *(notes 1 & 7)*	**2,476**	242
Anhui Sunhere Pharmaceuticals Excipients Co., Ltd. *(notes 1 & 7)*	**1,894**	2,519
SINNOWA Medical Science & Technology Co., Ltd. *(notes 1 & 7)*	**1,098**	—
Yong'an Property Insurance Company Limited *(notes 3 & 7)*	**718**	3,979
Fosun United Health Insurance Company Ltd *(notes 3 & 7)*	**95**	—
Shanghai Lingjian Information Technology Co., Ltd *(notes 1 & 7)*	**15**	—
Shanghai Yi Xing Sports Development Co., Ltd. *(notes 7 & 18)*	**1**	—
Guangxi Huahong Pharmaceutical Co., Ltd. *(notes 1 & 7)*	**1**	—
C.Q.pharmaceutical Holding Co., Ltd and its subsidiaries *(notes 1 & 7)*	**—**	130
	315,519	212,501

43. RELATED PARTY TRANSACTIONS (Continued)

(c) Leasing and property management services

As lessor

	2018 RMB'000	2017 RMB'000
Fosun International Limited and its subsidiaries *(notes 6, 8, 11 &14)*	**14,353**	11,490
Fosun Kite Biological Technology Co., Ltd *(notes 2 & 8)*	**10,183**	399
Shanghai Xingyao Medical Technology Development Co., Ltd. *(notes 2 & 8)*	**1,016**	652
Tongde Equity Investment and Management (Shanghai) Co., Ltd. *(notes 5 & 8)*	**803**	710
Shanghai Anbo pharmaceutical Co., Ltd. *(notes 4 & 8)*	**375**	494
Intuitive Surgical-Fosun Medical Technology (Shanghai) Co., Ltd. *(notes 1 & 8)*	**321**	62
Shanghai Lonza Fosun Pharmaceutical Science and Technology Development. *(notes 2 & 8)*	**212**	363
Chindex International., Inc. *(notes 4 & 8)*	**—**	275
Sinopharm Group Co., Ltd and its subsidiaries. *(notes 4,8 & 9)*	**—**	286
	27,263	14,731

As lessee

	2018 RMB'000	2017 RMB'000
Fosun International Limited and its subsidiaries *(notes 6, 8,11&15)*	**12,854**	8,310
Shanghai Zendai Bund International Finance Services Centre Real Estate Company Limited *(notes 3, 8 & 11)*	**1,000**	—
Dhananjaya Properties LLP *(notes 3 & 8)*	**245**	52
Sasikala Properties LLP *(notes 3 & 8)*	**88**	27
	14,187	8,389

43. RELATED PARTY TRANSACTIONS (Continued)

(c) Leasing and property management services (Continued)

Management services

	2018 RMB'000	2017 RMB'000
Subsidiaries of Fosun International Limited *(notes 6, 8,11 & 16)*	7,643	9,512

(d) Loans from/to related parties

Maximum daily outstanding balance of deposits in Fosun Finance

	2018 RMB'000	2017 RMB'000
Fosun Group Finance Corporation Limited *(notes 10 & 11)*	575,422	534,688

The Company entered into a financial service agreement with Fosun Finance, pursuant to which Fosun Finance shall provide financial services to the Company and its subsidiaries, including deposit service, credit service, settlement service and other financial services as approved by the China Banking Regulatory Commission for the period from 1 January 2017 to 31 December 2019. The maximum daily outstanding balance of deposits placed by the Group with Fosun Finance is RMB1,000,000,000. The maximum daily outstanding balance of the loans granted by Fosun Finance to the Group is RMB1,000,000,000.

Loans to Fosun Kite Biological Technology Co., Ltd

	2018 RMB'000	2017 RMB'000
Fosun Kite Biological Technology Co., Ltd *(notes 2&11)*	67,562	33,781

Industrial Development provided a five-year loan of RMB67,562,000 to Fosun Kite Biological Technology Co., Ltd. The interest rate is 10% higher than the benchmark interest rate for the same period.

Loans to Nature's Sunshine (Far East) Limited

	2018 RMB'000	2017 RMB'000
Nature's Sunshine (Far East) Limited *(note 1)*	10,295	—

Fosun Industrial provided a one-year loan of RMB10,295,000.00 to Nature's Sunshine (Far East) Limited. The annual interest rate is 3%.

43. RELATED PARTY TRANSACTIONS (Continued)

(e) Interest income from related parties

	2018 RMB'000	2017 RMB'000
Fosun Group Finance Corporation Limited *(notes 10 & 11)*	**4,077**	2,582
Fosun Kite Biological Technology Co., Ltd *(notes 2 & 11)*	**3,218**	378
Nature's Sunshine (Far East) Limited *(note 1)*	**237**	—

The interest rate for deposits in Fosun Finance is made reference to the benchmark interest rates on deposits issued by the People's Bank of China ("PBOC"), and is no less than the higher of (i) the interest rate payable to the Group by the domestic commercial banks; and (ii) that to others by Fosun Finance for the deposit service with similar terms and amounts.

(f) Commitments with related parties

As lessor

As at 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its related parties falling due as follows:

	2018 RMB'000	2017 RMB'000
Subsidiaries of Fosun International *(note 6)*	**17,297**	13,079
Shanghai Lonza Fosun Pharmaceutical Science and Technology Development. *(note 2)*	**1,200**	1,684
Tong De Equity Investment Management (Shanghai) Co., Ltd. *(note 5)*	**950**	848
Shanghai Qinmiao technology Co., Ltd. *(note 1)*	**557**	—
Intuitive Surgical-Fosun Medical Technology (Shanghai) Co., Ltd. *(note 1)*	**173**	265
Shanghai Anbo Pharmaceutical Co., Ltd. *(note 4)*	**—**	593
Sinopharm Group Co., Ltd. *(note 9)*	**—**	91
	20,177	16,560

As lessee

As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases and a property management service agreement with related parties in respect of land and buildings which fall due as follows:

	2018 RMB'000	2017 RMB'000
Fosun Kite Biological Technology Co., Ltd *(note 2)*	**40,257**	—
Shanghai Zendai Bund International Finance Services Centre Real Estate Company Limited *(note 3)*	**20,448**	—
Subsidiaries of Fosun International *(note 6)*	**10,843**	4,273
	71,548	4,273

43. RELATED PARTY TRANSACTIONS (Continued)

(f) Commitments with related parties (Continued)

Notes:

(1) They are associates of the Group.

(2) They are joint ventures of the Group.

(3) They are other associates of the Group.

(4) They are the subsidiaries of the Group's associates.

(5) They are the subsidiaries of the Group's joint ventures.

(6) They are the subsidiaries of Fosun International Limited, the holding company of the Company.

(7) The sales and purchases were undertaken on commercial terms similar to those offered to/by unrelated customers/suppliers in the ordinary course of business of the relevant companies.

