



上海医药
SHANGHAI PHARMA

Shanghai Pharmaceuticals Holding Co., Ltd.*

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

(Stock Code of H Share: 02607) (Stock Code of A Share: 601607)

2015 ANNUAL REPORT

Innovation



Integrity



Cooperation

Inclusiveness



Responsibility

* For identification purpose only



Important Notice

- (I) The board of directors and the board of supervisors of the Company and the directors, supervisors and senior management warrant that this annual report is true, accurate and complete and contains no false information, misleading statement or material omission and assume joint and several responsibilities therefor.
- (II) All directors of the Company attended the meeting of the board of directors aimed at approving the 2015 annual report and convened on 18 March 2016.
- (III) PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers issued standard unqualified auditor's reports for the financial reports prepared by the Group based on the Chinese Accounting Standards for Business Enterprises and Hong Kong Financial Reporting Standards respectively.
- (IV) Mr. Lou Dingbo, the person in charge of the Company, Mr. Cho Man, the principal in charge of accounting and Mr. Shen Bo, Head of the Accounting Department (Chief Financial Officer), hereby declare that they warrant the truthfulness, accuracy and completeness of the financial statements contained in this annual report.
- (V) The plan for profit distribution or conversion of capital reserve fund into share capital for the Reporting Period considered by the board of directors: Shanghai Pharmaceuticals intends to distribute to all shareholders a cash dividend of RMB3.30 (tax inclusive) for every 10 Shares on the basis of the total share capital of 2,688,910,538 Shares as at the end of 2015, which is subject to the approval by the annual general meeting of the Company for 2015.
- (VI) Risk statements regarding the forward-looking statements: the forward-looking statements, such as future plans and development strategy, contained in this annual report do not constitute any substantive commitment by the Company to the investors. Investors are advised to be aware of the investment risks involved.
- (VII) Is there any appropriation of funds by the controlling shareholders and their connected parties that is unrelated to operation? No
- (VIII) Is there any instance of providing external guarantee that is in breach of the established decision making procedure? No
- (IX) Significant Risks: During the reporting period, there is no significant risks that have substantive significant effect on manufacture and management of the company. The company has already explains all the risks and corresponding measures that the company might face in the manufacture and management. Please refer to the potential risk factors set out in the Report of the Board of Directors, Chapter 4 of this annual report.



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Definitions

I. DEFINITIONS

In this annual report, unless the context otherwise requires, the following terms shall have the following meanings:

Definitions of Common Terms

| | |
|--|---|
| “the Group”, “Group”, “the Company”, “Company” or “Shanghai Pharmaceuticals” | Shanghai Pharmaceuticals Holding Co., Ltd. (上海醫藥集團股份有限公司), a joint stock company incorporated in the PRC with limited liability (shares of which are listed on the Shanghai Stock Exchange with stock code 601607.SH, and on the Main Board of the Hong Kong Stock Exchange with stock code 02607) or Shanghai Pharmaceuticals Holding Co., Ltd. and its subsidiaries, where applicable |
| “Articles of Association” or “Articles” | the articles of association of Shanghai Pharmaceuticals (as amended from time to time) |
| “Reporting Period” | the 12-month period from 1 January 2015 to 31 December 2015 |
| “YOY” | year-on-year |
| “Shares” | shares of Shanghai Pharmaceuticals with a nominal value of RMB1.00 each, comprising both A Shares and H Shares |
| “A Shares” | domestic shares of the Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB |
| “H Shares” | overseas shares 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 |
| “RMB” or “Renminbi” | Renminbi, the lawful currency of the PRC |
| “HK\$” or “HK dollars” or “Hong Kong dollars” | Hong Kong dollars, the lawful currency of Hong Kong |
| “PRC” or “China” | the People’s Republic of China; unless the context otherwise requires, references to the PRC or China herein do not include Hong Kong, Macau or Taiwan |
| “Hong Kong” or “HK” | the Hong Kong Special Administrative Region of the PRC |

Definitions

| | |
|-----------------------------------|---|
| “Hong Kong Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Hong Kong Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time) |
| “Model Code” | the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Hong Kong Listing Rules (as amended, supplemented or otherwise modified from time to time) |
| “Corporate Governance Code” | the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules (as amended, supplemented or otherwise modified from time to time) |
| “SFO” | the Securities and Futures Ordinance, Chapter 571, Laws of Hong Kong (as amended) from time to time |
| “Controlling Shareholders” | unless otherwise stated, has the meaning ascribed to it under the Hong Kong Listing Rules, including SIIC, Shanghai Shangshi and Shanghai Pharmaceutical (Group) |
| “WHO” | World Health Organization |
| “CSRC” | China Securities Regulatory Commission (中國證券監督管理委員會) |
| “FDA” | Food and Drug Administration |
| “CFDA” | China Food and Drug Administration |
| “NDRC” | National Development and Reform Commission |
| “Shanghai SASAC” | Shanghai State-owned Assets Supervision and Administration Commission (上海市國有資產監督管理委員會) |
| “SIIC” | Shanghai Industrial Investment (Holdings) Co., Ltd. (上海實業(集團)有限公司) |
| “Shanghai Shangshi” | Shanghai Shangshi (Group) Co., Ltd. (上海上實(集團)有限公司) |
| “Shanghai Pharmaceutical (Group)” | Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司) |

Definitions

| | |
|------------------------|--|
| “Shanghai Guosheng” | Shanghai Guosheng Group Co., Ltd. (上海國盛(集團)有限公司) |
| “Shanghai Shengrui” | Shanghai Shengrui Investment Co., Ltd. (上海盛睿投資有限公司) |
| “Shenergy Group” | Shenergy (Group) Co., Ltd. (申能(集團)有限公司) |
| “HISUN” | Zhejiang Hisun Pharmaceutical Co., Ltd. |
| “HPGC” | Harbin Pharmaceutical Group Co., Ltd. |
| “Fosun Pharma” | Shanghai Fosun Pharmaceutical (Group) Co., Ltd. |
| “NCPC” | North China Pharmaceutical Company Ltd. |
| “GYBYS” | Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited |
| “Hengrui Medicine” | Jiangsu Hengrui Medicine Co., Ltd. |
| “CR Sanjiu” | China Resources Sanjiu Medical & Pharmaceutical Co., Ltd. |
| “Livzon Group” | Livzon Pharmaceutical Group Inc. |
| “Humanwell Healthcare” | Humanwell Healthcare Group Co., Ltd. |
| “SPHC” | Shanghai Pharma Health Commerce Co., Ltd. |
| “SPD” | Supply Processing Distribution |
| “5S” | SEIRI, SEITON, SEISOU, SEIKETSU, SHITSUKE |
| “DTP” | Direct To Patient |
| “MES” | Manufacturing Execution System |
| “GMP” | Good Manufacturing Practice |
| “GSP” | Good Supply Practice |

Basic Corporate Information and Major Financial Indication

I. CORPORATE INFORMATION

| | |
|---|--|
| Name of the Company in Chinese | 上海醫藥集團股份有限公司 |
| Chinese abbreviation of the name of the Company | 上海醫藥 |
| Name of the Company in English | Shanghai Pharmaceuticals Holding Co., Ltd. |
| English abbreviation of the name of the Company | Shanghai Pharma |
| Legal representative of the Company | Mr. Lou Dingbo |
| Authorised representatives of the Company | Mr. Lou Dingbo, Mr. Hu Fengxiang |

II. CONTACT PERSON AND CONTACT DETAILS

| | Secretary of the board of directors, Joint Company Secretary | Securities Affairs Representative |
|-----------------|--|--|
| Name | Shen Bo | Dong Linqiong |
| Contact address | Shanghai Pharmaceutical Building, No. 200 Taicang Road, Shanghai | Shanghai Pharmaceutical Building, No. 200 Taicang Road, Shanghai |
| Telephone | +8621-63730908 | +8621-63730908 |
| Facsimile | +8621-63289333 | +8621-63289333 |
| E-mail | pharm@sphchina.com | pharm@sphchina.com |

Basic Corporate Information and Major Financial Indication

III. BASIC INFORMATION

| | |
|---|---|
| Registration number of the business license of the enterprise | 310000000026221 |
| Tax registration number | Hu 31011513358488x |
| Organization code | 13358488-X |
| Registered address of the Company | No. 92 Zhangjiang Road, Pilot Free Trade Zone, China (Shanghai) |
| Postal code of the registered address of the Company | 201203 |
| Office address of the Company | Shanghai Pharmaceutical Building, No. 200 Taicang Road, Shanghai |
| Postal code of the office address of the Company | 200020 |
| Principal place of business in Hong Kong | 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong |
| Website of the Company | http://www.sphchina.com |
| E-mail | pharm@sphchina.com |
| A Share Registrar | China Securities Depository and Clearing Corporation Limited, Shanghai Branch 36/F, China Insurance Building, No. 166 Lujiazui East Road, Pudong New Area, Shanghai, the PRC |
| H Share Registrar | Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong |

IV. INFORMATION DISCLOSURE AND PLACE WHERE INFORMATION IS AVAILABLE FOR INSPECTION

| | |
|---|---|
| Newspapers designated by the Company for disclosure of information (A Shares) | Shanghai Securities News, Securities Times |
| Designated website for publishing announcements about A Shares (including annual reports) | http://www.sse.com.cn |
| Designated website for publishing announcements about H Shares (including annual reports) | http://www.hkexnews.hk |
| Place where the Company's annual report is available for inspection | Office of the board of directors |

Basic Corporate Information and Major Financial Indication

V. STOCK INFORMATION OF THE COMPANY

| Stock Information of the Company | | | | |
|----------------------------------|---|--------------------|------------|-----------------------------------|
| Type of stock | Stock exchange on which shares are listed | Stock abbreviation | Stock code | Prior to the change of stock code |
| A Shares | Shanghai Stock Exchange | 上海醫藥 | 601607 | 600849 |
| H Shares | Hong Kong Stock Exchange | SH PHARMA | 02607 | Not applicable |

VI. OTHER RELEVANT INFORMATION

| | | |
|---|----------------------------|---|
| Name of accounting firm engaged by the Company (domestic) | Name | PricewaterhouseCoopers Zhong Tian LLP |
| | Office address | 11/F, PricewaterhouseCoopers Center, No. 202 Hu Bin Road, Shanghai, the PRC |
| | Name of signing accountant | Ke Zhenhong Liu Wei |
| Accounting firm engaged by the Company (overseas) | Name | PricewaterhouseCoopers, Certified Public Accountants |
| | Office address | 22nd Floor, Prince's Building, Central, Hong Kong |
| | Name of signing accountant | Not applicable |

Basic Corporate Information and Major Financial Indication

VII. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY FOR THE RECENT THREE YEARS UP TO THE END OF THE REPORTING PERIOD PREPARED UNDER THE CHINESE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

(I) Major Accounting Data

Unit: RMB

| Major accounting data | 2015 | 2014 | Change compared to the corresponding period last year (%) | 2013 |
|---|---------------------------|-------------------|---|-------------------|
| Operating revenue | 105,516,587,303.26 | 92,398,893,626.70 | 14.20 | 78,222,817,357.35 |
| Net profit attributable to equity holders of listed Company | 2,876,989,142.22 | 2,591,129,073.77 | 11.03 | 2,213,577,876.66 |
| Net profit after deduction of non-recurring profit or loss attributable to equity holders of listed Company | 2,530,373,020.75 | 2,161,174,797.86 | 17.08 | 2,067,125,810.03 |
| Net cash flows from operating activities | 1,349,162,853.33 | 1,335,674,135.37 | 1.01 | 973,449,693.95 |

| | End of 2015 | End of 2014 | Change compared to the end of the corresponding period last year (%) | End of 2013 |
|---|--------------------------|-------------------|--|-------------------|
| Net assets attributable to equity holders of listed Company | 29,930,309,583.79 | 27,822,129,424.69 | 7.58 | 25,953,812,431.68 |
| Total assets | 74,344,210,482.59 | 64,340,558,156.78 | 15.55 | 56,311,521,570.36 |
| Total share capital | 2,688,910,538.00 | 2,688,910,538.00 | 0 | 2,688,910,538.00 |

Basic Corporate Information and Major Financial Indication

(II) Major Financial Indicators

| Major financial indicators | 2015 | 2014 | Change compared to the corresponding period last year (%) | 2013 |
|---|---------------|--------|---|--------|
| Basic earnings per share (RMB per share) | 1.0699 | 0.9636 | 11.03 | 0.8232 |
| Diluted earnings per share (RMB per share) | 1.0699 | 0.9636 | 11.03 | 0.8232 |
| Basic earnings per share after deduction of non-recurring profit or loss (RMB per share) | 0.9410 | 0.8037 | 17.08 | 0.7688 |
| Weighted average return on net assets (%) | 9.98 | 9.67 | increase of 0.31 percentage point | 8.75 |
| Weighted average return on net assets after deduction of non-recurring profit or loss (%) | 8.77 | 8.07 | decrease of 0.7 percentage point | 8.17 |

Description of the major accounting data and financial indicators of the Company for the recent three years up to the Reporting Period

None

VIII. MAJOR DATA ON RESULTS, ASSETS AND LIABILITIES OF THE COMPANY FOR THE PAST FIVE FINANCIAL YEARS PREPARED UNDER THE HONG KONG FINANCIAL REPORTING STANDARDS

(I) Results

Unit: RMB'000

| | For the year ended 31 December | | | | |
|-------------------------------|--------------------------------|------------|------------|------------|--------------------|
| | 2011 | 2012 | 2013 | 2014 | 2015 |
| Revenue | 54,899,873 | 68,078,118 | 78,222,817 | 92,398,894 | 105,516,587 |
| Profit before income tax | 3,035,102 | 3,087,727 | 3,225,640 | 3,799,734 | 4,171,854 |
| Income tax expenses | (589,072) | (627,139) | (628,368) | (807,717) | (807,486) |
| Profit for the year | 2,446,030 | 2,460,588 | 2,597,272 | 2,992,017 | 3,364,368 |
| Attributable to: | | | | | |
| Equity holders of the Company | 2,042,239 | 2,052,872 | 2,213,579 | 2,591,131 | 2,876,989 |
| Non-controlling interest | 403,791 | 407,716 | 383,693 | 400,886 | 487,379 |

Basic Corporate Information and Major Financial Indication

(II) Assets and Liabilities

Unit: RMB'000

| | For the year ended 31 December | | | | |
|---------------------------|--------------------------------|------------|------------|------------|-------------------|
| | 2011 | 2012 | 2013 | 2014 | 2015 |
| Total assets | 47,667,824 | 51,069,038 | 56,311,522 | 64,340,559 | 74,344,211 |
| Total liabilities | 21,686,359 | 23,368,164 | 27,310,542 | 33,241,407 | 40,536,171 |
| Total equity | 25,981,465 | 27,700,874 | 29,000,980 | 31,099,152 | 33,808,040 |
| Attributable to: | | | | | |
| Owners of the Company | 23,078,471 | 24,639,299 | 25,953,813 | 27,822,133 | 29,930,314 |
| Non-controlling interests | 2,902,994 | 3,061,575 | 3,047,167 | 3,277,019 | 3,877,726 |

Note: The financial information for 2011 and 2012 is extracted from the financial statements prepared under the Hong Kong Financial Reporting Standards. The financial information for 2013 and 2014 is extracted from the financial statements of 2014 prepared under the Hong Kong Financial Reporting Standards. The financial information for 2015 is extracted from the financial statements of 2015 prepared under the Hong Kong Financial Reporting Standards.

IX. DISCREPANCIES IN ACCOUNTING DATA UNDER THE CHINESE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES AND HONG KONG FINANCIAL REPORTING STANDARDS

- (I) Substantial discrepancies in the consolidated net profit and consolidated net assets attributed to shareholders of listing corporation disclosed in the financial reports prepared under both the International Financial Reporting Standards and the Chinese Accounting Standards for Business Enterprises:

Applicable Not applicable

- (II) Substantial discrepancies in the consolidated net profit and consolidated net assets attributed to shareholders of listing corporation disclosed in the financial reports prepared under both the Foreign Financial Reporting Standards and the Chinese Accounting Standards for Business Enterprises:

Applicable Not applicable

Basic Corporate Information and Major Financial Indication

(III) Note on discrepancies under the Chinese Accounting Standards for Business Enterprises and Hong Kong Financial Reporting Standards:

There are no substantial discrepancies in the consolidated net profit and consolidated net assets disclosed in the financial reports prepared under both the Hong Kong Financial Reporting Standards and the Chinese Accounting Standards for Business Enterprises. Unless otherwise stated, the financial data and analysis presented in this annual report are extracted from the audited financial report of the Company prepared under the Chinese Accounting Standards for Business Enterprises.

X. THE MAIN FINANCIAL DATA OF 2015 PREPARED IN ACCORDANCE WITH THE ACCOUNTING STANDARDS OF CHINESE ENTERPRISES

Unit: RMB

| | The first quarter (January to March) | The second quarter (April to June) | The third quarter (July to September) | The fourth quarter (October to December) |
|---|---|---------------------------------------|--|---|
| Operating revenue | 25,125,001,197.57 | 25,825,075,217.61 | 28,090,262,686.33 | 26,476,248,201.75 |
| Net profit attributable to equity holders of listed Company | 733,274,465.80 | 800,746,157.30 | 644,802,072.38 | 698,166,446.74 |
| Net profit after deduction of non-recurring profit or loss attributable to equity holders of listed Company | 708,141,994.21 | 747,406,422.80 | 598,777,029.24 | 476,047,574.50 |
| Net cash flows from operating activities | -142,084,298.04 | 624,567,239.92 | 187,714,638.79 | 678,965,272.66 |

The difference between the quarterly data and the data from the disclosed annual report

Applicable Not applicable

Basic Corporate Information and Major Financial Indication

XI. NON-RECURRING PROFIT OR LOSS ITEMS AND AMOUNT PREPARED UNDER THE CHINESE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

✓ Applicable □ Not applicable

Unit: RMB

| Non-recurring Profit and Loss Item | Amount in 2015 | Amount in 2014 | Amount in 2013 |
|--|------------------------|-----------------|----------------|
| Profit or loss on disposal of non-current assets | 294,525,445.84 | 273,191,524.20 | 62,773,676.93 |
| Government grants recognised in profit or loss for the current period excluding those closely related to the Group's normal operations and granted on an ongoing basis under the national policies according to certain fixed quota of amount or volume | 177,273,697.29 | 159,516,888.70 | 145,389,308.56 |
| Profit or loss on debt restructuring | | | 29,087,237.27 |
| Except for the effective hedging activities related to the Group's ordinary activities, profit or loss arising from changes in fair value of financial assets and financial liabilities held for trading, and investment income from disposal of financial assets and liabilities held for trading and available-for-sale financial assets | 14,225,933.01 | 4,596,184.54 | 682,554.69 |
| Reversal of provisions on receivables assessed for impairment on an individual basis | 3,840,000.00 | 2,837,764.88 | 4,144,095.43 |
| Other non-operating income and expenses other than the aforesaid items | 8,159,758.28 | 108,289,581.22 | -40,960,037.18 |
| Other profit or loss items that meet the definition of non-recurring profit or loss | | 106,302,930.99 | 2,229,142.25 |
| Effect on minority interests | -38,980,403.50 | -23,180,850.99 | -17,361,218.01 |
| Effect on income tax | -112,428,309.45 | -201,599,747.63 | -39,532,693.31 |
| Total | 346,616,121.47 | 429,954,275.91 | 146,452,066.63 |

XII. ITEMS MEASURED AT FAIR VALUE UNDER THE CHINESE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

Unit: RMB

| Item | Balance at the beginning of period | Balance at the end of period | Change during the period | Effect on the profit for the period |
|--|------------------------------------|------------------------------|--------------------------|-------------------------------------|
| Financial assets at fair value with changes recognised through profit or loss for the period | 505,659.00 | 820,234.80 | 314,575.80 | 314,575.80 |
| Available-for-sale financial assets | 105,118,878.95 | 222,181,503.55 | 117,062,624.60 | |
| Total | 105,624,537.95 | 223,001,738.35 | 117,377,200.40 | 314,575.80 |

An Overview of Company Businesses

I. INTRODUCTION OF THE MAIN BUSINESSES, OPERATION MODEL AND INDUSTRY SITUATION FOR THE REPORTING PERIOD

1. Industry Development Stage, Cyclicity and Industry Status of the Company

Driven by the growing demand for healthcare and policy support, the pharmaceutical industry has experienced sustained and rapid growth for the past decade or so. However, due to the slowing down of economy and deepened reform of the healthcare system, the industry increased stably with lower speed.

Industry cyclicity is not obvious in the long term. Due to the impact of an accelerated aging population, increased consumption, further deepening of the healthcare reform and adoption of new and emerging technologies, the pharmaceutical industry will continue to enjoy sustained and steady growth in the next 5 to 10 years.

With continued expansion in businesses and growth in size, the company's position has been constantly improved over the past few years.

- It ranked no. 1058 of the 2015 Global 2000 published by Forbes (China);
- It ranked no. 61 of the 2015 Chinese 500, and No. 3 of the 2015 Most Admired Chinese Pharmaceutical Companies, both published by Fortune (China);
- It ranked 153rd among top 500 enterprises of China and 65th among top 500 Chinese manufacturing enterprises, released by the China Enterprise Confederation and the Chinese Entrepreneurs Association in 2015;
- It ranked 18th among top 100 enterprises of Shanghai and 8th among top 50 Shanghai manufacturing enterprises, released by the Shanghai Enterprise Confederation, the Shanghai Entrepreneurs Association and Shanghai Economic Association in 2015;
- It ranked 3rd among top 10 China Pharmaceutical Industry Enterprise Group, the 1st among top 100 Chinese chemical pharmaceutical industries, the 1st among Chinese chemical pharmaceutical industry preparation export type excellent enterprise brands and the 6th among China chemical pharmaceutical industry raw materials export outstanding enterprises brands, released by China Pharmaceutical Industry Association, China Pharmaceutical Business Association, China non-prescription medicine association and China Pharmaceutical Enterprise Development Promotion Association in 2015;
- It ranked 2nd among top 100 China Pharmaceutical Industry and the 1st among top 20 the most brand competitiveness of pharmaceutical companies, released at CFDA Southern Medicine Economic Research Institute and the Medical and Economic News in 2014;
- It was assessed as one of the top ten pharmaceutical (internet plus) innovative enterprises by National Engineering Laboratory for E-commerce Technologies, China pharmaceutical e-commerce integrity Alliance, the pharmaceutical electricity suppliers and Modern logistics working committee China pharmaceutical Enterprise Management Association in 2015;

- It was assessed as one of the top 10 of China's most investment value pharmaceutical listing corporations and the most popular pharmaceutical listing corporations by China Pharmaceutical Enterprise Management Association and E medicine manager in 2015.

2. Industry Policies

1. *Policies on Healthcare Regulation, Healthcare Reform and Healthcare Institutions' Reform*

During the Reporting Period, the government issued some health care reform policies, such as Opinions on the Implementation of Comprehensive Reform of Public Hospitals at County Level, Guidance on the Comprehensive Reform of Urban Public Hospitals, Some Policies and Measures on Promoting the Development of Social Medical Service, Guiding Opinions on Promoting the Construction of Grading Diagnosis and Treatment System and Several Opinions on Controlling the Unreasonable Growth of Medical Expenses in Public Hospitals, which put forward the reform suggestions hospital system, operating mechanism, medical insurance payment, personnel salary, grading diagnosis and treatment and so on. To get rid of medicine dependent doctors and public hospitals by the mechanism for the profit, the document further relaxed the social medical to initially improve the classification of treatment policy system and basically forming the mechanism of division of labor and cooperation in medical and health institutions in 2017. In August 2015, Notice on the Issuance of Guidelines for the Clinical Application of Antimicrobial Agents (2015 Edition) and Notice on Further Strengthening the Management of Clinical Application of Antibacterial Medicines were issued to advocate the rational use of antibiotics. In December 2015, Chinese Medicine Law (Draft) was released to encourage and guide the development of traditional Chinese medicine by the society.

The health care reform policies above have put forward specific opinions on establishing an efficient government to do medical system, improving the classification of medical service system, get rid of medicine treatment, rationalizing the price of medical services, reducing the cost of medicines and high value medical supplies, strengthening the supervision of medicine distribution and medicine procurement process and so on. Under the situation on the slowdown in the pharmaceutical industry, expected medicine end consumer market structure will be more diverse and the proportion of total consumption of medicines in urban public hospitals will be gradually reduced. The Company will actively expand the primary pharmaceutical market, optimize the product structure and accelerate the development of hospital pharmacy, hospital pharmacy, SPD and other innovative business. At the same time, the Company will grasp the opportunities for development of traditional Chinese medicine, adhere to the quality first and strengthen the traceability of quality of Chinese herbal medicines to highlight the industry chain advantages of the Company from the source of Chinese herbal medicines to Chinese medicine service.

An Overview of Company Businesses

2. *Policies on Drug's Research and Development ("R&D"), Registration and Production*

During the reported period, reform on drug evaluation has been further strengthened. "Opinions of the State Council on Reforming the Evaluation and Approval System for Drugs and Medical Devices" and "Opinions on Quality and Efficacy Consistency Evaluation for Generic Drugs" have raised the evaluation and approval standard for new drugs and pushed forward the work of quality consistency evaluation for generic drugs. Announcement on Soliciting Policy Opinions Regarding Policies to Expedite the Reduction of Drug Registration Application Backlog and Announcement of the CFDA on Self-inspection of Drug Clinical Trial Data have helped solve part of the registration application backlog issues. A pilot of Marketing Authorization Holder system has been undertaken to allow drug research institutions and researchers to get the drug approval number and be accountable for drug quality.

These policies have a deep impact on the whole pharmaceutical industry and will facilitate a gradual transformation from focusing on generics' ranking to paying more attention to quality. These policies will guide resources to move towards large-size groups like Shanghai Pharma who attaches great importance to standardized management. As an industry flagship company with nationwide integrated supply chain, Shanghai Pharma will have good development opportunities. The Company will carry out development and research, registration and production strictly in accordance with rules.

3. *Policies on Drug Bidding & Procurement, and Online Sales*

Centralized Procurement of Drugs: The State Council has published the Guiding Opinions on Improving Centralized Procurement of Drugs in Public Hospitals. Key terms are category-based procurement, category-based bidding, hierarchical management, quantity-price link and price negotiation.

Drug Price: According to the Notice on Opinions of Deepening Drug Price Reform issued by the National Development and Reform Commission, the government no longer determines the price of drugs other than anesthesia and Class 1 psychotropic drugs. Price ceiling is cancelled. Following the principle of category management, price is formed by the market via different ways.

Internet Plus: The State Council has issued the Guiding Opinions on Actively Developing Internet Plus, to further encourage the use of Internet in the healthcare industry.

Based on these policies, Shanghai Pharma will conduct an in-depth analysis on the competition landscape so as to tap out product potential. It will follow the changes in the bidding policies to work out specific strategies for key products in order to improve the bidding success rate. It will strengthen the marketing system development, enhance management of the terminal, and improve product sales. It will also follow the action plans for Internet Plus to continue its exploration of Internet Plus Healthcare.

4. *Policies on Environmental Protection, Drug Quality and Safety and Product Liability*

In 2015, the government is strengthening efforts on environmental protection with the implementation of the new Environmental Protection Law, Action Plan on Water Pollution Prevention and Control and the new Law on Air Pollution Prevention and Treatment as well as improved supporting measures such as total discharged amount control and pollution rights trading. There will be more stringent environmental protection supervision to pharmaceutical companies. Companies that are not up to the environmental standard will increasingly be phased out so as to facilitate industrial upgrading.

In view of the above policies, Shanghai pharmaceuticals will actively implement environmental protection policies, gradually adjust its portfolio, conduct energy-saving, emission reduction and pollution prevention and control initiatives to help facilitate industrial upgrading.

In 2015, the China Food and Drug Administration (“CFDA”) successively introduced a number of medicine regulatory laws and regulations, including Notice on Further Strengthening the Supervision of the Quality of Chinese Herbal Medicine Market, Notice on the Development of Special Treatment of Ginkgo Biloba Medicines, Notice on Strengthening Quality Control of Biochemical Medicines, Measures for the Flight Inspection of Drugs and Medical Equipment, and Chinese Pharmacopoeia 2015 Edition to increase the intensity of medicine regulation.

According to the national regulatory requirements, the Company not only further improved the quality management system but also strengthened the quality of the audit, troubleshoot problems, eliminated hidden dangers, conducted normal management to ensure the quality and safety of medicines based on problems by focusing on traditional Chinese medicine pills, traditional Chinese medicine extract, multiple biochemical medicine extraction, pre-treatment, commissioned production, etc.

5. *Policies on Reimbursement Expense Control and Payment*

Reasonable Drug Use: the Guiding Opinions of the State Council on Urban Public Hospitals Reform Pilots promulgated by the State Council and the Opinions of the National Health and Family Planning Commission on Controlling the Unreasonable Growth of Health Expense of Public Hospitals issued by National Health and Family Planning Commission have specified a clear performance evaluation objective about drug percentage in the total expense, to encourage reasonable use of drugs.

Full Implementation of Critical Illness Insurance for Urban and Rural Residents: the State Council has published the Opinions on Full Implementation of Critical Illness Insurance for Urban Residents, and made it clear that by the end of 2015 critical illness insurance should cover all those who have participated in the urban residents’ basic medical insurance and new rural cooperative medical insurance. Commercial insurance companies are invited to provide the critical illness insurance so as to benefit more patients.

An Overview of Company Businesses

Full Liberalization of Medical Insurance Evaluation and Approval: the Ministry of Human Resources and Social Security has published the Guiding Opinions on Improving Management of Healthcare Institutions Designated for Basic Medical Insurance. The abolishment of examining the qualification of healthcare institutions designated for basic medical insurance and of pharmacies designated for basic medical insurance has effectively encouraged competition and is conducive to letting the market play a major role in resource allocation.

Shanghai Pharmaceuticals will follow closely on the changes of the market demand to actively adjust its marketing strategy to seize development opportunities.

6. *Policies and Regulations on Drug Import and Export*

During the Reporting Period, Shanghai Inspection and Quarantine Bureau issued the "Positive List of Exempting from Verification of Animal and Plant Quarantine Certificate of Exporting Country or Region and the Some Opinions on Supporting Shanghai Pharmaceutical Industry Development by Shanghai CIQ (hereinafter referred to as "Ten Articles of National Inspection"). The newly issued positive list greatly accelerated the clearance of biological materials, and on the basis of the positive list, "Ten Articles of National Inspection" further relaxed the restrictions on the entry and exit of biological materials and abolished the policy bottlenecks. Meanwhile, on the basis of approving the negative lists in FTA, Shanghai Inspection and Quarantine Bureau comprehensively promoted the administrative parallel examination and approval system; thus realized the completion of multiple approvals in one application, and significantly improved the approval efficiency.

The main tone of the above policies is decentralization, and these facilitation measures will benefit thousands of biomedical companies and research institutions in Shanghai. By relying on the Shanghai Free Trade Test Area, the Company will attach great importance to the top-level strategic planning and scientific and rational design of the international medical tourism service trade area, so as to carry out the cooperation with pharmaceutical companies and financial institutions with international competitive advantages; thus marching deeply into the high-end medical services market.

3. Main Businesses, Operation Model and Products of the Company

Headquartered in Shanghai, Shanghai Pharmaceuticals is the first Chinese pharmaceutical group to have a dual-listing in Shanghai and Hong Kong stock exchanges, with main businesses covering R&D, manufacturing, distribution and retail. Shanghai Pharmaceuticals adopts monitoring model mainly by strategic supervision and with complementary of operation monitor to manage its sub-institutes and subsidiaries.

Shanghai Pharmaceuticals attaches great importance to research and development for both generic and original drugs, with a vision of providing safe and effective drugs for patients with critical illness and chronic diseases. Shanghai Pharmaceuticals is focused on five therapeutic areas of digestive and metabolic systems, cerebral and cardio vascular diseases, anti- infection, neuro-psycho diseases and oncology. It has also entered into the area of therapeutic anti-body research and development. The Company has put in place a multi-layer R&D system centering on a Central Research Institute and has owned 267 patents.