(8) The fees for the leasing and property management services received from or paid to these related companies were determined based on prices available to third party customers of these related companies.

(9) Sinopharm Group Co., Ltd. is a major subsidiary of Sinopharm Investment, an associate of the Group.

(10) Fosun Finance is a subsidiary of Fosun High Tech, the holding company of the Company.

(11) The related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The Group confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of these transactions.

(12) During the year of 2018, the Group offered Fosun International Limited and its subsidiaries with other services at market prices. Fosun International Limited and its subsidiaries include Shanghai Fosun High Tech (Group) Company limited., Shanghai Xingling Asset Management Co., Ltd., Shanghai Xingyi Health Management Co., Ltd., Shanghai Zhong Heng Insurance Broker Co., Ltd., Shenzhen Xinglian Commercial Factoring Co., Ltd., Shanghai Fosun Venture Capital investment Management Co., Ltd, Liangfu Credit Investigation Management Co., Ltd., Shanghai Yunji Information Technology Co., Ltd., Shanghai Ceyuan Estate Broker Co., Ltd., Zhangxingbao (Shanghai) Network Technology Co. Ltd., Beijing Tingjiandan Information Technology Co., Ltd., Shanghai Ziku Information Technology Co., Ltd., Fosun Health Financing Leasing (Shanghai) Co., Ltd., and Shanghai Xingchong Business Consulting Co., Ltd.

(13) During the year of 2018, the Group received services from the subsidiaries of Fosun International Limited at market prices. The subsidiaries of Fosun International Limited include Beijing Golte Property Management Co., Ltd., Shanghai Golte Property Management Co., Ltd., Shanghai Xingyi Health Management Co., Ltd., and Shanghai Yunji Information Technology Co., Ltd, Zhejiang Fuyi Cosmetics Co., Ltd.

(14) During the year of 2018, the Group leased out the office buildings to Fosun International Limited and its subsidiaries. Fosun International Limited and its subsidiaries include Shanghai Fosun High Tech (Group) Company limited., Shanghai Xingling Asset Management Co., Ltd., Shanghai Xingyi Health Management Co., Ltd., Shanghai Zhongheng Insurance Broker Co., Ltd., Shanghai Fosun Venture Capital investment Management Co., Ltd, Liangfu Credit Investigation Management Co., Ltd., Shanghai Yunji Information Technology Co., Ltd., and Zhangxingbao (Shanghai) Network Technology Co. Ltd.

(15) During the year of 2018, the Group leased office buildings from subsidiaries of Fosun International Limited. The subsidiaries of Fosun International Limited include Shanghai New Shihua Investment and Management Co., Ltd., Beijing Golte Property Management Co., Ltd.,and Chuangfu Finance Leasing Co., LTD.

(16) During the year of 2018, the Group received management services from a subsidiary of Fosun International Limited. The subsidiary of Fosun International Limited is Shanghai Golte Property Management Co., Ltd.

(17) Fosun International Limited is the ultimate holding company of the Group.

(18) They are under the same ultimate control of the Group.

43. RELATED PARTY TRANSACTIONS (Continued)

(g) Outstanding balances with related parties

Details of the outstanding balances with related parties are set out in notes 25, 26, 29 and 30 to the financial statements.

(h) Compensation of key management personnel of the Group

	2018 **RMB'000**	2017 RMB'000
Salaries, allowances and benefits in kind	**36,584**	30,452
Performance-related bonuses	**26,002**	24,808
Pension scheme contributions	**824**	822
Equity-settled share incentive scheme expense	**1,169**	4,115
	64,579	60,197

Further details of directors', supervisors' and the chief executive's emoluments are included in note 10 to the financial statements.

44. CONTINGENT LIABILITIES

As at 31 December 2018 and 2017, the Group did not have any contingent liabilities.

45. PLEDGE OF ASSETS

Details of the Group's interest-bearing bank and other borrowings, which are secured by the assets of the Group, are included in note 31 to the financial statements.

46. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2018

Financial assets	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total
	Held for trading RMB'000	Equity investments RMB'000	RMB'000	RMB'000
Equity investments designated at fair value through other comprehensive income	—	126,313	—	126,313
Financial assets at fair value through profit or loss	3,121,931	—	—	3,121,931
Trade and bills receivables	—	—	4,336,151	4,336,151
Financial assets included in prepayments, other receivables and other assets	—	—	458,861	458,861
Other non-current assets	—	—	67,562	67,562
Cash and bank balances	—	—	8,546,522	8,546,522
	3,121,931	126,313	13,409,096	16,657,340

Financial liabilities	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	Designated as such upon initial recognition RMB'000	RMB'000	RMB'000
Trade and bills payables	—	2,333,283	2,333,283
Financial liabilities included in other payables and accruals	205,896*	3,044,390	3,250,286
Interest-bearing bank and other borrowings	—	23,203,140	23,203,140
Financial liabilities included in other long-term liabilities	2,707,980*	280,588	2,988,568
	2,913,876	28,861,401	31,775,277

* The amount includes the share redemption option granted to non-controlling shareholders of several subsidiaries amounting to RMB2,810,928,000 (2017: RMB1,859,564,000), with the current portion of RMB205,896,000 (2017: Nil) and the non-current portion of RMB2,605,032,000 (2017: RMB1,859,564,000), of which fair value change is recognised in reserves due to the nature of equity transaction with non-controlling shareholders of the subsidiaries of the Group.

46. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2017

Financial assets	Financial assets at fair value through profit or loss — held for trading RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	—	2,673,249	2,673,249
Equity investments at fair value through profit or loss	219,327	—	—	219,327
Trade and bills receivables	—	3,825,549	—	3,825,549
Financial assets included in prepayments, other receivables and other assets	—	430,530	—	430,530
Cash and bank balances	—	7,248,867	—	7,248,867
	219,327	11,504,946	2,673,249	14,397,522

Financial liabilities	Financial liabilities at fair value through profit or loss — designated as such upon initial recognition RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	—	1,781,883	1,781,883
Financial liabilities included in other payables and accruals	—	2,704,568	2,704,568
Interest-bearing bank and other borrowings	—	20,286,909	20,286,909
Financial liabilities included in other long-term liabilities	2,022,919*	386,641	2,409,560
	2,022,919	25,160,001	27,182,920

* The amount includes the share redemption option granted to non-controlling shareholders of several subsidiaries amounting to RMB1,859,564,000 (2016: Nil), of which fair value change is recognised in reserves due to the nature of equity transaction with non-controlling shareholders of the subsidiaries of the Group.

46. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

At December 31, 2018, the carrying amount of the bank acceptance bills that the Group has discounted to the bank is RMB4,010,000 (2017: RMB16,103,000). The Group believes that it retains almost all of its risks and rewards, including its related defaults risk. Therefore, the Group continues to confirm it in full and short-term borrowing. After discounting, the Group will not retain the use rights of it, including the right to sell, transfer or pledge it to other third parties.