An Overview of Company Businesses

Drug manufacturing is one of the core businesses of Shanghai Pharmaceuticals. It has manufacturing bases in 8 provinces, including a specialist API base, a modern TCM (Traditional Chinese Medicine) base and a fine chemical reagent factory. Shanghai Pharmaceuticals manufactures more than 800 drugs with more than 20 dosage forms. 300 products are included in the Low-price Drug List made by the National Development and Reform Commission. 24 products have sales of over 100 million. Subordinate manufactories of Shanghai Pharmaceuticals will produce products strictly in accordance with the new state GMP standards. It adopts a marketing model combining direct sale and distributor sale, with its distribution network covering the nationwide hospitals and retail terminals.

The Company's distribution business ranks the 3rd position in size, with a nationwide coverage but centered around three most-developed regions of East, North and South of China. It distributes a variety of products, covers more than 20,000 healthcare institutions, and provides pharmaceutical companies, home and abroad, with supply chain solutions such as modern logistics delivery, information support and terminal retail distribution. The distribution enterprises of the Company are engaged in medicine distribution business strictly in accordance with the requirements of the national GSP specifications to provide the distribution services and other value-added services for products of pharmaceutical manufacturers delivered to hospital terminals, retail outlets and the third terminal all over the country through its own logistics, third party logistics and other channels and benefit from the price difference between the purchase price and selling price.

The retail business of Shanghai Pharmaceuticals has 1800 chained pharmacies in 16 provinces with Huashi being one of the retailers with the largest number of pharmacies in East China. The retail enterprises of the Company are engaged in medicine retail business strictly in accordance with the requirements of the national GSP specifications to sell drugs to end consumers through pharmaceutical retail chain drug stores, operating drug stores with medical institutions and DTP pharmacy and benefit from the price difference between the purchase price and selling price.

4. Business Performance Driving Factors

Product Strategy: Shanghai Pharmaceuticals has focused on its strategic products and key therapeutic areas. It has specific strategy for each strategic product in order to tap out more potential. It continues to optimize its industrial marketing system and puts in place a coordinated plan for marketing, production and R&D so as to guarantee the good execution of product strategies. At the same time, the Company seized the opportunity of enhanced low-price drug business expansion to achieve sales growth.

Network Development: Shanghai Pharmaceuticals is devoted to a nationwide business network development with accelerated entries in key regions and expansion into Liaoning, Hebei, Jilin and Hunan provinces. Its distribution network covers most provinces and more than 20,000 healthcare institutions. Thanks to its highly efficient, agile, modern and smart supply chain service network, the company has witnessed momentum of rapid expansion in the SPD business, pharmacy trusteeship and DTP business, more innovation in service and portfolio optimization. Its distribution business grows faster than the industry average.

An Overview of Company Businesses

Industrial Manufacturing: Shanghai Pharmaceuticals has been constantly optimizing its industrial manufacturing, accelerating industrial network improvement, introducing cost management for key products and conducting centralized procurement for raw materials. Lean and Six Sigma have covered all industrial subsidiaries and 5S Onsite Management, Lean Total Productive Maintenance (“LTPM”) and Overall Equipment Effectiveness (“OEE”) management have been implemented across the group.

Business Innovation: Shanghai Pharmaceuticals has been actively conducting innovation. It has introduced, through internal optimization and external expansion, Jingdong, IDG and other strategic and financial investors. It has also built a three-layer network across Ecommerce, offline and online network, thus initiating a new online to Offline (“O2O”) retail model.

II. EXPLANATION OF MATERIAL CHANGES IN ASSET DURING THE REPORTING PERIOD

Unit: Yuan Currency: RMB

| Main Assets | Consolidated on 31 December 2015 | Consolidated on 31 December 2014 | Changes in current amount as compared to last period (%) | Explanation of material changes (over 30%) |
|-----------------------------|----------------------------------|----------------------------------|--|--|
| Long-term equity investment | 3,636,906,109.52 | 2,745,612,375.88 | 32.46 | Increase in investment cost and income of associates during the reporting period |
| Fixed assets | 4,951,502,320.90 | 4,360,757,587.08 | 13.55 | / |
| Under construction | 741,611,620.55 | 632,603,481.79 | 17.23 | / |
| Intangible assets | 1,984,203,293.51 | 1,861,577,368.33 | 6.59 | / |
| Goodwill | 4,815,618,280.42 | 4,473,418,643.01 | 7.65 | / |

Details of changes in other main assets are set out in “II (III) Analysis of Assets and Liabilities” of section IV.

Among which, overseas assets amounted to 690,423,370.22 (Unit: Yuan, Currency: RMB), the percentage to the total assets is 0.93%.

III. CORE COMPETITIVENESS ANALYSIS DURING THE REPORTING PERIOD

1. Industrial Chain Advantage

Shanghai Pharmaceuticals's businesses cover R&D, manufacturing, distribution and retail. By integrating core resources along the supply chain, actively developing innovative businesses and encouraging industry synergy and integration in operation, it uses its all-supply-chain advantages to offer comprehensive solutions for healthcare institutions, patients and suppliers. The Company maintains the leading position.

2. Branding Advantage

Safety, reliability and targeting both heritage and innovation are the main value propositions of the company. It adheres to a strategy of a leading brand of "Shanghai Pharmaceuticals" with a group of time-honored product brands. The synergy thus created leads to high recognition and acceptance from the market.

3. R&D Advantage

Shanghai Pharmaceuticals is committed to innovation and provision of safe and effective drugs for critical and chronic diseases. It has put in place a R&D system with a central research institute at its core, coupled by 1 national-level technology center and 10 provincial/city level technology centers. By adopting an open R&D model, it has formed close collaborative relationships with China Academy of Science, China Pharmaceutical University, Shenyang Pharmaceutical University, the Second Military Medical University, Mitsubishi Tanabe Pharma and Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. Many innovative products are in the registration or clinical trial stages.

4. Manufacturing Advantage

Shanghai Pharmaceuticals has production lines for all dosage forms. It has adopted the lean management system, optimized production and conducted pilot programs on integrating informatization and industrialization. MES system has been initiated and the subsidiary Shanghai Sinepharm has passed the examination of a national management system for the integration of informatization and industrialization. The company is focused on technology innovation and industrialization capability build-up. It enjoys quality and cost advantages and many APIs have got the quality certification from WHO, FDA, European Union and other developed markets. Production lines are all passed the new GMP certification, and products are complied with stands of 2015 Pharmacopeia.

5. Network Advantage

The Company has a nationwide commercial network and an efficient, agile, smart and modern supply chain service network. It leads the country in such innovative business models as distribution retail service, third party logistics service, supply chain extension service, drug warehouse IT management and clinical support services, etc.

An Overview of Company Businesses

6. Digital Technology Advantage

With an aim of digitizing the Company and following the government's call on integration of informatization and industrialization, Shanghai Pharmaceuticals has actively involved in smart system development. 10 shared platforms and a pilot of smart factory MES development are initiated. Shanghai Pharmaceuticals Health Cloud, a subsidiary of Shanghai Pharmaceuticals, has launched the "Yiyao" brand, an APP and a service platform to focus on consumer experience and provide more professional services, more convenient ways for drug purchase and more comprehensive health management.

7. Financial Advantage

The Company has a sound financial structure, good control of debt to assets ratio and sufficient operating capital to support its sustainable development.

8. Team Advantage

The core values of the Company are innovation, integrity, cooperation, inclusion and accountability. The management team of Shanghai Pharmaceuticals and its subsidiaries has displayed entrepreneurship, open-mindedness, strong capability to learn, professionalism, willingness to innovate and team spirit. The company advocates a learning culture. It has set up a multi-level talent development system featuring Little Wild Goose, Large Wild Goose, Elite Wild Goose and Leading Wild Goose, contributing to a team with the right structure, good match of skill-set and position, high quality, strong devotion and a perfect fit for the Company's development strategy.

Report of the Board of Directors

I. MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the growth of Chinese economy and the pharmaceutical industry slowed down, and the new businesses and models within the industry were continuously emerging. The industry access threshold was raised, the industry mergers and acquisitions were surging, and the differentiation of industry segments accelerated; thus the pharmaceutical industry entered a new period with both challenges and opportunities.

(I) Pharmaceutical R&D

During the Reporting Period, under the guidance of top-level documents from the State Council including Opinions on the Reform of Drug and Medical Device Review System, Planning Outline for Development Strategy of Traditional Chinese Medicine (2016-2030) etc., the relevant supporting policy documents were introduced intensively so as meet the R&D of innovative and improved drugs as well as the conformance assessment of generic drug quality and efficacy required clinically. The innovative development of Chinese medicine has become the key and hot point in the pharmaceutical research and development, and the formula granule was expected to flourish. Under the constantly enhanced domestic drug regulatory efforts, the approval speed of the drugs accelerated, which required the improvement of development quality and thus the R&D costs further rose. Currently the leading drug research and development enterprises have maintained the rapid growth in the R&D investment. On the one hand, they increased the intensity of research and development of innovative drugs; on the other hand, they actively carried out the development of generic drugs, and focused on the international certification of quality generic medicines and the simultaneous international development of innovative drugs. The product quality and the domestic brand influence can be improved by the marketing of generic drugs and agents in European and American countries. However, some of the small and medium enterprises got into a hobble due to the difficulty in sustaining the R&D investment; while the pharmaceutical enterprises with the core R&D capabilities manifested the sound development.

(II) Industrial Manufacturing

As impacted by the policies of slackened Chinese economic growth, costs control of health insurance, the new round of drugs bidding and purchasing, decreased drug occupancy ratio in public hospitals, the restriction of the new GMP certification as well as the quality flight inspection, etc., in 2015, the domestic pharmaceutical industrial revenue fell to around 10% in the year-on-year growth. The industry competition was fierce and the shuffle accelerated. During the Reporting Period, the Chinese medicine industry heralded huge expected development potential as influenced by the favorable policies including the publishing of Chinese Medicine Law (Draft) and multiple top-level programs, as well as the cancellation of Good Agricultural Practice (GAP) certification etc. The industry of bio-pharmaceutical has strong market potential which maintains the increasing trend these years. With the continuous regulation of the industry environment, the competition will be stronger and stronger. The enterprises with strong capital and advanced technologies will hold the better position.

Report of the Board of Directors

(III) Pharmaceutical Services

During the Reporting Period, the pharmaceutical service industry growth slowed, and the mergers and acquisitions of some commercial distribution enterprises slowed down; while the pharmaceutical retail industry set off a wave of mergers and acquisitions, and the industry speeded up the pace of reform and consolidation. A number of large retail companies in the industry have disclosed the pharmaceutical retail acquisitions programs. In addition, under the influence of the state Opinions by the State Council on Vigorously Promoting E-commerce and Acceleration of Developing New Economic Dynamism and Guiding Opinions by the State Council on Active Promotion of "Internet Plus" Action, the popular trend of "Internet+" never slowed down. The participants in pharmaceuticals B2B, B2C and O2O field increased, and the cooperating degree of upstream and downstream improved rapidly. In 2015, the Internet health care and pharmaceutical companies finance capital exceeded RMB15 billion. All the major pharmaceutical companies in the industry entered the pharmaceutical E-commerce. The mode of traditional pharmaceutical companies internet Plus manifested stronger ability in resources aggregation than the pure pharmaceutical commercial enterprises.

Relevant industry policy and its effects are shown above in "Chapter III – An overview of Company Business".

II. MAIN OPERATING CONDITIONS DURING THE REPORTING PERIOD

The year of 2015 was the last year of the 2013-2015 three-year development plan implemented by the Company, successfully achieved the development target of first Three- Year Plan. During the reporting period, around 20 key tasks determined at the beginning of the year the Company promoted business development, enhanced management and control capabilities, built the core competitiveness of the Group and well completed the objectives of three-year plan.

During the Reporting Period, the Company's operating income was RMB105.517 billion, representing an increase of 14.20% on a year-on-year ("YOY") basis. Net profit attributable to the shareholders of the listed Company was RMB2.877 billion, representing an increase of 11.03% on a YOY basis. Basic earnings per share amounted to RMB1.0699 and basic earnings per share after deducting non-recurring profits and losses were RMB0.9410, up by 17.08%. During the Reporting Period, the Company's net cash flows from operating activities amounted to RMB1.349 billion, up by 1.01% on a YOY basis. As at 31 December 2015, the owners' equity of the Company was RMB33.808 billion, its owners' equity after deducting minority interest was RMB29.93 billion and its total assets were RMB74.344 billion.

The Company's main business, business pattern and products are shown above in "Chapter III – An overview of Company Business". During the report period, the Company's main business and condition are shown below:

■ Pharmaceutical research and development

1. Overview of research and development

Applicable Not applicable

During the reporting period, the total amount of R&D investment of the Company was RMB617.6908 million (excluding the investment in the construction of interim test bases of the Company), accounting for 5.22% of manufacturing sales income of the Company. Among them, 26.98% was invested in R&D of innovative drugs, 23.46% was invested in the R&D of generic drugs and 49.56% was invested in the secondary development of existing products. During the reporting period, the Company applied for 110 invention patents and 51 of which were granted; as at the end of the Reporting Period, the Company owned a total of 267 invention patents. During the Reporting Period, sales revenue from the Company's new products launched through the R&D amounted to RMB1.707 billion, representing 14% of the Company's manufacturing sales revenue.

During the Reporting Period, the Company continued to optimize the R&D system, improved the efficiency of R&D, strengthened the approval and process management of R&D project, initiated the construction of scientific research management information system in the Group, promoted implementation of project manager system and improved the enthusiasm of the R&D personnel and the efficiency of R&D of the whole projects; strengthened the open and cooperation, optimized the R&D model; completed the establishment, startup, the mid-term inspection and other work of cooperation projects on a total of 29 new products between Shanghai Pharma and the Translational Medicine Alliance of Second Military Medical University of PLA, Shenyang Pharmaceutical University, Sichuan University and so on; continued promoting base construction of Shanghai Pharmaceutical Group (Benxi) North Medicine Co., Ltd. which integrated R&D, pre-production and industrialization exploitation of the chemical raw medicine and high-end preparation as a whole to positively solve the "bottleneck" problem about the allocation of resources in the industrialization process of achievements, of which the first phase was completed in October 2015 and the whole structure will be built and expect to put into operation in 2016.

Demarcation of research phase and development phase:

- 1 Preclinical studies (Including all research work before declaring the record for clinic or bioequivalence test);
- 2 Declaration of clinic (Including submitting clinical trial application until it is approved or the clinical record is approved);
- 3 Clinical phase (It starts from the clinical approval until the clinical study summary is completed, including clinical phase I, II and III or bioequivalence test);
- 4 Declaration of production (It starts from preparation for production declaration until production approval is obtained, including the declaration of production, on-site verification).

Report of the Board of Directors

Under normal circumstances, the above phases before clinical phase III are the research phase; the clinical phase III and phase after it are development phase.

The accounting policy for R&D:

This company's R&D expense, according to its nature and whether its final intangible assets are uncertain, shall be divided into expense of research phase and expense of development phase. The expense of research phase shall be reckoned into current profit and loss when incurring. The expense of development phase can be capitalized if it met the following conditions:

- 1 Completing the intangible assets so that it can be used or sold and have feasibility in technology;
- 2 Management layer has the intention to complete and use or sell the intangible assets;
- 3 Be able to demonstrate how the intangible assets generate economic benefits;
- 4 There are sufficient technical, financial resources and other resources supporting to complete the development of the intangible assets, and the Company is able to use or sell the intangible assets;
- 5 The expense of the development phase of the intangible assets can be measured reliably.

If the expense of the development phase cannot meet the conditions mentioned above, it shall be reckoned into the current profit and loss. The development expenditure of previous period which has been reckoned into profit and loss will not be recognized as an asset in the latter period. The expenditures already capitalized during the development phase should be listed as development expense on the balance sheet and will be transformed into intangible asset when the project reaches the expected serviceable condition.