At 31 December 2018, the Group endorsed certain bills receivable accepted by banks in the PRC (the "Endorsed Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB709,400,000 (2017: RMB730,659,000). In addition, the Group discounted certain bills receivable accepted by banks in the PRC (the "Discounted Bills") to certain banks to finance its operating cash flows with a carrying amount in aggregate of RMB208,990,000 (2017: RMB192,294,000). The Endorsed Bills and the Discounted Bills had a maturity from one to six months at the end of the reporting period. In accordance with the relevant laws and regulations in the PRC and relevant discounting arrangement with certain banks, the holders of the Endorsed Bills and the Discounted Bills have a right of recourse against the Group if the accepting banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Endorsed bills and the Discounted Bills. Accordingly, it has derecognised the full carrying amounts of the Endorsed Bills and the Discounted Bills. The maximum exposure to loss from the Group's Continuing Involvement in the Endorsed Bills and the Discounted Bills and the undiscounted cash flows to repurchase these Endorsed Bills and Discounted Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Endorsed Bills and the Discounted Bills are not significant.

During the reporting period, the Group has not recognised any gain or loss on the date of transfer of the Endorsed Bills and the Discounted Bills. No gains or losses were recognised from the continuing involvement, both during the year or cumulatively. The endorsement and the discount have been made evenly throughout the reporting period.

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets:				
Equity investments designated at fair value through other comprehensive income	**126,313**	—	**126,313**	—
Available-for-sale investments	**—**	1,097,643	**—**	1,097,643
Financial assets at fair value through profit or loss	**3,121,931**	219,327	**3,121,931**	219,327
	3,248,244	1,316,970	**3,248,244**	1,316,970
Financial liabilities:				
Non-current portion of interest-bearing bank borrowings	**8,630,662**	5,579,514	**8,836,810**	5,446,991
Interest-bearing other borrowings	**7,032,625**	4,634,936	**7,041,981**	4,591,512
Financial liabilities included in other long-term liabilities	**2,988,568**	2,409,560	**3,194,464**	2,409,560
	18,651,855	12,624,010	**19,073,255**	12,448,063

Management has assessed that the fair values of cash and bank balances, trade and bills receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets , financial assets included in other non-current assets and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments or the interesting rate is approximate to the discount rate of current market.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for the non-current portion of interest-bearing bank and other borrowings as at 31 December 2018 was assessed to be insignificant.

The fair values of listed corporate bond issued by the Company and equity investments without a lock-up period are based on quoted market prices. The fair values of listed equity investments with a lock-up period have been estimated based on assumptions that are supported by observable market prices and discount for lack of marketability. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income or profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

Below is a summary of significant unobservable inputs to the valuation of financial instruments as at 31 December 2018:

Unobservable inputs for Level 3 assets

The financial assets measured at fair value held by the Group which were classified in Level 3 primarily correspond to unlisted equity investments not quoted in an active market.

For the fair value of the unlisted equity investments is based on valuation techniques for which the input that is significant to the fair value measurement is unobservable. For certain unlisted equity investments, the Group adopts quotation from counterparties' quotations or valuation techniques to determine the fair value. Valuation techniques include a discounted cash flow analysis, the market comparison approach, etc. The fair value measurement of these financial instruments may involve unobservable inputs such as price to book ratio, price to earnings ratio, liquidity discount, etc. Fair value change resulting from changes in the unobservable inputs was not significant. The Finance Department periodically reviews all significant unobservable inputs and valuation adjustments used to measure the fair values of financial instruments in Level 3.

Unobservable inputs for Level 3 liabilities

As part of the purchases agreement, contingent consideration included in other long-term liabilities is payable, which is dependent on the share profit of Gland Pharma's enoxaparin product and 50 percent of the milestone payment before 31 December 2019. The amount recognised as at 31 December 2018 was RMB102,948,000 (31 December 2017: RMB163,355,000) which was determined using the discounted cash flow model and is under Level 3 fair value measurement. The consideration is due for final measurement and payment to the shareholders in 2020 and beyond. At the date of approval of these financial statements, no further significant changes to the consideration are expected.

It is expected that the share profit of Gland Pharma's enoxaparin product and 50 percent of the milestone payment before 31 December 2019 will decrease by RMB60,407,000 comparing to the expectation when the Group signing the acquisition contract due to the delay of the date when Gland Pharma's enoxaparin product is approved by the U.S. Food and Drug Administration. Discount rate and discount for own non-performance risk are nil.

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Unobservable inputs and sensitivity analysis for Level 3 liabilities (Continued)

The significant decrease in the share profit of Gland Pharma's enoxaparin product and 50 percent of the milestone payment before 31 December 2019 would result in a significant decrease in the fair value of the contingent consideration liability.

Significant unobservable valuation input for the share redemption option granted to non-controlling shareholders of subsidiaries included in other payables and accruals and other long-term liabilities of RMB2,810,928,000 (31 December 2017: RMB1,859,564,000) is EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) of Breas from April 2018 to March 2019 and EBITDA of Gland Pharma during year 2018.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss *(note 27)*	864,159	102,479	2,155,293	3,121,931
Equity investments designated at fair value through other comprehensive income *(note 21)*	2,157	41,855	82,301	126,313
	866,316	144,334	2,237,594	3,248,244

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments — listed *(note 21)*	1,037,432	60,211	—	1,097,643
Equity investments at fair value through profit or loss *(note 27)*	145,904	73,423	—	219,327
	1,183,336	133,634	—	1,316,970

The movements in fair value measurements in Level 3 during the year are as follows:

	Financial assets at fair value through profit and loss RMB'000	**Equity investments designated at fair value through other comprehensive income** RMB'000
As at 31 December 2017	—	—
Impact of adopting HKFRS 9	1,279,740	143,562
As at 1 January 2018	1,279,740	143,562
Total gains recognised in the statement of profit or loss included in other gain	420,040	—
Total losses recognised in other comprehensive income	—	(62,980)
Purchases	474,833	—
Disposals	(63,237)	—
Exchange realignment	43,917	1,719
As at 31 December 2018	2,155,293	82,301

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

Liabilities measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Amounts included in other payable and accruals	**—**	**—**	**205,896**	**205,896**
Amounts included in other long-term liabilities *(note 34)*	**—**	**—**	**2,707,980**	**2,707,980**
	—	**—**	**2,913,876**	**2,913,876**

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Amounts included in other long-term liabilities *(note 34)*	—	—	2,022,919	2,022,919

The movements in fair value measurements in Level 3 during the year are as follows:

	2018 RMB'000	2017 RMB'000
Amounts included in other long-term liabilities:		
At 1 January	**2,022,919**	—
Total gains recognized in the statement of profit or loss included in other gains	**(60,407)**	—
Addition	**951,364**	2,022,919
At 31 December	**2,913,876**	2,022,919

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

Liabilities for which fair values are disclosed:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Non-current portion of interest-bearing bank borrowings	4,302,540	2,739,441	—	7,041,981
Interest-bearing other borrowings	—	8,836,810	—	8,836,810
Amounts included in other long-term liabilities	—	280,588	—	280,588
	4,302,540	11,856,839	—	16,159,379

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Non-current portion of interest-bearing bank borrowings	—	5,446,992	—	5,446,992
Interest-bearing other borrowings	2,955,300	1,636,212	—	4,591,512
Amounts included in other long-term liabilities	—	386,641	—	386,641
	2,955,300	7,469,845	—	10,425,145

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: Nil).

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and floating rate debts.

As at 31 December 2018, the total interest-bearing bank borrowings of RMB23,203,139,000 (31 December 2017: RMB13,705,240,000) of the Group were with floating interest rates denominated in RMB, USD or EUR.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit after tax through the impact on floating rate borrowings.

Increase/(decrease) in the Group's profit after tax

	Increase/ (decrease) in basis	**Increase/ (decrease) in profit after tax**
	%	RMB'000
2018		
RMB	**1**	**(14,127)**
USD	**1**	**(77,995)**
EUR	**1**	**(4,544)**
RMB	**(1)**	**14,127**
USD	**(1)**	**77,995**
EUR	**(1)**	**4,544**
2017		
RMB	1	(17,505)
USD	1	(80,777)
EUR	1	(4,507)
RMB	(1)	17,505
USD	(1)	80,777
EUR	(1)	4,507

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units and investing and financing activities by investment holding units in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD, EUR and HKD exchange rates, with all other variables held constant, of the Group's profit after tax due to changes in the fair value of monetary assets and liabilities.

	Increase/ (decrease) in foreign currency rate	**Increase/ (decrease) in profit after tax**
	%	RMB'000
2018		
If RMB weakens against USD	**5**	**49,753**
If RMB strengthens against USD	**(5)**	**(49,753)**
If RMB weakens against EUR	**5**	**(20,248)**
If RMB strengthens against EUR	**(5)**	**20,248**
If RMB weakens against HKD	**5**	**15,895**
If RMB strengthens against HKD	**(5)**	**(15,895)**
2017		
If RMB weakens against USD	5	16,732
If RMB strengthens against USD	(5)	(16,732)
If RMB weakens against EUR	5	3,680
If RMB strengthens against EUR	(5)	(3,680)
If RMB weakens against HKD	5	5,309
If RMB strengthens against HKD	(5)	(5,309)

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Credit risk

The Group trades only with related companies and recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, and deposits and other receivables, arises from the default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with related companies and recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by analyses by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables were widely dispersed in different geographical regions.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. There is no listed debt investments within the Group. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	**Stage 2** RMB'000	**Stage 3** RMB'000	**Simplified approach** RMB'000	RMB'000
Trade and bills receivables*	—	—	—	4,336,151	4,336,151
Financial assets included in prepayments, other receivables and other assets — Normal**	1,215,538	—	—	—	1,215,538
Other non-current assets	67,562	—	—	—	67,562
Cash and bank balances — Not yet past due	8,546,522	—	—	—	8,546,522
	9,829,622	—	—	4,336,151	14,165,773

* For trade and bills receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 25 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Credit risk (Continued)

Maximum exposure as at 31 December 2017

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 25 to the financial statements.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing borrowings. As at 31 December 2018, 43% (31 December 2017: 50%) of the Group's borrowings would mature in less than one year based on the carrying values of the borrowings.

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

	On demand	**Less than 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2018					
Interest-bearing bank and other borrowings	**—**	**11,206,767**	**11,449,527**	**2,302,777**	**24,959,071**
Trade and bills payables	**—**	**2,333,283**	**—**	**—**	**2,333,283**
Financial liabilities included in other payables and accruals	**2,713,213**	**537,073**	**—**	**—**	**3,250,286**
Financial liabilities included in other long-term liabilities	**—**	**480**	**2,960,749**	**27,339**	**2,988,568**
	2,713,213	**14,077,603**	**14,410,276**	**2,330,116**	**33,531,208**
2017					
Interest-bearing bank and other borrowings	—	11,021,297	10,259,736	11,272	21,292,305
Trade and bills payables	—	1,781,883	—	—	1,781,883
Financial liabilities included in other payables and accruals	2,417,555	287,015	—	—	2,704,570
Financial liabilities included in other long-term liabilities	—	480	2,382,711	31,200	2,414,391
	2,417,555	13,090,675	12,642,447	42,472	28,193,149

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments included in financial assets at fair value through profit or loss (note 27) and equity investments at fair value through other comprehensive income/available-for-sale investments (note 21) as at 31 December 2018. The Group's listed investments are listed on the stock exchanges in Shanghai, Shenzhen, New York, New Zealand, Hong Kong and Germany are valued at quoted market prices or using valuation techniques at the end of the reporting period.

The market equity indices for the following stock exchanges, at the close of business of the nearest trading day in the year to the end of the reporting period, and their respective highest and lowest points during the year were as follows:

	31 December 2018	High/low 2018	31 December 2017	High/low 2017
Shanghai — A-share Index	2,611	3,728/2,600	3,463	3,611/3,197
Shenzhen — GEM Index	1,251	1,900/1,205	1,753	1,992/1,656
Shenzhen — A-share Index	1,326	2,051/1,288	1,986	2,141/1,855
New York — NASDAQ Index	6,585	8,110/6,193	6,903	6,995/5,429
New York — NYSE Index	11,291	13,637/10,770	12,809	12,853/11,149
New Zealand — NZX 50 Gross Index	8,811	9,376/8,059	8,398	8,409/6,971
Hong Kong — HSI Index	25,846	33,154/24,586	29,919	30,003/22,134
Germany — DAX Index	10,768	13,445/10,559	12,918	13,479/11,510

The following table demonstrates the sensitivity to a reasonably possible change in the fair values of the equity investments, with all other variables held constant and after any impact on tax, based on their carrying amounts at the end of the reporting period. For the purposes of this analysis, for the equity investments at fair value through other comprehensive income/the available-for-sale equity investments, the impact is deemed to be on the fair value reserve and the available-for-sale investment revaluation reserve, respectively.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Equity price risk (Continued)