The main R&D direction of the Company:

The R&D of the Company takes the clinical demand as the guidance, jointly develops biological products and small molecule of chemical drug and traditional Chinese medicine; mainly focuses on the innovative drugs in tumor, immune and cardiovascular fields and generic drugs of large varieties in the fields of angiopathy, digestive system, psychiatry and neurology, antineoplastic, anti-rheumatism as well as diabetes; at the same time, actively carries out consistency evaluation in generic medicines, new drug research of traditional Chinese medicine and the secondary development of large varieties products being listed.

In 2015, the Company obtained 6 approval documents of production and 16 clinical approval documents. It declared 8 approval documents of production and 14 clinical approval documents.

2. R&D investment

(1) R&D investment in main drugs (products)

✓ Applicable □ Not applicable

Unit: RMB0,000

| Drug (product) | R&D investment amount | Expensed R&D investment amount | Capitalized R&D investment amount | Percentage of R&D investment in the operating income (%) | Percentage of R&D investment in business costs (%) | The YOY percentage of the current amount (%) | Explanation |
|--|-----------------------|--------------------------------|-----------------------------------|--|--|--|-----------------------|
| Shenmai injection | 172.66 | 172.66 | 0.00 | 0.24 | 1.21 | 0.49 | Secondary development |
| Hydroxychloroquine sulfate tablets | 150.30 | 150.30 | 0.00 | 0.36 | 1.91 | -3.65 | Secondary development |
| Sodium tanshinone II A sulfonate injection | 67.25 | 67.25 | 0.00 | 0.17 | 0.70 | 11.33 | Secondary development |
| Live combined bifidobacterium | 302.18 | 302.18 | 0.00 | 0.79 | 3.46 | 26.54 | Secondary development |
| Calcium dibutyryl adenosine cyclophosphate for injection | 113.13 | 113.13 | 0.00 | 0.34 | 0.69 | 10.12 | Secondary development |

Note: Operating income and operating costs were the corresponding operating income and operating cost of the products during the Reporting Period.

(2) Table of R&D investment

Unit: Yuan

| | |
|---|-------------|
| Expensed R&D investment in the Reporting period | 617,690,774 |
| Capitalized R&D investment in the current period | 0.00 |
| Total investment in R&D | 617,690,774 |
| Percentage of the total amount of R&D investment in manufacturing operation income (%) | 5.22 |
| Number of R&D personnel of the Company (person) | 883 |
| Percentage of the number of R&D personnel in the total number of personnel of the Company (%) | 2.14 |
| Percentage of capitalized R&D investment (%) | 0.00 |

Note: Percentage of R&D investment in manufacturing operation income.

Report of the Board of Directors

Explanation

The number of R&D personnel and the proportion of it were relatively stable. During the Reporting Period, the Company further increased investment in R&D and the proportion of R&D investment rose compared with that of last year. The other instructions are shown below.

(3) *Comparison in the same industry*

Applicable Not applicable

Unit: RMB10 thousand

| Comparable companies in the same industry | R&D investment amount | Percentage of R&D investment in the operating income (%) | Percentage of R&D investment to net assets |
|---|-----------------------|--|--|
| Hisun Pharmaceutical | 55,803 | 5.53 | 6.75 |
| Harbin Pharmaceutical Group | 25,135 | 1.52 | 2.87 |
| Fosun Pharmaceutical | 68,461 | 5.69 | 3.58 |
| North China Pharmaceutical | 18,371 | 1.95 | 3.50 |
| Baiyunshan Pharmaceutical | 27,929 | 1.49 | 3.51 |
| Average amount of R&D investment in the same industry | | | 39,139.8 |
| Amount of R&D investment of the Company during the Reporting Period | | | 61,769.08 |
| Percentage of R&D investment in the manufacturing operation income of the Company during the Reporting Period (%) | | | 5.22 |
| Percentage of R&D investment in net assets of the Company during the Reporting Period (%) | | | 1.83 |

Note: 1 The data of the above 5 comparable companies were from the respective of 2014 annual report of that company;

2 The average amount of R&D investment in the same industry was the arithmetic mean of those of the above 5 comparable companies in 2014.

(4) Description of major change of R&D investment and the rationality of the percentage of R&D investment

Applicable Not applicable

The R&D investment of the Company mainly covered chemical drugs, traditional Chinese medicine and biological products, including innovative drugs, generic drugs and the second development of varieties listed, etc. The total amount of R&D investment of the Company was in a leading level in the industry, which could meet the needs of the future development of the Company.

3. Basic information of major R&D projects

Applicable Not applicable

Unit: RMB10 thousand

| No. | R&D project | Basic information of drug (product) | Phase of R&D (Registration) | Progress status | Accumulative R&D investment | Number of declared manufacturers | Number of approved domestic generic manufacturers |
|-----|---|--|-----------------------------|---|-----------------------------|----------------------------------|---|
| 1 | Deuteporfin | Class 1 of chemical drugs, indications: Tumors | Clinical phase II | Clinical phase II | 3,470.31 | None | None |
| 2 | SPH3127 | Class 1 of chemical drugs, indications: Hypertension | CDE review | It has declared clinic and is in CDE review | 8,108.26 | None | None |
| 3 | SPH1188 | Class 1 of chemical drugs, indications: Non-small-cell lung cancer | CDE review | It has declared clinic and is in CDE review | 1,932.78 | None | None |
| 4 | TNFα receptor Fc fusion protein | Class 7 of biological drugs, indications: Rheumatoid arthritis | Clinical phase I | Clinical phase I | 5,016.37 | None | None |
| 5 | Recombinant anti CD20 humanized monoclonal antibody injection | Class 2 of biological drugs, indications: CD20 positive non-Hodgkin's lymphoma | Preclinical Studies | It has declared clinic and is in CDE review | 7,495.83 | None | None |

Note: The data of "number of declared manufacturers" and "number of approved domestic generic manufacturers" were from the new drug CPM database and PDB drug comprehensive database of the China Pharmaceutical Industry Information Center.

Report of the Board of Directors

The impact of R&D projects on the Company

Applicable Not applicable

The R&D investment of the Company grew in a sustained and steady way, to ensure that there were new products set up and new products approved to list in the existing R&D product line, which provided the impetus for stable and benign development of the Company and continuously enhanced the core competitiveness of the Company.

4. During the Reporting Period, drugs (products) submitted to the supervision department for approval, completed the registration or obtained the production approval

Applicable Not applicable

During the Reporting Period, a total of 22 drugs (including different varieties and specifications, see below) of the Company were submitted to the supervision department for approval and six approvals for drug production were obtained; these approvals further enriched the product line of the Company and more effectively promoted the sustainable development of business of the Company. The Company will seize the opportunity to promote listing based on market changes.

(1) *Information about 22 drugs (products) submitted to the supervision department for approval:*

| No. | Drugs (products) submitted to the state drug supervision department for approval | Examination and approval matters | Indications | Classification of registration |
|-----|--|----------------------------------|---|--------------------------------|
| 1 | Cholecalciferol raw material | Declaration of production | Osteoporosis, kidney osteopathy, rickets and osteomalacia | Class 6 of chemical drugs |
| 2 | Memantine hydrochloride raw material | Declaration of production | Alzheimer type dementia | Class 6 of chemical drugs |
| 3 | Memantine hydrochloride Tablets | Declaration of production | Alzheimer type dementia | Class 6 of chemical drugs |
| 4 | Thymopentin for injection | Declaration of production | The decreasing of the immune function of patients with malignant tumor due to radiotherapy and chemotherapy | Class 6 of chemical drugs |
| 5 | Parecoxib Sodium for injection | Declaration of production | Short-term treatment for pain after surgery | Class 6 of chemical drugs |

Report of the Board of Directors

| No. | Drugs (products) submitted to the state drug supervision department for approval | Examination and approval matters | Indications | Classification of registration |
|-----|--|----------------------------------|---|--------------------------------|
| 6 | Quetiapine fumarate sustained release tablets 50mg | Declaration of production | Schizophrenia | Class 6 of chemical drugs |
| 7 | Quetiapine fumarate sustained release tablets 150mg | Declaration of production | Schizophrenia | Class 6 of chemical drugs |
| 8 | Quetiapine fumarate sustained release tablets 200mg | Declaration of production | Schizophrenia | Class 6 of chemical drugs |
| 9 | Emulsion for the injection of cleviprex 50ml:25mg | Declaration of clinical | Hypertension of ineffective oral treatment | Class 3.1 of chemical drugs |
| 10 | Emulsion for the injection of cleviprex 100ml:50mg | Declaration of clinical | Hypertension of ineffective oral treatment | Class 3.1 of chemical drugs |
| 11 | Rivaroxaban raw material | Declaration of clinical | Antithrombosis | Class 3.1 of chemical drugs |
| 12 | Ferric carboxymaltose injection raw material | Declaration of clinical | For treating adult patients with iron deficiency anemia (IDA) who are not satisfied with the efficacy of oral chalybeate or are intolerant of oral chalybeate and patients with chronic kidney disease who cannot rely on dialysis. | Class 3.1 of chemical drugs |
| 13 | Ferric carboxymaltose injection 2ml:100mg | Declaration of clinical | For treating adult patients with iron deficiency anemia (IDA) who are not satisfied with the efficacy of oral chalybeate or are intolerant of oral chalybeate and patients with chronic kidney disease who cannot rely on dialysis. | Class 3.1 of chemical drugs |

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| No. | Drugs (products) submitted to the state drug supervision department for approval | Examination and approval matters | Indications | Classification of registration |
|-----|--|----------------------------------|---|--------------------------------|
| 14 | Ferric carboxymaltose raw material and injection 10ml:500mg | Declaration of clinical | For treating adult patients with iron deficiency anemia (IDA) who are not satisfied with the efficacy of oral chalybeate or are intolerant of oral chalybeate and patients with chronic kidney disease who cannot rely on dialysis. | Class 3.1 of chemical drugs |
| 15 | Sugammadex raw material | Declaration of clinical | For resisting the efficacy of muscle relaxant used during the operation | Class 3.1 of chemical drugs |
| 16 | Sugammadex injection 2ml:200mg | Declaration of clinical | For resisting the efficacy of muscle relaxant used during the operation | Class 3.1 of chemical drugs |
| 17 | Lacosamide raw materials | Declaration of clinical | Drug for treating epilepsy and neuropathic pain | Class 3.1 of chemical drugs |
| 18 | Lacosamide tablets | Declaration of clinical | Drug for treating epilepsy and neuropathic pain | Class 3.1 of chemical drugs |
| 19 | SPH1188 raw material | Declaration of clinical | Non-small-cell lung cancer | Class 1 chemical of drugs |
| 20 | SPH1188 tablets 25mg | Declaration of clinical | Non-small-cell lung cancer | Class 1 chemical of drugs |
| 21 | SPH1188 tablets 100mg | Declaration of clinical | Non-small-cell lung cancer | Class 1 chemical of drugs |
| 22 | Parecoxib sodium raw material | Declaration of clinical | Short-term treatment for pain after surgery | Class 3.1 of chemical drugs |

(2) Information about 6 drugs (products) obtained production approval:

| No. | Drugs (products) obtained production approval number | Approval No. | Indications | Classification of registration |
|-----|--|--------------------------------------|---|---|
| 1 | Levodopa and benserazide hydrochloride capsules | National drug approval No. H20143411 | Parkinson syndrome | Class 6 of chemical drugs |
| 2 | Salbutamol sulphate aerosol | National drug approval No. H20153141 | Relieve bronchial spasm in patients with asthma or chronic obstructive pulmonary disease, asthma induced by acute prevention exercise, or bronchial spasm induced by other allergen | Class 6 of chemical drugs |
| 3 | Flurbiprofen axetil raw materials | National drug approval No. H20153041 | Analgesia for postoperative and various cancer patients | Class 6 of chemical drugs |
| 4 | Desloratadine raw materials | National drug approval No. H20153238 | Antianaphylaxis | Class 6 of chemical drugs |
| 5 | Guanxinning tablet | National drug approval No. Z20150028 | It has the effect of promoting blood circulation for removing blood stasis and nourishing heart, and can be used for coronary heart disease and angina pectoris (heart blood stasis syndrome) | Class 8 of traditional Chinese Medicine |
| 6 | Clopidogrel bisulfate | National drug approval No. H20153216 | Antithrombosis | Class 6 of chemical drugs |

5. During the Reporting Period, information about R&D projects which were canceled or drugs (products) did not get approval

Applicable Not applicable

See Notice of Failure of the Registration Application Concerning the Aspirin Sustained-release Tablets from the Subsidiary Changzhou Pharmaceutical Factory Co., Ltd. Released by Shanghai Pharma (GSGG Lin No. 2015-037), Notice of the Withdrawal of the Registration Application of Saimi Mifepristone Tablets by the Subsidiary Released by Shanghai Pharma (GSGG Lin No. 2015-039), and Notice of the Withdrawal of the Registration Application of drugs by the Subsidiary Released by Shanghai Pharma (GSGG Lin No. 2015-040).

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6. Key R&D projects to be carried out according to the new annual plan

Applicable Not applicable

| No. | Item name | Basic information of drug (product) | Phase of R&D (Registration) | Annual work in 2016 |
|-----|---|--|-----------------------------|---|
| 1 | Deuteporfin | Class 1 of chemical drugs, indications: Tumors | Clinical phase II | In development of Clinical phase II |
| 2 | SPH3127 | Class 1 of chemical drugs, indications: Hypertension | CDE review | Complete information as required by CDE |
| 3 | SPH1188 | Class 1 of chemical drugs, indications: Non-small-cell lung cancer | CDE review | Complete information as required by CDE |
| 4 | TNF α receptor Fc fusion protein | Class 7 of biological drugs, indications: Rheumatoid Arthritis | Clinical phase I | Complete clinical phase I |
| 5 | Recombinant anti CD20 humanized monoclonal antibody injection | Class 2 of biological drugs, indications: CD20 positive non-Hodgkin's lymphoma | Preclinical Studies | Complete information as required by CDE |

7. Major risks in the process of R&D and registration of drugs (products)

The risks in the process of R&D and registration mainly lie in the inherent risks of scientific research, the competition risks of similar products and the risks of the changes of national policies and regulations, etc.

The coping style the Company plans to take: 1) through the establishment of Science and Technology Innovation Council as a professional advisory and review organization, manage and control project initiation, mid-term assessment, termination and other processes in a centralized way to systematically circumvent and disperse the risk; 2) through the implementation of R&D project manager system, improve participation and enthusiasm of the staff, improve the ability to predict and analyze the possible problems in the future, reduce project risks in terms of management and improve success rate of the projects.

8. Significant government R&D subsidy obtained

In 2015, it obtained 10 kinds of funds including the national major projects, biomedical science and technology support programs of Shanghai Municipal Science and Technology Commission, municipal SASAC (State-owned Assets Supervision and Administration Commission of the State Council) 2015 enterprise innovation and technological level promotion project with a total of RMB35 million, major grants for R&D projects are as follows:

Unit: RMB0,000

| Major project name | Amount of subsidy | Receivables in 2015 | Receiving date | Used amount | Residual amount |
|--|-------------------|---------------------|----------------|-------------|-----------------|
| Core technology construction and product development of recombinant antibody composition | 437.5 | 196.92 | December 2015 | 0 | 196.92 |
| Spark production base energy level promotion construction project of mental nerve and rheumatoid immune type special raw material drug | 1,600 | 800 | December 2015 | 800 | 0 |
| Energy level promotion construction project of chemical drug and traditional Chinese medicine confidential varieties such as exclusive varieties of vitamin A acid tablets | 1,000 | 500 | November 2015 | 85.35 | 414.65 |

See the Note III to Financial Statements prepared in accordance with the Chinese Accounting Standards for Business Enterprises and the Note 35 to Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards for details of tax preference.

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9. R&D Award

During the Reporting Period, Shanghai Pharmaceuticals was selected in the best 20 industrial enterprises of China's pharmaceutical R&D products line of 2015. The Development and Industrialization of Artificial Musk jointly completed by Shanghai Medicine Co., Ltd. subordinated to Shanghai Pharma and the Institute of Materia Medica Chinese Academy of Medical Sciences, China National Traditional Chinese Medicine Company, Shandong Hongjitang Pharmaceutical Group Co., Ltd. and Beijing Lianxin Pharmaceutical Co., Ltd. and other units won "the First-class National Scientific and Technological Progress Award of 2015"(see details in the GSGG Lin No. 2016-004, No. 2016-005). The project of New Synthesis Process and Preparation Method of Anti-depression Duloxetine Hydrochloride of Shanghai Chinese and Western pharmaceutical Co., Ltd. under the Company won the second prize of Shanghai technology and invention of 2014; The project of the Technical Quality Innovation and Scale Production of Cephalosporin Hydrochloride of Shanghai New Asia Pharmaceutical Co., Ltd. subordinated to the Company won the third award of Shanghai science and technology progress of 2014.

■ Pharmaceutical manufacturing

1. General situation of pharmaceutical manufacturing

✓ Applicable Not applicable

For the basic situation of pharmaceutical manufacturing industry, see details in the above "Management Discussion and Analysis".

During the Reporting Period, the Company's sales revenue from the pharmaceutical business was RMB11.824 billion, representing a growth of 6.49% as compared with the corresponding period of last year; its gross profit margin was 49.72%, an increase of 1.49 percentage point as compared with the corresponding period of last year. The operating profit margin after deducting sales and administration costs was 12.44%, an increase of 0.42 percentage point as compared with the corresponding period of last year.

During the Reporting Period, the Company's sales revenue from biological drugs was RMB409 million, up by 7.91% on a YOY basis; sales revenue from chemical and biochemical drugs was RMB5.331 billion, up by 8.92% on a YOY basis; sales revenue from Chinese medicines (including Chinese patent medicine and Chinese herbal medicine) was RMB4.406 billion, up by 5.26% on a YOY basis; and sales revenue from other industrial products (including active pharmaceutical ingredients (APIs), healthcare products and medical devices, etc.) was RMB1.678 billion, up by 2.06% on a YOY basis. During the Reporting Period, 24 products attained the product sales revenue of over RMB100 million.

During the Reporting Period, the Company continued to implement its strategy to focus on key products. Sales revenue of 60 key products reached RMB6.79 billion, up by 12.52% on a YOY basis, accounting for 57.43% of the revenue from industrial sales. The gross profit margin of the key products was 67.04%.

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Among the key products, 38 products achieved a growth rate higher than or equivalent to that of similar products of IMS Health Inc. The products whose sales revenue for the year exceeds RMB100 million are all key products. The average growth rate of the top five fastest growing products is 55.49%, while that of the bottom five is -3.46%; specifically:

| No. | Product name | Therapeutic area | Sales revenue of 2015 (RMB0,000) |
|-----|---|---|----------------------------------|
| 1 | Shenmai injection | Cardiovascular system disease | 72,372 |
| 2 | Hydroxychloroquine sulfate tablets | Anti-tumor and immunomodulator | 41,663 |
| 3 | Tanshinone IIA sulfonic acid sodium injection | Cardiovascular system disease | 40,112 |
| 4 | Live combined bifidobacterium | Digestive and metabolic disease | 38,225 |
| 5 | Calcium dibutyladenosine cyclophosphate for injection | Cardiovascular system disease | 33,043 |
| 6 | Wangbi tablets | Musculo-skeletal system | 30,245 |
| 7 | Cefotiam | Systemic anti-infective medicine | 30,244 |
| 8 | Ceftriaxone sodium for injection | Systemic anti-infective medicine | 22,866 |
| 9 | Trichosanthes peel injection | Cardiovascular system disease | 22,699 |
| 10 | Chymotrypsin | Respiratory system | 18,977 |
| 11 | Rosuvastatin | Cardiovascular system disease | 17,902 |
| 12 | YangXinShi | Cardiovascular system disease | 16,701 |
| 13 | Rupixiao tablets | Genito-urinary system and sex hormone | 15,462 |
| 14 | Thalidomide | Antineoplastic drug and immunomodulator | 15,335 |
| 15 | Xinhuang tablets | Musculo-skeletal system | 14,857 |
| 16 | HongYuanda | Blood and blood-forming organ | 14,800 |
| 17 | Yinxing Tongzhi | Cardiovascular system disease | 14,348 |
| 18 | Aripiprazole | Neurological system | 13,622 |
| 19 | Cisatracurium besylate | Musculo-skeletal system | 13,614 |
| 20 | Soothing ointment | Others | 12,614 |

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| No. | Product name | Therapeutic area | Sales revenue of 2015 (RMB0,000) |
|-----|---------------------------------|----------------------------------|----------------------------------|
| 21 | Weifuchun tablets | Digestive and metabolic disease | 12,554 |
| 22 | Duloxetine | Neurological system | 11,832 |
| 23 | Babaodan | Digestive and metabolic disease | 11,017 |
| 24 | Cefotaxime sodium for injection | Systemic anti-infective medicine | 10,907 |

As at the end of the Reporting Period, 300 products of the Company were listed on the List of Low-price Drugs Among the Pricing Range Set by the National Development and Reform Commission in accordance with the number of the existing approvals, among which, 210 are chemical medicines with 893 specifications in aggregate, 90 are Chinese patent medicine with 205 specifications in aggregate.

As at the end of Reporting Period, 40 of the Company's 41 industrial subsidiaries passed GMP Certification (2010 Edition). One company has obtained GMP certification (2010 Edition) in 2016 (see GSGG Lin No. 2016-011). At present, all 41 industrial subsidiaries passed GMP certification (2010 Edition) and obtained a total of 91 GMP (2010 Edition) certifications. In which 26 certificates involved the aseptic production and 65 certificates involved non-aseptic production. By reforming and passing the new GMP certification, the Company has comprehensively enhanced its technological equipment, production management and quality management in pharmaceutical manufacturing for ensuring to continuously and stably produce the drugs that meet the intended use and registration requirements.

2. Basic information about the main drugs (products)

Applicable Not applicable

(1) *Basic information about the main drugs (products) by sub-sectors*

Applicable Not applicable

For more details, please read the following table.

(2) *Basic information about the main drugs (products) by the treatment field*

Applicable Not applicable

| Main therapeutic area | Drug (product) name | By industry | Indications/major functions | Whether it belongs to the protection varieties of traditional Chinese medicines | Whether it belongs to prescription drugs | The beginning and ending dates of invention patent | Registration classification of drugs (products) | Whether it belongs to the new drugs (products) launched during the Reporting Period | Production volume during the Reporting Period | Sales volume during the Reporting Period |
|---|--|---------------------------------------|--|---|--|--|---|---|---|--|
| Cardiovascular system disease | Shenmai injection (20ml/10000 vials) | Production of Chinese patent medicine | For the treatment of Qi and Yin deficiency type of shock, coronary heart disease, viral myocarditis, chronic pulmonary heart disease and Granulocytopenia. | No | Yes | 2007.11.23-2027.11.23 | Traditional Chinese medicine | No | 3,582 | 3,412 |
| Antineoplastic drug and immunomodulator | Hydroxychloroquine Sulfate Tablets (0.1g/10000 pieces) | Chemical drug preparation | Rheumatoid arthritis, juvenile chronic arthritis, discoid lupus erythematosus and systemic lupus erythematosus, as well as skin lesions triggered or exacerbated by the sun. | No | Yes | 2010.12.28-2030.12.28 | Class 4 of western medicine | No | 24,412 | 24,912 |
| Cardiovascular system disease | Sodium tanshinone II A sulfonate injection (10000 vials) | Chemical drug preparation | Adjuvant therapy of Coronary heart disease, stenocardia and myocardial infarction | No | Yes | 2010.09.30-2030.09.30 | / | No | 12,677 | 13,508 |
| Digestive and metabolic disease | Live combined bifidobacterium (10000 tablets) | Biopharmaceutical | For diarrhea and abdominal distension caused by alteration of intestinal flora, also can be used for the treatment of mild to moderate acute diarrhea and chronic diarrhea | No | Double-span drugs | 2000.09.28-2020.09.28 | Class 1 of biological products | No | 69,236 | 55,707 |
| Cardiovascular system disease | Calcium dibutyryl adenosine cyclophosphate for injection (10000 vials) | Chemical drug preparation | Can be used in the adjuvant treatment of stenocardia pectoris, acute myocardial infarction, as well as myocarditis, cardiac shock | No | Yes | 2014.05.21-2034.05.21 | / | No | 3,973 | 4,000 |

- Notes: 1 There are various specifications of Shenmai injection and it is converted into the most commonly used specification of 20ml; There are various specifications of Live combined bifidobacterium and it is converted into ten thousand pieces;
- 2 There was no Provisions for Drug Registration when the production of Sodium tanshinon IIA silate injection was declared, so it does not have a registration classification;
- 3 There was no Provisions for Drug Registration when the production of Calcium Dibutyryl adenosine cyclophosphate for injection was declared, so it does not have a registration classification.

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3. Analysis table of production and sales of main drugs (products)

| Main products | Unit | Production volume | Sales volume | Inventory volume | Increase or decrease percentage of production volume over the previous year (%) | Increase or decrease percentage of sales volume over the year (%) | Increase or decrease percentage of inventory volume over the previous year (%) |
|--|--------------------|-------------------|--------------|------------------|---|---|--|
| Shenmai injection | 20ml/10,000 vials | 3,582 | 3,412 | 513 | 12.46 | 12.09 | 7.02 |
| Hydroxychloroquine sulfate tablets | 0.1g/10,000 pieces | 24,412 | 24,912 | 1,640 | 10.92 | 21.49 | -28.67 |
| Sodium tanshinone II A silate injection | 10,000 vials | 12,677 | 13,508 | 546 | -15.41 | -7.01 | -61.26 |
| Live combined bifidobacterium | 10,000 pieces | 69,236 | 55,707 | 16,044 | 40.79 | 7.77 | 464.92 |
| Calcium dibutyryl adenosine cyclophosphate for Injection | 10,000 vials | 3,973 | 4,000 | 333 | 25.93 | 17.65 | -17.52 |

Description of production and sales volume

- 1 Through strengthening of lean production control, the inventory turnover accelerated and the inventory level of Sodium tanshinone II A silate injection decreased.
- 2 Due to the transformation of the production line, the stocking for Spring Festival and other reasons, the inventory of live combined bifidobacterium was relatively high at the end of 2015.

4. Information about Inclusion, Newly-listing and Exclusion of Main Drugs (Products) in or from National Essential Drugs List and Directory of Insured Drugs

Applicable Not applicable

| Main Drugs (Products) | National Essential Drugs List | Directory of Insured Drugs | |
|--|-----------------------------------|----------------------------|------------------|
| | | National level | Provincial level |
| Shenmai Injection | Included | Included | Included |
| Hydroxychloroquine Sulfate Tablets | Excluded | Included | Included |
| Sodium tanshinon IIA silate injection | Excluded | Included | Included |
| Live Combined Bifidobacterium | Capsule included, powder excluded | Included | Included |
| Calcium Dibutyryl adenosine Cyclophosphate for Injection | Excluded | Excluded | Excluded |

Note: The currently executed National Essential Drugs List was formulated in 2012, which was not adjusted in 2015. The currently executed Directory of Drugs for Basic Medical, Accident and Maternity Insurances was formulated in 2010, which was not adjusted in 2015.

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5. Bid-winning information about main drugs (products) in pharmaceuticals Purchase by centralized bidding

✓ Applicable □ Not applicable

| Main Drugs (Products) Name | Bid-winning Price Range (RMB) | Actual Purchase Quantity in Total of Medical Institutions |
|--|---------------------------------|---|
| Shenmai Injection | 12.78-15.3 (10ml) | 4.986 million ampoules |
| | 24.56-27.99 (20ml) | 6.500 million ampoules |
| | 54.18-70.51 (50ml) | 4.108 million ampoules |
| | 114-130.71 (100ml) | 0.767 million ampoules |
| Hydroxychloroquine Sulfate Tablets | 24.72-31.53 (0.1g*14) | 11.593 million boxes |
| Sodium tanshinon IIA silate injection | 15.66-16.32 (2ml:10mg) | 63.721 million ampoules |
| Live Combined Bifidobacterium | 20.46-23.35 (Capsules 0.21g*24) | 1.142 million boxes |
| | 30.24-35.02 (Capsules 0.21g*36) | 4.442 million boxes |
| | 15.70-16.93 (Powder 1g*6) | 0.867 million boxes |
| | 17.81-19.52 (Powder 1g*7) | 1.713 million boxes |
| | 22.90 (Powder 1g*9) | 0.083 million boxes |
| Calcium Dibutyryl adenosine Cyclophosphate for Injection | 35.47-65.00 (20mg) | 25.616 million ampoules |

Notes: 1 The data source of the actual purchase quantity in total of medical institutions is from IMS;

2 The information disclosed is the new bid-winning price used by the bid-winning provinces during the Reporting Period.

Explanation

✓ Applicable □ Not applicable

In 2015, the bid-winning price of some drugs, to some extent, dropped, but the sales volume of some products increased; therefore, the overall influence is controllable.

6. Information about Main Medicinal Materials Used for the Preparation of Main Traditional Chinese Medicines (Products)

The main traditional Chinese medicines (products) of the Company include Shenmai Injection, Wangbi Tablets, Trichosanthes Peel Injection, Yangxinshi Tablets and Rupixiao Tablets; the important medicinal materials used are shown as the following table:

| Therapeutic Area | Main traditional Chinese medicine products | Important medicinal materials | Supply and demand | Purchase pattern | Influence of fluctuations in price |
|------------------------|--|---|--|--|---|
| Cardiovascular System | Shenmai Injection | Red ginseng (55-80 ginseng, five-year-old) | With stable supply sources | Bidding | Price dropped slightly, with little influence. |
| | | Radix Ophiopogonis (from Zhejiang) | Zhejiang radix ophiopogonis bases were established jointly, so the supply source was stable. | Supplying by establishing bases and purchasing by public bidding | Price was stable, without influence basically. |
| Musculoskeletal System | Wangbi tablets | Safflower, white paeony root, rehmannia, radix aconiti lateralis preparata, herba epimedii, radix clematidis, spina gleditsiae, lycopodium clavatum, etc. | With stable supply sources | Centralized purchasing from the place of origins of medicinal materials; Bidding purchase by comparing the quality and price | The price of herba epimedii, radix aconiti lateralis preparata, radix clematidis, lycopodium clavatum and spina gleditsiae was stable with slight increase; The price of safflower, rehmannia and white paeony root was stable with slight decrease; The price of other medicinal materials was stable. In overall, the influence was little. |
| Cardiovascular System | Trichosanthes Peel Injection | Trichosanthes Peel | With stable supply sources | Commitment purchase | Price was stable, without influence basically. |

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| Therapeutic Area | Main traditional Chinese medicine products | Important medicinal materials | Supply and demand | Purchase pattern | Influence of fluctuations in price |
|--|--|---|----------------------------|--|---|
| Cardiovascular System | Yangxinshi Tablets | Angelica sinensis, rehmannia, codonopsis pilosula, herba epimedii, ginseng, etc. | With stable supply sources | Centralized purchase from the place of origins of medicinal materials; Bidding purchase by comparing the quality and price | The price of angelica sinensis, codonopsis pilosula, herba epimedii was stable with slight increase; The price of rehmannia and ginseng was stable with slight decrease; The price of other medicinal materials was stable. In overall, the influence was little. |
| Genito urinary system and sex hormones | Rupixiao Tablets | Radix scrophulariae, pseudo-ginseng, seaweed, safflower, cortex moutan, red peony root, fructus forsythia, etc. | With stable supply sources | Centralized purchase from the place of origins of medicinal materials; Bidding purchase by comparing the quality and price | The price was stable basically; the price of safflower, radix scrophulariae and fructus forsythia was stable with slight decrease, without influence basically. |

7. Information about Well-known or Famous Trademarks of the Company

Applicable Not applicable

The Company possesses 20 well-known or famous trademarks, including well known and famous trademarks (Sine, Lei's, Shenxiang, Dragon & Tiger, Growful and Dinglu), well known trademark (Cangsong) and famous trademarks (Huashi, Bifico, Nuoxinkang, Lisu, Xingling, Huguang, Ya, Zhongxi, Yutu, Eagle, EAGLE, Tiantan, Haohushi). In addition, the Company was also been authorized to use the Famous Trademarks of China of Qingchunbao and Hu Qing Yu Tang.