	Change in equity prices %	Carrying amount of equity investments RMB'000	Change in profit after tax RMB'000	Change in equity* RMB'000
2018				
Investments listed in:				
New York — Financial assets at fair value through profit or loss	10	289,130	28,913	—
New York — Financial assets at fair value through profit or loss	(10)	289,130	(28,913)	—
Shenzhen GEM — Financial assets at fair value through profit or loss	10	76,048	5,704	—
Shenzhen GEM — Financial assets at fair value through profit or loss	(10)	76,048	(5,704)	—
Shenzhen — Financial assets at fair value through profit or loss	10	273,726	20,571	—
Shenzhen — Financial assets at fair value through profit or loss	(10)	273,726	(20,571)	—
NASDAQ — Financial assets at fair value through profit or loss	10	219,730	21,973	—
NASDAQ — Financial assets at fair value through profit or loss	(10)	219,730	(21,973)	—
NASDAQ — Equity investments at fair value through other comprehensive income	10	2,157	—	162
NASDAQ — Equity investments at fair value through other comprehensive income	(10)	2,157	—	(162)
Germany — Financial assets at fair value through profit or loss	10	7,368	737	—
Germany — Financial assets at fair value through profit or loss	(10)	7,368	(737)	—
Taiwan — Financial assets at fair value through profit or loss	10	54,015	5,402	—
Taiwan — Financial assets at fair value through profit or loss	(10)	54,015	(5,402)	—
Hong Kong — Financial assets at fair value through profit or loss	10	46,621	4,662	—
Hong Kong — Financial assets at fair value through profit or loss	(10)	46,621	(4,662)	—
Total financial assets at fair value through profit or loss		966,638		
Total equity investments at fair value through other comprehensive income		2,157		

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Equity price risk (Continued)

	Change in equity prices %	Carrying amount of equity investments RMB'000	Change in profit after tax RMB'000	Change in equity* RMB'000
2017				
Investments listed in:				
New York — Available for sale	10	419,385	—	41,938
New York — Available for sale	(10)	419,385	—	(41,938)
Shenzhen GEM — Available for sale	10	120,988	—	9,074
Shenzhen GEM — Available for sale	(10)	120,988	—	(9,074)
Shenzhen — Available for sale	10	266,364	—	20,031
Shenzhen — Available for sale	(10)	266,364	—	(20,031)
NASDAQ — Available for sale	10	180,279	—	17,801
NASDAQ — Available for sale	(10)	180,279	—	(17,801)
NASDAQ — Equity investments at fair value through profit or loss	10	145,904	14,590	—
NASDAQ — Equity investments at fair value through profit or loss	(10)	145,904	(14,590)	—
Shenzhen — Equity investments at fair value through profit or loss	10	73,423	5,507	—
Shenzhen — Equity investments at fair value through profit or loss	(10)	73,423	(5,507)	—
Germany — Available for sale	10	16,237	—	1,624
Germany — Available for sale	(10)	16,237	—	(1,624)
Taiwan — Available for sale	10	60,211	—	6,021
Taiwan — Available for sale	(10)	60,211	—	(6,021)
Hong Kong — Available for sale	10	34,178	—	3,418
Hong Kong — Available for sale	(10)	34,178	—	(3,418)
Total available-for-sale investments		1,097,642		
Total equity investments at fair value through profit or loss		219,327		

* Excluding retained profits

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(f) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. Net debt includes interest-bearing bank and other borrowings, other long-term liabilities less cash and cash equivalents. Total equity includes equity attributable to owners of the parent and non-controlling interests. The gearing ratios as at the end of the reporting periods were as follows:

	2018 **RMB'000**	2017 RMB'000
Interest-bearing bank and other borrowings *(note 31)*	**23,203,140**	20,286,909
Loans from third parties included in other long-term liabilities	**29,733**	28,768
Less: Cash and bank balances *(note 28)*	**(8,546,522)**	(7,248,867)
Net debt	**14,686,351**	13,066,810
Total equity	**33,535,827**	29,684,567
Total equity and net debt	**48,222,178**	42,751,377
Gearing ratio	**30%**	31%

49. EVENTS AFTER THE REPORTING PERIOD

Transfer of the distribution rights and related assets of "Da Vinci Surgical Robotic System"

On 5 January 2019, Qianda (Tianjin) International Trade Co., Ltd. ("Tianjin Qianda") and Chindex Hong Kong Limited ("Chindex HK"), wholly-owned subsidiaries of the Company, signed an "Assignment and Asset Purchase Agreement" with Intuitive Surgical-Fosun Medical Technology (Shanghai) Co., Ltd. ("Intuitive Fosun Shanghai") and Intuitive Surgical-Fosun Medical Technology (Hong Kong) Co., Ltd. ("Intuitive Fosun Hong Kong"), which are associates of the Company. Tianjin Qianda and Chindex HK transferred the exclusive distribution rights and related assets in Mainland China, Hong Kong and Macau Special Administrative Regions of "Da Vinci Surgical Robotic System" to Intuitive Fosun Shanghai and Intuitive Fosun Hong Kong within the agreed period of time according to the Assignment and Asset Purchase Agreement.

Redemption of Corporate Bond "16 Fosun 01"

From 28 January 2019 to 30 January 2019, the number of valid redemption filings for Corporate Bond "16 Fosun 01" was 55,000, with a total redemption amount of RMB5,500,000 (excluding interest). The Group paid the redemption amount to the relevant bondholders on 4 March 2019 and the corresponding bonds were subsequently cancelled. After the implementation of this redemption, the number of Corporate Bond "16 Fosun 01" listed on the Shanghai Stock Exchange was changed to 29,945,000 (each par value of RMB100), with the coupon rate of 4.5% and the maturity date of 3 March 2021. Accordingly, on the date of approval of the financial statements, the Group has reclassified the Corporate Bond "16 Fosun 01" to non-current liabilities which was presented as current liabilities as at 31 December 2018.

Proposed profit distribution of 2018

The Company proposed to distribute a cash dividend of RMB0.32 (inclusive of tax) for each ordinary share to all shareholders. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and the final dividend amount will be determined based on the number of ordinary shares on the dividend payment date. The amount of the proposed final dividend of RMB820,179,000 is calculated based on the total number of ordinary shares of the Company of 2,563,060,895 shares on the register of shareholders as at 25 March 2019.

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	9,464	7,125
Other intangible assets	1,840	1,986
Investments in subsidiaries	8,651,555	6,874,445
Investments in associates	8,768,321	8,702,871
Equity instruments at fair value through other comprehensive income	37,626	—
Financial assets at fair value through profit or loss	184,189	—
Available-for-sale investments	—	294,586
Other non-current assets	5,465,152	5,951,362
Total non-current assets	23,118,147	21,832,375
CURRENT ASSETS		
Prepayments, deposits and other receivables	8,698,307	4,956,505
Cash and bank balances	850,102	654,541
Total current assets	9,548,409	5,611,046
CURRENT LIABILITIES		
Other payables and accruals	1,530,893	1,196,154
Interest-bearing bank and other borrowings	6,728,011	2,950,889
Total current liabilities	8,258,904	4,147,043
NET CURRENT ASSETS	1,289,505	1,464,003
TOTAL ASSETS LESS CURRENT LIABILITIES	24,407,652	23,296,378
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	4,106,197	5,070,974
Deferred income	550	850
Deferred tax liability	968,947	968,947
Total non-current liabilities	5,075,694	6,040,771
Net assets	19,331,958	17,255,607
EQUITY		
Share capital	2,563,061	2,495,131
Treasury shares	(1,711)	(9,523)
Reserves	16,770,608	14,769,999
Total equity	19,331,958	17,255,607