| Corresponding trademark | Main drug name | Registered classification | Indications/main functions | Protected TCM variety or not | Prescription drugs or not | Sales volume | Operating income | Operating margin |
|-------------------------|--|----------------------------|---|------------------------------|---------------------------|-------------------------|-------------------|-------------------|
| Nuoxinkang | Sodium tanshinon IIA silate injection | / | For adjuvant treatment of coronary heart disease, angina and myocardial infarction. | No | Yes | 135.08 million ampoules | RMB401.12 million | RMB305.58 million |
| Xinyi, Bifico | Live Combined Bifidobacterium | Class I biological product | For the treatment of diarrhea and abdominal distension caused by alteration of intestinal flora, as well as mild and moderate acute diarrhea and chronic diarrhea | No | OTC and non-OTC drugs | 557.07 million capsules | RMB382.25 million | RMB294.83 million |
| Lisu | Calcium Dibutyryl adenosine Cyclophosphate for Injection | / | For adjuvant treatment of angina and acute myocardial infarction, and the treatment of myocarditis and cardiogenic shock | No | Yes | 40 million bottles | RMB330.43 million | RMB167.02 million |

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8. Basic Information about the Company's Major Manufacturing Businesses according to Treatment Field

✓ Applicable □ Not applicable

Unit: RMB0'000

| Treatment field | Operating income | Operating cost | Gross profit margin | Increase/decrease in operating income YOY (%) | Increase/decrease in operating cost YOY (%) | Increase/decrease in gross profit margin YOY | Gross profit margin of the products in the same industry and field |
|---|------------------|----------------|---------------------|---|---|--|--|
| Cardiovascular System | 284,337 | 162,500 | 42.85% | 5.62 | 10.26 | -2.40 | 77.30% |
| Digestive and Metabolism | 143,483 | 73,541 | 48.75% | 4.67 | -7.23 | 6.58 | 36.97% |
| Systemic Anti-infection | 127,086 | 80,312 | 36.81% | 23.09 | 17.57 | 2.97 | 32.12% |
| Neurological System | 51,815 | 16,912 | 67.36% | 21.84 | 19.56 | 0.62 | 84.14% |
| Antineoplastic drug and immunomodulator | 65,471 | 15,630 | 76.13% | 5.85 | -1.31 | 1.73 | 69.97% |
| Musculoskeletal System | 70,034 | 21,202 | 69.73% | 6.35 | 6.99 | -0.18 | / |
| Respiratory system | 65,526 | 34,810 | 46.88% | 5.54 | -11.14 | 9.97 | / |
| Others | 374,627 | 177,013 | 52.75% | 1.66 | -1.42 | 1.48 | / |
| Total | 1,182,379 | 581,920 | 50.78% | 6.49 | 3.27 | 1.53 | / |

Note: Gross profit margin =(operating income–operating cost)/operating income

Explanation

✓ Applicable □ Not applicable

- The data of gross profit rate of the same product field in the same industry of the cardiovascular system, the digestive tract and metabolism, systemic anti-infective, anti-tumor and immunomodulatory agents come from the gross profit rate of "cardiovascular" "digestive system" "anti-infective" and "anti-tumor" products in the 2015 Annual Report of Harbin Pharmaceutical Group.
- The data of gross profit rate of the same product field in the same industry of the central nervous system come from the gross profit rate of "central nervous system drugs" products in the 2015 Annual Report of Humanwell Medicine.
- The data of gross profit rate of the same product field in the same industry of musculoskeletal system and the respiratory system still cannot be obtained from the data of the companies which have published their annual reports.

9. Sales Model Analysis

Applicable Not applicable

During the Reporting Period, the Company's sales network covered 31 provinces, regions and direct-controlled municipalities in China and the clients include medicine-related commercial companies and drugstores, etc. Mainly adopting the sales pattern of "self-run+ investment agency", the Company realized the goal of covering the hospital terminals and retail terminals throughout the country through distributors' or agents' distribution channels.

The pricing principles of the prescription drugs of the Company are determined according to the bidding prices of the provinces and cities; the prices of the OTC products and health care products are determined according to the market-competition-based price system.

The operational risk lies in the possible occurrence of reduced price, unsuccessful bidding and other uncertainties in the process of bidding.

10. Sales Cost Analysis

(1) Specific Compositions of Industrial Sales Cost

Applicable Not applicable

Unit: RMB0'000

| Specific item name | The amount incurred in current period | Percentage of the amount incurred in current period accounting for total sales costs (%) |
|--|---------------------------------------|--|
| Employee Compensations and Relevant Welfares | 60,495.90 | 20.82 |
| Marketing Promotion and Advertising Costs | 96,339.91 | 33.16 |
| Travels and Conferences Costs | 76,363.00 | 26.29 |
| Transportation Costs | 18,892.35 | 6.50 |
| Rental Costs | 1,816.87 | 0.63 |
| Office Costs | 7,525.07 | 2.59 |
| Amortization of Intangible Assets | 1,274.36 | 0.44 |
| Depreciation of Fixed Assets | 317.28 | 0.11 |
| Others | 27,492.80 | 9.46 |
| Total | 290,517.54 | 100.00 |

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(2) *Comparison in the same industry*

Applicable Not applicable

Unit: RMB0'000

| Comparable Companies in the Same Industry | Sales Costs | Percentage of Sales Costs Accounting for Operating Income (%) |
|---|-------------|---|
| Baiyunshan Pharmaceutical | 394,279.13 | 20.97 |
| Fosun Pharmaceutical | 230,042.37 | 19.13 |
| Hengrui Medicine | 284,424.30 | 38.17 |
| Huarun Sanjiu Medical | 241,268.29 | 33.16 |
| Livzon Group | 220,821.87 | 39.83 |
| Average Sales Costs in the Same Industry | | 274,167.19 |
| Total Industrial Sales Costs of the Company During the Reporting Period | | 290,517.54 |
| Percentage of Industrial Sales Costs Accounting for Industrial Operating Income During the Reporting Period (%) | | 24.57 |

Note: The data of the above comparable companies is derived from their 2014 annual reports. The average sales costs of the same industries are the arithmetic average of the five comparable companies in 2014.

(3) *Explanations of the Significant Sales Cost Changes and the Reasonability*

Applicable Not applicable

During the Reporting Period, the total industrial sales costs of the Company was RMB2905.1754 million, accounting for 24.57% of the industrial operating income, without significant changes compared with the same period of last year, and the sales cost margin was reasonable. The Company applies the approach of classification management for the cost of sales. There is scientific advance budgeting, strict budgetary control in the process and post analysis of the difference reasons. There are the special review and approval processes for the preparation, use and adjustment of the budget of cost of sales; at the same time, the external channel cooperation shall be strengthened and the cost shall be controlled, and the costs is cut internally in parallel; thus the cost of sales can be effectively controlled.

■ Pharmaceutical Services

1. Pharmaceutical Distribution

During the Reporting Period, the sales revenue from pharmaceutical distribution business was RMB93.717 billion, representing an increase of 15.47% on a YOY basis, with a gross profit margin of 6.02%, representing a decrease of 0.04 percentage point as compared with the corresponding period of last year. The costs of sales and administration accounted for 3.44%, representing a decrease of 0.12 percentage point as compared with the corresponding period of last year. The operating profit margin after deducting the sales and administration expenses was 2.58%, representing an increase of 0.08 percentage point as compared with the corresponding period of last year.

During the Reporting Period, in a bid to maintain the gross profit margin of distribution business, the Company continued to optimize its product structure, maintain reasonable direct sale proportion and to implement Lean Six Sigma management, in order to strengthen cost control. The Company also further expanded innovative services on hospital supply chain, entrusting a total of 84 hospital pharmacies currently. In order to expand and enrich the product line, the Company introduced 10,119 new products, of which 418 were imported, and 9,701 were domestically manufactured.

During the Reporting Period, among the distribution regions of the Company, the proportion of sales in the areas of East China, North China and South China was 65.44%, 28.25% and 5.41% respectively. The distribution business of the Company maintained reasonable proportions, 61.42% for direct hospital sales, almost the same as the corresponding period of last year.

As at the end of the Reporting Period, the Company's distribution business covered 20,970 medical institutions, of which 20,630 were hospitals and 340 were centres of disease control (CDC). Among the hospitals, 1,271 were graded as class 3, accounting for 72.39% of the hospitals of its kind in the PRC.

2. Pharmaceutical Retail

During the Reporting Period, the sales revenue from the Company's pharmaceutical retail was RMB4.795 billion, representing an increase of 13.68% YOY; gross profit margin was 15.64%; and operating profit margin after deducting sales and administration costs was 1.50%. As at the end of the Reporting Period, the Company had 1,769 chain retail pharmacies under its brand family, including 1,167 directly operated pharmacies. The Company jointly established 29 pharmacies with medical institutions.

3. Pharmaceutical e-commerce

In March, 2015, Shanghai Pharmaceuticals Holding Co., Ltd. invested and set up SPH Cloud Health. As an E-commerce of prescription drugs combining online solutions with offline retail resources, SPH Cloud Health devoted itself to provide the patients with professional, safe and convenient services of prescription drug purchase and comprehensive long-term health management. In October 2015, SPH CloudHealth completed the integration of DTP business platform. By the end of 2015, the sales income was approximately RMB606 million. In 2015, the DTP business covered 24 cities, a total of 30 DTP designated pharmacies, realizing annual sales income of RMB2.478 billion.

On the strategic and capital levels, SPH Health Cloud cooperated with Jingdong, Wanda, DXY etc., promoting implementation and deepening of e-commerce strategy layout. It introduced Jingdong, IDG and other strategic and financial investors.

In the aspect of operation, SPH Health Cloud promoted B2C and B2B business segments comprehensively. B2C: Exploration of relevant e-commerce business pattern has been completed preliminarily. It launched “Yiyao Health” for patients to facilitate patients to purchase prescription drugs through the most convenient e-commerce channel by means of APP/Wechat etc. The order quantity achieved currently through APP/Wechat and other e-commerce channels has accounted for more than 40% of all orders. It launched “Yiyaobao” project for hospitals to help hospitals realize the separation of hospital and medicine, interface with hospitals to implement electronic prescription and realize delivery of medicines to home for patients by means of “internet+”; In the aspect of construction of flagship stores, it promoted “Yiyao pharmacies” to promote comprehensive value-added services, including financial services, patient education, medical products donating etc. B2B: It will cooperate with Jingdong to create B2B wholesale platform for retail pharmacies, small and medium sized medical institutions with relevant works in the progress.

■ External investment, operational improvement and internal integration

1. External investment

During the Reporting Period, SPH’s foreign investment project principle embodied Internet + industry conjunction, improvement of industrial chain integration, commercial strategy layout to drive filling and leveling up, comprehensive use of capital market tools to realize merger and acquisition layout, reinforcement of scientific research investment to improve pilot test and industrial link capacity.

(1) *Implementation of Internet + Industry Conjunction*

With the assumption of Internet + industry conjunction, after establishment of Shanghai Pharma Health Cloud Co., Ltd, it introduced Jingdong and completed A round financing to make full use of both parties’ resource advantages and Internet platform, laying good foundation for strengthening information interfacing with medical institutions, enlarging DTP pharmacy sales, and solving “the last one-kilometer” distribution and delivery.

(2) *Improvement of Industrial Chain Integration*

The Company completed acquisition of Dali Zhonggu Taxus Chinensis Biology Co., Ltd., newly established Shandong Salvia Miltiorrhiza Manufacturing Company, newly established Shanghai Pharma SUNNICO Financial Leasing (Shanghai) Co., Ltd., playing a positive role in the Company's traceable system of controlling traditional Chinese medicine from the sources, controlling raw material costs and improving internal industrial chain value, further expanding medical apparatus and instruments business category, building core competitiveness of medical apparatus and instruments business, changing business type of medical apparatus and instruments segments and promoting upgrading and transformation driven by service industry.

(3) *Commercial strategy layout to drive filling and leveling up*

By acquisition of Jilin U. BON MED Co., Ltd., increasing capitals to Liaoning Medicine Foreign Trade Co., Ltd., newly establishment of Jiangxi Nanhua Shanghai Pharma Co., Ltd., the Company completed strategic layout in Jilin, Liaoning and Jiangxi, filling business blank and strengthening business controlling ability in these areas; By reorganization of Hangzhou Kailun Pharmaceutical Co., Ltd., Jiangsu Hongkang Pharmaceutical Co., Ltd., Jiangxi Shang Rao Pharmaceutical Co., Ltd., and other series of acts, the strength of the Company in Zhejiang, Jiangsu and other places with traditional commercial advantages has been improved; By increasing capitals to Shandong Shanghai Pharma Co., Ltd., Wuhu Shanghai Pharma Co., Ltd., Fujian Leiyunshang Pharmaceutical Co., Ltd., competitive edge of inventory commercial enterprises has been strengthened.

(4) *Making Full Use of Capital Market Tools to Realize Mergers and Acquisitions Layout*

The Company participated in newly established Shanghai Health Care Industry Equity Investment Fund Partnership, fully using capital market tools to pave the path for distance and size combination of merger and acquisition objects; It also used the method of combination of open market and internal market to accept targeted placement of Tianda Pharmaceutical Co., Ltd. and overweight to Hangzhou Hu Qingyu Tang Pharmacy, expand cooperation fields and promote configuration of capitals towards good-quality assets.

(5) *Improving Pilot Test and Industrial Link Capacity*

The Company established Shanghai Pharma (Benxi) North Pharmaceutical Co., Ltd. in Benxi Hi-tech Zone and depended on regional advantage of development area and the advantage of scientific manpower from local medical colleges and universities to form important drive to implement chemical medicine strategy establish chemical medicine research and development and pilot test industrial bases.

2. Optimizing cash pooling to reduce financial fees

During the Reporting Period, the Company continued to effectively play the role as a cash pool. Internal financing of the Company further expanded to RMB2.9 billion, directly reducing financial expenses by RMB120 million during the Reporting Period. The contracts of imported volume by purchasing through China International Pharmaceutical (Holding) Corporation Limited, a platform in Hong Kong, were amounted to RMB669 million.

Report of the Board of Directors

3. Implementing centralized procurement

During the Reporting Period, the Company continued to carry out the centralized procurement of bulk medicinal materials. In addition, based on year 2014, the Company completed the centralized procurement of ampoule bottle and laboratory instruments; The Company completed a new round of annual framework agreement of laboratory reagents with the average price reduced by 10%.

4. Strengthening Market Access

During the Reporting Period, the Company headquarters' market access platform has set up 8 market access offices in Beijing, Henan, Shandong, Hubei, Hunan, Fujian, Guangdong and Shaanxi with the support of controlled local business enterprises. Four market access zones formed by industrial enterprises; the market access system pattern of "four zones and eight offices" has been formed for creating good market access environment and improving successful ratio of medicines, effectively driving growth of industrial sales.

5. Embarking on "Lean Six Sigma" management

During the Reporting Period, the Company continuously penetrated into conducting Lean management, newly launched marketing and research and development segments based on overall coverage of industries and commerce and realized overall coverage of Lean Six Sigma management in all business segments of Shanghai Pharma, further strengthening width and depth of Lean management and improving various operation indicators to various degrees. During the Reporting Period, the Company trained more than 200 officials, almost one hundred projects with direct benefits of over RMB10 million.

6. Pushing forward internal business integration

During the Reporting Period, the marketing centres of the Company stuck to the principles of "planning, service, instruction and supervision" and continue to promote the optimization of marketing system. The Company further focused on therapeutic areas and key product varieties, facilitated the implementation of the "one product for one strategy" idea, improved the market access function by starting with low-price drugs, and promoted the linkage between manufacturing and distribution, so as to foster the core marketing capability and guarantee implementation and execution of product strategies and improvement of contribution of industrial marketing profit for key products through combination mechanism of marketing, scientific research and production.

7. Deepening Marketing System Construction

During the Reporting Period, the Company continued to promote platform construction of Marketing Department I, II, III. Marketing Department I set up a sales platform for the four core domains of rheumatology, psychoneural, anesthesiology and cardiovascular and conducted synergic optimization in such aspects as hospital development, academic promotion and market access. Marketing Department II continued to put forward the construction of marketing platform. Measures included the implementation of lean investment invitation, improvement in agent distribution and resource consolidation. Marketing Department II I completed the preparation and establishment of Shanghai Pharmaceutical Dragon & Tiger Medicine Sales Co., Ltd. as a physical sales company, and the Company commenced its operation. Marketing resource consolidation was made.

8. Promoting Improvement of Industry Energy Level

The Company's fixed asset investment budget amount was RMB1.636 billion in 2015, with RMB1.364 billion investment completed for fixed assets. Among them, the amount of investment budget of 33 abovenorm projects was RMB1.093 billion, with RMB938 million investments completed for fixed assets mainly involving chemical medicines, Chinese traditional medicine, business logistics etc., with 11.81% of fixed asset investment used for GMP transformation, 73.86% of manufacturing energy level improved and 14.33% of medicine logistics built in 2015.

Report of the Board of Directors

(I) Analysis of principal business

1. Analysis on changes in relevant items of consolidated income statement and statement of cash flow

Unit: RMB

| Item | Amount for the Reporting Period | Amount for the same period last year | Change (%) | Reasons for changes |
|---|---------------------------------|--------------------------------------|------------|--|
| Operating Income | 105,516,587,303.26 | 92,398,893,626.70 | 14.20 | Increase of sales income during the Reporting Period |
| Operating costs | 92,715,327,844.15 | 80,994,124,189.65 | 14.47 | Increase of sales income during the Reporting Period |
| Sales costs | 5,348,229,674.74 | 4,826,366,911.53 | 10.81 | Increase of sales income during the Reporting Period |
| Management costs | 3,234,123,882.17 | 2,954,783,465.34 | 9.45 | Increase of management costs resulting from the increase in the scale of operation during the Reporting Period |
| Finance costs | 564,888,310.76 | 436,299,869.59 | 29.47 | Decrease of interest expense and decrease of interest income during the Reporting Period |
| Earnings from changes in fair value | 314,575.80 | 165,673.20 | 89.88 | Increase of fair value of trade financial assets during the Reporting Period |
| Non-operating income | 600,898,156.70 | 858,439,668.50 | -30.00 | Decrease of relocation compensation during the Reporting Period |
| Non-business expenditure | 115,653,874.77 | 328,252,018.10 | -64.77 | Decrease of relocation expenditure during the Reporting Period |
| Income tax expense | 807,486,192.68 | 807,716,945.78 | -0.03 | Decrease of the taxable income during the Reporting Period |
| Net cash flow generated from operating activities | 1,349,162,853.33 | 1,335,674,135.37 | 1.01 | Increase in collection of receivables during the Reporting Period |
| Net cash flow generated from investing activities | -1,908,913,327.37 | -1,844,573,224.17 | -3.49 | Increase of expense for mergers and acquisitions during the Reporting Period |
| Net cash flow generated from financing activities | 636,435,279.05 | -948,811,062.99 | / | Increase of debt repayment during the Reporting Period |
| R&D expenses | 617,690,774.00 | 512,324,300.00 | 20.57 | Increase of the R&D investment during the Reporting Period |

Report of the Board of Directors

2. Income and Cost Analysis

(1). Principal business by industry, product and region

Unit: RMB

| Principal business by Industry | | | | | | |
|--------------------------------|-------------------|-------------------|-------------------------|---|---|--|
| By industry | Operating income | Operating cost | Gross profit margin (%) | Increase/decrease in operating income YOY (%) | Increase/decrease in operating cost YOY (%) | Increase/decrease in gross profit margin YOY (%) |
| Manufacturing | 11,823,792,687.07 | 5,819,201,565.40 | 50.78 | 6.49 | 3.27 | +1.53 percentage point |
| Distribution | 93,716,695,356.41 | 87,964,869,895.60 | 6.14 | 15.47 | 15.51 | -0.04 percentage point |
| Retail | 4,795,209,938.34 | 4,028,463,655.22 | 15.99 | 13.68 | 14.99 | -0.96 percentage point |
| Others | 55,333,933.78 | 14,762,192.92 | 73.32 | 51.38 | 4.99 | +11.78 percentage point |
| Offsetting | -5,323,770,641.37 | -5,308,422,592.16 | | | | |

| Principal business by region | | | | | | |
|------------------------------|--------------------|-------------------|-------------------------|---|---|--|
| By region | Operating income | Operating cost | Gross profit margin (%) | Increase/decrease in operating income YOY (%) | Increase/decrease in operating cost YOY (%) | Increase/decrease in gross profit margin YOY (%) |
| Domestic | 104,302,861,357.59 | 91,946,875,232.27 | 11.85 | 14.16 | 14.44 | -0.22 percentage point |
| Overseas | 764,399,916.64 | 571,999,484.71 | 25.17 | 12.41 | 17.93 | -3.50 percentage point |

Note: 1 Details for description of principal business by industry, product and region, see above "Pharmaceutical Manufacturing Basic Information of the Company's Principal Manufacturing Business according to Treatment Fields".

2 Gross profit margin =(operating income – operating cost)/operating income *100%

(2). Major customers

1 The largest customer of pharmaceutical distribution accounted for 1.64% of the sales of the distribution section; the sales to the top 5 customers in aggregate accounted for 3.58% of the total sales of the distribution section of the Company;

Report of the Board of Directors

- 2 The largest customer of pharmaceutical manufacturing accounted for 3.05% of the sales of the manufacturing section; the sales to the top 5 customers in aggregate accounted for 10.74% of the total sales of the manufacturing section of the Company;
- 3 Information on any interests in customers disclosed in 1-2 above held by any directors or their respective associates or any shareholder or no such interests:None.

(3). Table of Cost Analysis

Unit: RMB0'000

| By Industry | | | | | | | |
|-----------------------|--|---------------------------------|--|--|---|---|-------------|
| By Industry | Items of Cost structure | Amount for the Reporting Period | Percentage of the cost to the total cost of the Reporting Period (%) | Amount for the corresponding period of last year | Percentage of the cost to the total cost of the corresponding period of last year (%) | Percentage change of the amount at the Reporting Period compared to that of the corresponding period of last year (%) | Explanation |
| Manufacturing | Raw materials, ancillary materials and packaging materials | 424,361.38 | 72.92 | 409,259.45 | 72.63 | 3.69 | |
| | Utilities and power expenses | 23,569.62 | 4.05 | 24,211.69 | 4.30 | -2.65 | |
| | Depreciation charges | 25,526.04 | 4.39 | 20,454.79 | 3.63 | 24.79 | |
| | Salaries | 52,518.70 | 9.03 | 52,311.30 | 9.28 | 0.40 | |
| | Other manufacturing cost | 55,944.42 | 9.61 | 57,270.92 | 10.16 | -2.32 | |
| | Total industrial cost | 581,920.16 | 100 | 563,508.15 | 100 | 3.27 | |
| Commercial and others | Cost | 9,220,480.60 | 100 | 7,984,350.16 | 100 | 15.48 | |
| Offsetting total cost | | -530,867.98 | | -448,445.89 | | | |
| Total operating cost | | 9,271,532.78 | 100 | 8,099,412.42 | 100 | 14.47 | |

(4). Major suppliers

- 1 For distribution of pharmaceutical products, the purchase from the largest supplier accounted for 1.80% of the total purchase of the distribution section; the aggregate purchase from the five largest suppliers accounted for 6.66% of the total purchase of the distribution section of the Company for the year;
- 2 For manufacturing of pharmaceutical products, the purchase from the largest supplier accounted for 4.91% of the total purchase of the manufacturing section; the aggregate purchase from the five largest suppliers accounted for 16.42% of the total purchase of the manufacturing section of the Company for the year;
- 3 Information of any interests in the suppliers disclosed in 1-2 above held by any directors or their respective associates or shareholders or no such interests: None.

3. Expenses

(1) Expense Analysis Table

See the Analysis Table for Changes in Items Contained in the Profit Statement and the Cash Flow Statement—Analysis on Article (I) of the Report Principal Activities for reasons of changes by more than 30% in financial data such as sales expenses, management expenses, financial expenses, income taxes, etc.

(2) Exchange Rate Fluctuation Risk and Any Hedging

Shanghai Pharma conducts its operations mainly in China and makes settlements in RMB for its principal activities. However, foreign exchange risks still exist in assets and liabilities denominated in foreign currencies and future foreign currency transactions (the main currencies denominating assets and liabilities in foreign currencies and foreign currency transactions are US dollar and Hong Kong dollar).

(3) Tax Deductions

See the Note (III) to Financial Statements prepared in accordance with the Chinese Accounting Standards for Business Enterprises and the Note 35 to Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards for details.

4. R&D Investments

See “Information on Principal Activities during the Reporting Period” in Section IV Report of Board of Directors for details.

5. Cash Flow

The net amount of cash flow generated by Shanghai Pharma from its operating activities is RMB1.349 billion during the Reporting Period, representing an increase of 1.01% on a year-on-year basis, providing a better cash inflow from the operating activities; the net amount of cash flow generated from the investing activities is RMB-1.909 billion; and the net amount of cash from generated from financing activities is RMB636 million. The net cash flow from operating activities accounted for 40.1% of net profit, representing a decrease of 4.54 percentage points over the same period of last year; thus there is no significant difference.

Report of the Board of Directors

(II) Explanations on Significant Changes in Profit Resulting from Non-principal Activities

Applicable Not applicable

(III) Analysis on Assets and Liabilities

1. Assets and Liabilities

Unit: Yuan

| Items | Ending Amount | Percentage of Ending Amount to Total Assets (%) | Last Ending Amount | Percentage of Last Ending Amount to Total Assets (%) | Ratio of Current Ending Amount to Last Ending Amount (%) | Explanations |
|--|------------------|---|--------------------|--|--|--|
| Financial assets measured at fair value and of which changes are recorded into current profit and loss | 820,234.80 | 0.001 | 505,659.00 | 0.0008 | 62.21 | The fair value of financial assets held for trading appreciated during the Reporting Period |
| Prepayments | 1,455,856,180.06 | 1.96 | 1,076,062,833.82 | 1.67 | 35.29 | Due to the expanded range of consolidation and the business growth during the Reporting Period |
| Dividends receivable | 12,536,032.48 | 0.02 | 274,730,002.86 | 0.43 | -95.44 | Dividends recovered from associates during the period |
| Assets classified as held for sale | 56,206,044.44 | 0.08 | 10,723,975.38 | 0.02 | 424.12 | Due to the increase in assets held for sale to be disposed within 1 year during the Reporting Period |
| Other current assets | 559,288,629.65 | 0.75 | 355,940,975.59 | 0.55 | 57.13 | Due to the increases in tax deductions and pre-paid taxes during the Reporting Period |

Report of the Board of Directors

| Items | Ending Amount | Percentage of Ending Amount to Total Assets (%) | Last Ending Amount | Percentage of Last Ending Amount to Total Assets (%) | Ratio of Current Ending Amount to Last Ending Amount (%) | Explanations |
|---|-------------------|---|--------------------|--|--|---|
| Financial assets available for sale | 278,483,625.23 | 0.37 | 187,433,250.57 | 0.29 | 48.58 | Due to the increase in financial assets available for sale during the Reporting Period |
| Long-term receivables | 332,929,115.41 | 0.45 | 252,911,978.93 | 0.39 | 31.64 | Due to the increase in deposits paid for business during the Reporting Period |
| Long-term entity investment | 3,636,906,109.52 | 4.89 | 2,745,612,375.88 | 4.27 | 32.46 | Due to the increases in investment cost and return on investment of associates during the Reporting Period |
| Productive biological asset | 397,156,630.90 | 0.53 | 584,595.29 | 0.0009 | 67,837.02 | Due to the increase in number of acquisition of subsidiaries |
| Other noncurrent assets | 743,080,235.51 | 1.00 | 402,813,375.94 | 0.63 | 84.47 | Due to the increase in amounts prepaid for projects during the Reporting Period |
| Short-term borrowings | 10,389,256,746.68 | 13.97 | 7,932,394,326.58 | 12.33 | 30.97 | Due to the expanded range of combination and the business growth during the Reporting Period |
| Non-current liabilities due within one year | 290,071,796.07 | 0.39 | 20,730,000.00 | 0.03 | 1,299.29 | Due to the increase in the compensation for demolition and relocation due within one year during the Reporting Period |

Report of the Board of Directors

| Items | Ending Amount | Percentage of Ending Amount to Total Assets (%) | Last Ending Amount | Percentage of Last Ending Amount to Total Assets (%) | Ratio of Current Ending Amount to Last Ending Amount (%) | Explanations |
|-----------------------|----------------|---|--------------------|--|--|---|
| Dedicated Payables | 300,000.00 | 0.0004 | 540,000.00 | 0.0008 | -44.44 | Due to the use of specific-purpose appropriation during the Reporting Period |
| Estimated Liabilities | 5,743,197.09 | 0.01 | 13,655,716.53 | 0.02 | -57.94 | Due to the decrease in loss of contingencies during the Reporting Period |
| Deferred Income | 367,866,511.57 | 0.49 | 554,263,213.86 | 0.86 | -33.63 | Due to the transfer of compensation for demolition and relocation during the Reporting Period |

2. Capital Structure

The asset-liability ratio (total liabilities/total assets) of Shanghai Pharmaceuticals was 54.52% as at 31 December 2015 (51.66% as at 31 December 2014), representing an increase of 2.86% on a year-on-year basis. The interest coverage ratio (EBIT/Interest Expenses) was 7.80 times (2014: 7.50 times). The capital ratio of the Company (net amount of debts divided by total capital) was 23.68%.

3. Explanations on Assets Measured at Fair Value and Changes in Measurement Attributes of Assets

During the Reporting Period, Shanghai Pharmaceuticals measures its assets at historical cost, other than financial assets held for trading and some available-for-sale financial assets measured at fair value. The fair value is measured at prices in the active market.

4. Information on Loans and Borrowings

During the Reporting Period, Shanghai Pharmaceuticals has a good liquidity and financial resources. The balance of loans as at 31 December 2015 was RMB10.492 billion, including RMB0 converted from loans in US dollar and RMB0 converted from loans in HK dollar. The net amount of accounts receivable and notes receivable at 31 December 2015 was RMB25.348 billion (RMB21.408 billion at 31 December 2014), representing an increase of 18.40% on a YoY basis. On 31 December of 2015, the balance of accounts payable and notes payable was RMB24.437 billion (on 31 December of 2014, it was RMB20.436 billion) has been increased by 19.58%. The main reason resulting in increase in accounts receivable was the business growth and the expanded range of consolidation. See Notes (26), (36) and (37) to Financial Statements prepared in accordance with the Chinese accounting standards for business enterprises and Note 25 to Financial Statements prepared in accordance with Hong Kong Reporting Standards for details on loans and borrowings of the Company.

Report of the Board of Directors

5. *Property, Plant, Equipment and Invested Properties*

The particulars of changes in the property, plant, equipment and invested properties of Shanghai Pharma during the Reporting Period are set out in Notes (15), (16) and (17) to Financial Statements prepared in accordance with the Chinese accounting standards for business enterprises and Notes 7, 8 and 9 to Financial Statements prepared in accordance with Hong Kong Reporting Standards.

6. *(Fair Value of) Properties*

The value of investment properties of Shanghai Pharmaceuticals evaluated was RMB81,100 million as of 21 December 2015.

7. *Particulars on Contingent Liabilities*

During the Reporting Period, the Company has no major action or arbitration pending to be disclosed. The contingent liabilities and their financial impacts created from securities provided by the Company to other entities and its associates are as follows:

| Guarantor | Secured Party | Amount Secured (RMB'000) | Starting Date | Expiry Date |
|--|--|--------------------------|---------------|-------------|
| Shanghai Pharmaceutical Distribution Co., Ltd. | Chongqing Medicines Shanghai Sales Co., Ltd. | 1,107.00 | 2015/7/17 | 2016/2/17 |
| Shanghai Pharmaceutical Distribution Co., Ltd. | Shanghai Luoda Pharmaceutical Co., Ltd. | 8,500.00 | 2015/8/31 | 2016/8/26 |
| Shanghai Pharmaceutical Distribution Co., Ltd. | Shanghai Luoda Pharmaceutical Co., Ltd. | 6,500.00 | 2015/12/22 | 2016/12/21 |
| Hangzhou Kailun Pharmaceutical Co., Ltd. | Hangzhou Yuhang Oil Co., Ltd. | 10,000.00 | 2014/5/26 | 2016/5/8 |
| Hangzhou Kailun Pharmaceutical Co., Ltd. | Hangzhou Yuhang Oil Co., Ltd. | 10,000.00 | 2014/11/25 | 2016/7/27 |

The said securities have no significant financial effect on the Company.