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's treasury shares and reserves is as follows:

	Share premium RMB'000	Treasury shares RMB'000	Available-for-sale investment revaluation/ fair value reserve RMB'000	Statutory surplus reserve RMB'000	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 31 December 2016 and 1 January 2017	9,880,972	(26,819)	83,650	1,207,256	26,726	2,054,168	13,225,953
Total comprehensive (loss)/income for the year	—	—	(99,141)	—	—	523,035	423,894
Profit appropriation to reserve	—	—	—	40,310	—	(40,310)	
Issue of H shares	1,956,630	—	—	—	—	—	1,956,630
Repurchase and cancellation of restricted A shares	(358)	396	—	—	—	—	38
Unlocking of restricted A shares	—	16,900	—	—	—	—	16,900
Equity-settled share-based payment *(note 40)*	28,206	—	—	—	(17,849)	—	10,357
Final 2016 dividend declared and paid	—	—	—	—	—	(873,296)	(873,296)
At 31 December 2017	11,865,450	(9,523)	(15,491)	1,247,566	8,877	1,663,597	14,760,476
At 31 December 2017	**11,865,450**	**(9,523)**	**(15,491)**	**1,247,566**	**8,877**	**1,663,597**	**14,760,476**
Effect of adoption of HKFRS 9	**—**	**—**	**778**	**—**	**—**	**(5,534)**	**(4,756)**
At 1 January 2018	**11,865,450**	**(9,523)**	**(14,713)**	**1,247,566**	**8,877**	**1,658,063**	**14,755,720**
Total comprehensive (loss)/income for the year	**—**	**—**	**(96,355)**	**—**	**—**	**919,136**	**822,781**
Issue of H shares	**2,156,574**	**—**	**—**	**—**	**—**	**—**	**2,156,574**
Repurchase and cancellation of restricted A shares	**(669)**	**739**	**—**	**—**	**—**	**—**	**70**
Unlocking of restricted A shares	**—**	**7,073**	**—**	**—**	**—**	**—**	**7,073**
Equity-settled share-based payment *(note 40)*	**9,519**	**—**	**—**	**—**	**(8,877)**	**—**	**642**
Final 2017 dividend declared and paid	**—**	**—**	**—**	**—**	**—**	**(973,963)**	**(973,963)**
Transfer from fair value reserve to retained profits	**—**	**—**	**20,621**	**—**	**—**	**(20,621)**	**—**
At 31 December 2018	**14,030,874**	**(1,711)**	**(90,447)**	**1,247,566**	**—**	**1,582,615**	**16,768,897**

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2019.

Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below.

"A Share(s)"	domestic share(s) of the Company with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
"A Shareholder(s)"	holder(s) of A Shares
"AGM" or "Annual General Meeting"	the annual general meeting of the Company
"Anji Innovation"	Anji Technology Innovation Co., Ltd.* (安吉創新科技有限公司)
"Aohong Pharma"	Jinzhou Aohong Pharmaceutical Company Limited (錦州奧鴻藥業有限責任公司), a subsidiary of the Company
"Articles" or "Articles of Association"	the articles of association of the Company
"associates"	has the meaning given to it under the Hong Kong Listing Rules
"Australia"	Commonwealth of Australia
"Avic Pharma"	Avic (Tieling) Pharmaceutical Co., Ltd* (新興(鐵嶺)藥業股份有限公司) (renamed as Liaoning Shinsun Pharmaceutical Co.,Ltd.* (遼寧新興藥業股份有限公司)), a subsidiary of the Company as at the end of the Reporting Period.
"Avic Xinxing"	Avic Xinxing Industry Investment Co., Ltd.* (中航新興產業投資有限公司)
"Beijing Golte"	Beijing Golte Property Management Company Limited (北京高地物業管理有限公司). Beijing Golte is a connected person of the Group under Rule 14A.07(4) of the Hong Kong Listing Rules
"Board" or "Board of Directors"	the board of Directors of the Company
"Bohao Biotech"	Shanghai Bohao Biotechnology Co., Ltd.* (上海伯豪生物技術有限公司)
"Bohao Medical "	Shanghai Bohao Medical Laboratory Co., Ltd.* (上海伯豪醫學檢驗所有限公司), a subsidiary of the Company as at the end of the Reporting Period
"Breas"	Breas Medical Holdings AB (originally named as Goldcup 14112 AB), a subsidiary of the Company
"CAPA"	Corrective Action & Preventive Action
"CG Code"	the Corporate Governance Code and the Corporate Governance Report contained in Appendix 14 to the Hong Kong Listing Rules
"cGMP"	Current Good Manufacture Practices
"Chancheng Hospital"	Foshan Chancheng Central Hospital Company Limited (佛山市禪城區中心醫院有限公司), a for-profit medical institution established with the approval of the Population, Health and Drug Administration of Chancheng District, Foshan (佛山市禪城區人口和衛生藥品監督管理局), a subsidiary of the Company
"China National Scientific"	China National Scientific Instruments and Materials Co., Ltd.* (中國科學器材有限公司)

Definitions

"Chindex Beijing"	Chindex (Beijing) International Trade Co., Ltd.* (美中互利(北京)國際貿易有限公司), a limited liability company established in the PRC, and a subsidiary of the Company
"Chongqing Pharma"	Chongqing Pharmaceutical (Group) Company Limited (重慶醫藥(集團)股份有限公司)
"CML"	Chindex Medical Limited (美中互利醫療有限公司), a subsidiary of the Company
"Company" or "Fosun Pharma"	Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (上海復星醫藥(集團)股份有限公司), a joint stock company established in the PRC with limited liability, whose H Shares and A Shares are listed and traded on the main board of the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively
"connected person(s)"	has the meaning given to it under the Hong Kong Listing Rules
"controlling shareholder(s)"	has the meaning given to it under the Hong Kong Listing Rules and in the context of our Company, means Messrs. Guo Guangchang, Wang Qunbin, Fosun International Holdings, Fosun Holdings, Fosun International and Fosun High Tech
"CQ Pharma Holdings"	Chongqing Jianfeng Chemical Co., Ltd* (重慶建峰化工股份有限公司, now renamed as C.Q. Pharmaceutical Holding Co., Ltd.* (重藥控股股份有限公司)), a joint stock company incorporated under the PRC Law with limited liability, the shares of which are listed and traded on the Shenzhen Stock Exchange (stock code: 000950)
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities market
"Deed of Non-Competition"	the deed of non-competition undertakings dated 13 October 2012 and executed by our controlling shareholders in favor of the Company (for itself and as trustee of its subsidiaries from time to time)
"Director(s)"	director(s) of our Company
"EBITDA"	earnings before interest, taxes, depreciation and amortization
"EHS"	Environment, Health and Safety
"EU"	European Union
"Federal Ministry of Health"	The Federal Ministry of Health of Germany (*Bundesministerium Für Gesundheit*)
"Financial Services Agreement"	the financial services agreement entered into between the Company and Fosun Finance dated 17 October 2016 for the provision of financial services by Fosun Finance to the Company, the term of which commenced from 1 January 2017 and will end on 31 December 2019
"Forte"	Shanghai Forte Land Company Limited* (復地(集團)股份有限公司), a subsidiary of Fosun International (a controlling shareholder of the Company). Forte is a connected person under Rule 14A.07(4) of the Hong Kong Listing Rules
"Fosun Finance"	Fosun Group Finance Corporation Limited* (上海復星高科技集團財務有限公司), a subsidiary of Fosun High Tech (a controlling shareholder of the Company). Fosun Finance is a connected person under Rule 14A.07(4) of the Hong Kong Listing Rules
"Fosun Foundation"	Shanghai Fosun Foundation

"Fosun Hani"	Fosun Hani Securities Limited, a subsidiary of Fosun International (a controlling shareholder of the Company). Fosun Hani is a connected person under Rule 14A.07 of the Hong Kong Listing Rules.
"Fosun High Tech"	Shanghai Fosun High Technology (Group) Company Limited* (上海復星高科技(集團)有限公司), a direct wholly-owned subsidiary of Fosun International and a controlling shareholder of the Company. Fosun High Tech is a connected person under Rule 14A.07(1) of the Hong Kong Listing Rules
"Fosun Holdings"	Fosun Holdings Limited* (復星控股有限公司), a direct wholly-owned subsidiary of Fosun International Holdings and a controlling shareholder of the Company
"Fosun Hospital Investment"	Shanghai Fosun Hospital Investment (Group) Co., Ltd.* (上海復星醫院投資(集團)有限公司), a subsidiary of the Company
"Fosun International"	Fosun International Limited (復星國際有限公司), an indirect subsidiary of Fosun International Holdings and the controlling shareholder of the Company
"Fosun International Holdings"	Fosun International Holdings Limited (復星國際控股有限公司), which is held as to 85.29% and 14.71% by Messrs. Guo Guangchang and Wang Qunbin, respectively, and a controlling shareholder of the Company
"Fosun Kite"	Fosun Kite Biological Technology Co., Ltd., a joint venture of the Company
"Fosun Lead"	Fosun Lead (Shanghai) Healthcare Technology Co., Ltd.* (復星領智(上海)醫藥科技有限公司), a subsidiary of the Company
"Fosun Long March"	Shanghai Fosun Long March Medical Science Co., Ltd. (上海復星長征醫學科學有限公司), a subsidiary of the Company
"Fosun Medical"	Fosun Medical Holdings AB, established in Sweden and a subsidiary of the Company
"Fosun Orinove"	Fosun Orinove Pharma Tech Inc.* (復星弘創(蘇州)醫藥科技有限公司), a subsidiary of the Company
"Fosun Pharma USA"	Fosun Pharma USA Inc., a company incorporated in Delaware, U.S. and a subsidiary of the Company
"Fosun Pharmaceutical Industrial"	Shanghai Fosun Pharmaceutical Industrial Development Company Limited (上海復星醫藥產業發展有限公司), a subsidiary of the Company
"Fosun Pingyao"	Shanghai Fosun Pingyao Investment Management Co., Ltd. (上海復星平耀投資管理有限公司), a subsidiary of the Company
"Futuo Biotech"	Shanghai Futuo Biotech Development Co., Ltd.* (上海復拓生物科技發展有限公司), a subsidiary of the Company
"GDP"	Gross Domestic Product
"Gland Pharma"	Gland Pharma Limited, a company registered in India and a subsidiary of the Company
"GMP"	Good Manufacture Practices

Definitions

"Group", "we" or "us"	the Company and its subsidiaries (or the Company and any one or more of its subsidiaries, as the context may require), or where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of the Company at the relevant time
"Guangji Hospital"	Yueyang Guangji Hospital Company Limited* (岳陽廣濟醫院有限公司), a subsidiary of the Company
"Guilin Pharma"	Guilin South Pharma Company Limited* (桂林南藥股份有限公司), a subsidiary of the Company
"H Share(s)"	overseas listed foreign share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
"H Shareholder(s)"	holder(s) of H Shares
"Haitun International"	Haitun (Shanghai) International Trading Co., Ltd.* (海囤(上海)國際貿易有限公司)
"Health Canada"	Health Canada
"Heilongjiang Wanbang"	Heilongjiang Wanbang Pharmaceutical Co., Ltd.* (黑龍江萬邦醫藥有限公司)
"Hengsheng Hospital"	Shenzhen Hengsheng Hospital* (深圳恒生醫院), a subsidiary of the Company
"HKFRS"	the Hong Kong Financial Reporting Standards
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars", "HK dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hongqi Pharma"	Shenyang Hongqi Pharmaceutical Co., Ltd.* (瀋陽紅旗製藥有限公司), a subsidiary of the Company
"Hunan Jingren"	Hunan Jingren Medical Investment Management Co., Ltd.* (湖南景仁醫療投資管理有限公司)
"independent third part(ies)"	a person or persons or a company or companies that is not or are not connected person(s) of the Company
"Intuitive Fosun"	Intuitive Surgical-Fosun Medical Technology (Shanghai) Co., Ltd.* (直觀復星醫療器械技術(上海)有限公司), an associate of the Company
"Jianyou Chengye"	Beijing Jianyou Chengye Automobile Sales Co., Ltd.* (北京建優成業汽車銷售有限公司), a subsidiary of the Company as at the end of the Reporting Period
"Jimin Hospital"	Anhui Jimin Cancer Hospital (安徽濟民腫瘤醫院), a private non-enterprise unit (民辦 非企業單位) established in the PRC, a subsidiary of the Company

"Liangfu Credit Investigation"	Liangfu Credit Investigation Management Co., Ltd. (量富征信管理有限公司), a subsidiary of Mr. Guo Guangchang, the controlling shareholder of the Company. Liangfu Credit Investigation is a connected person of the Group under Rule 14A.07 of the Hong Kong Listing Rules
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
"NAFMII"	The National Association of Financial Market Institutional Investors
"NMPA"	National Medical Products Administration of the People's Republic of China* (中華人民共和國國家藥品監督管理局), the PRC governmental authority responsible for the regulation of drugs
"Novelstar"	Novelstar Pharmaceuticals Inc., a company incorporated in Delaware, U.S. and a subsidiary of the Company
"OOS"	Out of Specification
"PCT"	Patent Cooperation Treaty
"Philippines"	The Republic of the Philippines
"Placing of H Shares"	the placement of H Shares pursuant to the placing agreement dated 18 July 2018 entered into between the Company and the placing agents
"Poland"	The Republic of Poland
"PRC" or "China"	the People's Republic of China, and "Chinese" shall be construed accordingly. References in this annual report to the PRC or China, for geographical reference only, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Company Law"	the Company Law of the PRC* (《中華人民共和國公司法》), as amended, supplemented or otherwise modified from time to time
"PRC Enterprise Income Tax Law"	the Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得稅法》), as amended, supplemented or otherwise modified from time to time
"PRC government"	central government of the PRC, including all governmental sub-divisions (including provincial, municipal and other regional or local government entities)
"PRC Securities Law"	the Securities Law of the PRC* (《中華人民共和國證券法》), as amended, supplemented or otherwise modified from time to time
"Qianda Tianjin"	Qianda (Tianjin) International Trading Co., Ltd.* (謙達(天津)國際貿易有限公司), a subsidiary of the Company
"R&D"	research and development
"Reporting Period"	the 12-month period from 1 January 2018 to 31 December 2018
"Restricted A Share(s)"	the A Shares granted under the Restricted A Share Incentive Scheme

Definitions

"Restricted A Share Incentive Scheme II"	the Restricted A Share incentive scheme II of the Company, as approved by the Shareholders on 16 November 2015
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SFC"	the Securities and Futures Commission of Hong Kong
"SFHIH"	Shanghai Fosun Health Industrial Holdings Co., Ltd.* (上海復星健康產業控股有限公司), a subsidiary of Fosun High Tech (a controlling shareholder of the Company). SFHIH is a connected person under Rule 14A.07(4) of the Hong Kong Listing Rules
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Shanghai Golte"	Shanghai Golte Assets Management Company Limited (上海高地資產經營管理有限公司), a wholly-owned subsidiary of Forte, a subsidiary of Fosun International (the controlling shareholder of the Company). Shanghai Golte is a connected person of the Group under Rule 14A.07 of the Hong Kong Listing Rules
"Shanghai Henlius"	Shanghai Henlius Biotech Company Limited (上海復宏漢霖生物技術股份有限公司), a subsidiary of the Company
"Shanghai Henlius Share Option Incentive Scheme"	the share option incentive scheme adopted by Shanghai Henlius and approved by the shareholders of Fosun International and the Company
"Shanghai Listing Rules"	the Stock Listing Rules of the Shanghai Stock Exchange (《上海證券交易所股票上市規則》)
"Shanghai Stock Exchange"	the Shanghai Stock Exchange (上海證券交易所)
"Shanghai Yunji"	Shanghai Yunji Information Co., Ltd., a company controlled by Mr. Guo Guangchang, a controlling shareholder of the Company. Shanghai Yunji is a connected person under Rule 14A.07 of the Hong Kong Listing Rules
"Shareholders"	holders of the Shares
"Shares"	ordinary shares in the capital of the Company with a nominal value of RMB1.00 each, comprising A Shares and H Shares
"Shenzhen Stock Exchange"	the Shenzhen Stock Exchange (深圳證券交易所)
"Sichuan Nuoya Medical"	Sichuan Nuoya Medical Service Science and Technology Co., Ltd.* (四川諾亞醫療科技有限責任公司)
"Sinopharm"	Sinopharm Group Co., Ltd. (國藥控股股份有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 01099)
"Sinopharm Industrial"	Sinopharm Industrial Investment Co., Ltd. (國藥產業投資有限公司)
"Sinopharm Medical Investment"	Sinopharm Holding Medical Investment Management Co., Ltd.
"Sisram Medical"	Sisram Medical Ltd. (復銳醫療科技有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 01696), a subsidiary of the Company
"substantial shareholder(s)"	has the meaning given to it under the Hong Kong Listing Rules

"Supervisors"	the members of the Supervisory Committee
"Supervisory Committee"	the supervisory committee of the Company
"Taizhou Zhedong Hospital"	Taizhou Zhedong Hospital Company Limited* (台州浙東醫院有限公司), a subsidiary of the Company
"Tiancheng Pharma"	Hangzhou Tiancheng Pharmaceutical Co., Ltd* (杭州天誠藥業有限公司)
"Tongshu Biological"	Changzhou Tongshu Biological Technology Co., Ltd.* (常州桐樹生物科技有限公司)
"U.K."	United Kingdom of Great Britain and Northern Ireland
"U.S." or "United States"	United States of America, its territories and possessions, any State of the United States and the District of Columbia
"U.S. FDA"	U.S. Food and Drug Administration
"Ukraine"	Ukraine
"US dollars", "USD" or "US$"	United States dollars, the lawful currency of the United States
"Wanbang Cloud Health"	Jiangsu Wanbang Cloud Health Technology Co., Ltd.* (江蘇萬邦雲健康科技有限公司), a subsidiary of the Company
"Wanbang Pharma"	Jiangsu Wanbang Biopharmaceutical Company Limited* (江蘇萬邦生化醫藥集團有限責任公司), a subsidiary of the Company
"Wanbang Tiancheng"	Hangzhou Wanbang Tiancheng Pharmaceutical Co., Ltd.* (杭州萬邦天誠藥業有限公司)
"Wenzhou Geriatric Hospital"	Wenzhou Geriatric Hospital Limited Company* (溫州老年病醫院有限公司), a subsidiary of the Company
"WHO"	World Health Organization
"Written Code"	Written Code for Securities Transactions by Directors/Relevant Employees of the Company* (《董事/有關僱員進行證券交易的書面指引》)
"Wuhan Jihe Hospital"	Wuhan Jihe Hospital Co., Ltd.* (武漢濟和醫院有限公司), a subsidiary of the Company as at the end of the Reporting Period
"Yao Pharma"	Chongqing Yao Pharmaceutical Company Limited* (重慶藥友製藥有限責任公司), a subsidiary of the Company
"Zhengda Real Estate"	Shanghai Zhengda Bund International Finance Services Centre Real Estate Company Limited* (上海證大外灘國際金融服務中心置業有限公司), 50% of the equity interests of Zhengda Real Estate is indirectly owned by Fosun International (the controlling shareholder of the Company). Zhengda Real Estate is a connected person of the Group under Rule 14A.07 of the Hong Kong Listing Rules
"Zhongwu Hospital"	Suqian Zhongwu Hospital Co., Ltd.* (宿遷市鐘吾醫院有限責任公司), a subsidiary of the Company
"Zhuhai Chancheng"	Zhuhai Chancheng Hospital Limited (珠海禪誠醫院有限公司) (formerly known as Zhuhai Yannian Hospital Company Limited (珠海延年醫院有限公司), a subsidiary of the Company

Definitions

"Zhuorui Outpatient"	Shanghai Zhuorui Integrated Outpatient Limited Company (上海卓瑞綜合門診部有限公司), a subsidiary of the Company
"€"	EURO, the lawful currency of the European Union
"%"	per cent

In this annual report, if there is any inconsistency between the Chinese names of the entities, authorities, organizations, institutions or enterprises established in China or the awards or certificates given in China and their English translations, the Chinese version shall prevail.

FOSUN PHARMA

Innovation for Good Health

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