Report of the Board of Directors

8. Charges on Assets

As at 31 December 2015, the Company provided properties, plants and equipment with a carrying amount of RMB172,174,631.62 (original price: RMB257,770,926.58) and the use right in 541,111.16 m² land (original price: RMB116,105,637.30 and carrying amount: RMB94,657,216.00) as collaterals for a short-term loan of RMB365,350,000.00, a long-term loan of RMB77,203,697.85 and a long-term loan of RMB9,000,000.00 due within one year.

As at 31 December 2015, the notes receivable with an amount of RMB25,143,005.27 were pledged to the bank as security for the issuance of notes payable of RMB22,456,521.00, and the accounts receivable of RMB1,118,695,082.58 and the time deposit of RMB20,400,000.00 were pledged to the bank as security for the grant of a short-term of loan of RMB888,390,000.00.

(IV) Industrial Information Analysis

According to the provisions of the Guidelines on Industrial Information Disclosure of Listed Companies No. 7, please refer to the sections “Management Discussions and Analysis” and “Main Business Information during Reporting Period” of the Report of Board of Directors for the disclosures contained in the annual statements.

(IV) Analysis on Investment Conditions

1. Overall Analysis on External Equity Investments

Unit: RMB0'000 Currency: RMB

| | |
|---|------------|
| Amount of Investments within Reporting Period | 186,145.76 |
| Increase or Decrease in Amount of Investments | -73,999.58 |
| Amount of Investment in Same Period of Prior Year | 260,145.34 |
| Percentage of Increase or Decrease in Amount of Investments (%) | -28.45 |

(1) Significant Equity Investments

Unit: Yuan Currency: RMB

| Acquiree | Time of acquisition | Purchasing cost | Main business activities | Proportionate interest acquired | Acquisition method | Capital source | Partner | Acquisition date | Basis for determination of acquisition date | Income of acquiree from acquisition date to the year end | Net profit of acquiree from acquisition date to the year end | whether involved in appeal |
|--|---------------------|-----------------|--|---------------------------------|--------------------------------|---|---------------|------------------|--|--|--|----------------------------|
| Xingquan Global Co., Ltd | 1 January 2015 | 229,500,000.00 | Production, sales and maintaining of medical equipment | 51.00% | Acquisition from third parties | Funds at the disposal of the localities | Third parties | 1 January 2015 | Controlled the financial and operating policies of the acquiree, and enjoyed the variable return through the participation in the related activities of the investees, and had the ability to use the powers of the investees to affect the return amount. | 127,493,823.04 | 24,355,885.90 | No |
| Hangzhou Kailun Pharmaceutical Co., Ltd | 31 March 2015 | 213,845,404.00 | Sales of drugs | 72.90% | Acquisition from third parties | Funds at the disposal of the localities | Third parties | 31 March 2015 | | 1,034,100,109.50 | 6,942,554.27 | No |
| SPH KYUAN Xinhai Pharmaceutical Jilin Co., Ltd | 31 March 2015 | 119,000,000.00 | Sales of drugs | 70.00% | Acquisition from third parties | Funds at the disposal of the localities | Third parties | 31 March 2015 | | 604,742,606.96 | 13,392,758.88 | No |

Note: After the Company acquired 54.90% of equity stake of Hangzhou Kailun Pharmaceutical Co., Ltd during the Reporting Period, it purchased 18% of the equity stake at a price of RMB51.12 million. Therefore, the shareholding ratio grew from the original 54.90% to 72.90%.

(2) Significant Non-equity Investments

None

(3) Financial Assets Measured at Fair Value

Unit: Yuan Currency: RMB

| Code | Name | Initial Investment Cost | Ending Carrying Amount | Profit or Loss during Reporting Period | Change in Owners' Equity during Reporting Period | Change in Fair Value | Source of Capital | Purchase or Sales during Reporting Period |
|------------|--------------------------------|-------------------------|------------------------|--|--|----------------------|-------------------|---|
| 600618 | Shanghai Chlor-Alkali Chemical | 186,500.00 | 820,234.80 | 314,575.80 | | 314,575.80 | Own fund | No |
| 600377 | JIANGSHU EXPRESSWAY | 1,000,000.00 | 8,750,000.00 | 380,000.00 | 1,450,000.00 | 1,450,000.00 | Own fund | No |
| 600329 | ZHONGXIN PHARMACEUTICALS | 91,473.00 | 1,937,376.96 | 13,720.80 | 541,514.24 | 541,514.24 | Debt Expiration | No |
| 000931 | ZHONGGUANCUN DEVELOPMENT GROUP | 99,300.00 | 320,040.00 | | 110,124.00 | 110,124.00 | Own fund | No |
| 600675 | CHINA ENTERPRISE | 390,000.00 | 6,131,555.74 | | 732,008.58 | 732,008.58 | Own fund | No |
| 601328 | BANK OF COMMUNICATIONS | 4,720,101.05 | 3,693,121.04 | 154,835.82 | -206,447.76 | -206,447.76 | Own fund | No |
| 000048 | Shenzhen Kondarl | 134,547.00 | 5,511,360.40 | | 3,910,946.13 | 3,910,946.13 | Merger | No |
| 000166 | Shenwan Hongyuan Securities | 1,250,000.00 | 18,849,600.00 | | 10,296,000.00 | 10,296,000.00 | Transformation | No |
| 06881 (HK) | China Galaxy Securities | 50,000,000.00 | 59,482,380.00 | 1,264,470.00 | -17,277,590.00 | -17,277,590.00 | Transformation | No |
| 00455(HK) | Tianda Holdings | 87,851,852.85 | 117,506,069.41 | | 29,654,216.56 | 29,654,216.56 | Own fund | Purchased during the Reporting Period |
| Total | | 145,723,773.90 | 223,001,738.35 | 2,127,602.42 | 29,210,771.75 | 29,525,347.55 | / | |

Report of the Board of Directors

(VI) Sales of Major Assets and Equities

The Company did not sell any major assets or equities during the Reporting Period.

(VII) Analysis on Companies under Control or in which the Company has Shares

Unit: RMB'-0,000 Currency: RMB

| Company Name | Business Nature | Shareholding Percentage | Registered Capital | Size of Assets | Owners' Equity | Business Income | Net Profit |
|--|-------------------------------|-------------------------|--------------------|----------------|----------------|-----------------|------------|
| Shanghai Pharma Distribution Holding Co., Ltd. | Sales of drugs | 100% | 339,312.78 | 3,120,782.10 | 734,574.60 | 6,343,153.24 | 102,392.97 |
| SPH Keyuan Xinhai Pharmaceutical Co., Ltd. | Sales of drugs | 100% | 130,000.00 | 1,549,695.60 | 351,913.74 | 2,420,679.73 | 27,131.41 |
| SPH Sine Pharmaceutical Factory Co., Ltd. | Production and sales of drugs | 100% | 119,161.13 | 273,673.43 | 175,716.83 | 293,700.02 | 18,211.98 |
| SPH No. 1 Biochemical & Pharmaceutical Co., Ltd. | Production and sales of drugs | 100% | 22,500.00 | 169,708.10 | 136,429.30 | 119,248.08 | 36,986.32 |
| SPH New Asia Pharmaceutical Co., Ltd. | Production and sales of drugs | 96.90% | 105,242.91 | 171,141.34 | 108,426.48 | 202,728.68 | 4,131.98 |
| Shanghai TCM Co., Ltd. | Production and sales of drugs | 100% | 58,947.00 | 406,859.85 | 131,715.36 | 447,341.23 | 21,236.85 |
| SPH Chiatai Qingchunbao Pharmaceutical Co., Ltd. | Production and sales of drugs | 75% | 12,850.00 | 133,468.07 | 113,355.03 | 120,257.51 | 13,577.08 |
| SPH Changzhou Pharmaceutical Co., Ltd. | Production and sales of drugs | 75.89% | 7,879.03 | 319,714.90 | 154,957.55 | 493,456.05 | 15,952.81 |
| SPH Zhongxi Sunve Pharmaceutical Co., Ltd. | Production and sales of drugs | 100% | 54,580.00 | 233,240.08 | 186,768.02 | 88,155.82 | 31,545.01 |
| SPH Qingdao Guofeng Pharmaceutical Co., Ltd. | Production and sales of drugs | 67.52% | 9,300.00 | 87,403.39 | 57,001.30 | 84,052.23 | 7,271.86 |
| Hangzhou Hujingyutang Pharmaceutical Co., Ltd. | Production and sales of drugs | 51.01% | 5,316.00 | 68,551.96 | 28,220.98 | 35,206.68 | 1,653.70 |
| Xiamen TCM Factory Co., Ltd. | Production and sales of drugs | 61.00% | 8,403.00 | 34,008.57 | 28,741.41 | 31,212.80 | 4,643.69 |
| Liaoning Herbex Pharmaceutical (Group) Co., Ltd. | Production and sales of drugs | 55.00% | 5,100.00 | 58,948.34 | 30,189.48 | 54,802.45 | 5,552.85 |
| Shanghai Zhonghua Pharmaceutical Co., Ltd. | Production and sales of drugs | 100.00% | 9,364.18 | 35,881.58 | 16,420.86 | 26,762.97 | -350.11 |

| Company Name | Business Nature | Shareholding Percentage | Registered Capital | Size of Assets | Owners' Equity | Business Income | Net Profit |
|---|---|-------------------------|--------------------|----------------|----------------|-----------------|------------|
| SPH Materials Supply and Sales Co., Ltd. | Wholesale of Chemicals and APIs. | 100.00% | 7,139.00 | 16,428.82 | 10,351.03 | 22,602.86 | 628.18 |
| Shanghai Medical Instruments Co., Ltd. | Production and sales of medical devices | 100.00% | 12,700.00 | 55,087.49 | 38,135.10 | 30,160.62 | -1,452.05 |
| SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd. | Production and sales of drugs | 90.25% | 14,132.19 | 36,455.53 | 31,780.81 | 14,466.56 | 5,095.04 |
| Shanghai Pharma Sales Co., Ltd. | Sales of drugs | 100.00% | 5,000.00 | 44,605.16 | 11,847.53 | 78,378.96 | 3,584.12 |

(VIII) Particulars on Structured Entities Controlled by the Company

None

III. DISCUSSIONS AND ANALYSIS OF THE COMPANY ON FUTURE DEVELOPMENT

(I) Industrial Competition and Development Trend

The growth of China's pharmaceutical industry tends to slow down within five years due to factors such as accelerated aging of population, upgraded consumption, medical reform, increase in investment and application of new technologies. Although the growth will slow down, the end market structure will undergo change that quantity of drugs sold by municipal hospitals is expected to decrease and medical institutions at grass-root level and pharmaceutical retailers will face a great opportunity in term of sales of drugs. The new policies implemented by the state in respect of pharmaceutical research and development, production quality, environmental protection and safety will further sharpen the industrial competition, and increase in R&D investment costs, innovation and quality has become the themes for the sustainable development of the industry. Low-level pharmaceutical enterprises may be acquired or reorganized in the future.

With the issue and implementation of state-level laws and regulations such as the Law of Traditional Chinese Medicines (Draft), the Outline of Strategic Plan on the Development of Traditional Chinese Medicine (2016-2030), the Plan for the Development of Health Services with Chinese Medicines (2015-2020), the Plan for the Protection and Development of Traditional Chinese Medicine (2015-2020), etc., the TCM industry will develop rapidly in the future. Enterprises who have solved the issues such as scattered, out-of-order or lack of quality traceability management, and cover the planting of TCM herbs, medicinal materials and medicinal slices, healthcare products and Chinese patent drugs and owns technological and quality advantages will promote the industrial integration and upgrading and seize the opportunities for development.

Report of the Board of Directors

Under the background of medical reform, the competition in medicine distribution and retail sector will become sharper, resulting in a smaller profitability margin so that small-scaled, low-efficiency medicine distributors and retailers will face more difficulties. However, with the implementation of policies favoring E-commerce and the reform of medical system, it is expected that the acquisition and reorganization trend of the pharmaceutical distribution and retail sector will continue.

(II) Development Strategy of the Company

The Company's vision is to become a respectable and well-reputed leading pharmaceutical manufacturer and health service provider.

In the new development era, the Company will be actively adaptable to the national strategy and follow the industrial development trend to promote the smart manufacture and smart services based on "Internet+" and the health industry by integrating resources, driven by innovation and developing both internally and externally. The Company is expected to make strategic breakthroughs in terms of chemical and biological pharmaceuticals, TCM, medical devices, distribution services, E-retail and grand health to keep Shanghai Pharma under sustainable and healthy development to achieve mutual growth of shareholders and employees.

For chemical drugs and biological drugs, the Company will focus on key products and medical treatment fields in which the Company has an advantage. The Company will continue to optimize the R&D system, open doors for cooperation and improve the R&D chain based on the integration of generic drugs and innovative drugs. The Company will attach importance to the development of biological medicine, and strength the secondary development of existing products, consistency evaluation of generic drugs, innovation of preparations and internalization work. Adhering the Dual-drive development, the Company has formed its own features and advantageous areas. In the future, the Company will adhere to the quality-first concept and strengthen the competitiveness in cardiovascular, nervous, rheumatism and immunity, alimentary canals and anti-tumor areas.

With respect to the traditional Chinese medicine, the Company will build a total-industry chain covering upstream, middle stream and downstream by grasping the historical development opportunity and based on our quality resources. We will focus on the control of sources of TCM materials and quality traceability management, actively expand the business of TCM formula granule, and deepen the integration with medical service terminals and retail stores to promote the overall competitiveness of the industrial chain.

With respect to the pharmaceutical commerce, the Company will continue to improve the national commercial network and accelerate the development and expansion of strategic areas, especially Southwest and Northeast China markets in addition to the enhanced coverage of East China, North China and South China. We will improve the provincial-level platform construction, invest more into the markets at the grass-root level and B2B business, strengthen the interaction between industry and commerce and business mode innovation and promote the lean operation level of the supply chain.

With respect to the retail and E-commerce, the Company will build a three-layer network including online E-commerce platform and offline network through internal optimization and external expansion to create a pharmaceutical retail mode integrating online and offline services.

By focusing on the exploration of the new growth point—grand health business, the Company will improve the new mode of medical device “lease + repair + spare parts” supply, and actively explore new business areas such as diagnostic reagents, hemodialysis instruments, large medical testing equipment, life support equipment, etc.

(III) Operating Plan

The year 2016 is the beginning for the Company to start the 3-year strategic development plan and is also a year during which there will be some uncertainties in market changes. Therefore, we have to recognize the situation and have a clear understanding of not only challenges brought by policy changes to the tendering process but also the advantages that we have in terms of scale, improved industrial chain, varieties of products, quality stability and commercial service capacities. The Company has determined a general policy for 2016: Lean Production, Cost Reduction and Quality First; Internet-based Thinking and Proud of Innovative Services; Adaptive to New Normal and Fast Response to Market; Strive for Three Years and Reach a New High.” All our employees will be under the leadership of the board of directors and the management, adhere to the innovative thinking, innovative mode and innovative services, seize the new opportunities, overcome difficulties and ensure the achievement of the operating budgets and two-digit sales growth, and maintain our profitability at the industrial level and keep a good operation quality to provide a good start for the new three-year plan.

In order to ensure the achievement of the annual goals, the Company continues the construction of study-oriented geese-like team and has determined 20 items of work for the year 2016 based on the opportunities and challenges that the Company may face in 2016 to ensure the accomplishment of the Company’s strategical goals and operating plans.

For strategic planning, the Company will focus on the implementation of plans in respect of TCM and retail, E-commerce and medical devices, start the consistency evaluation of generic drugs and improve the contribution of new products. With respect to pharmaceutical research and development and manufacture, the Company will promote the construction of pilot trial industrialized base and the antibody industry base by optimizing the R&D investment mechanism. For the industrial marketing, the Company will strengthen the role of the marketing center and expand the depth and width of the management mode of one policy for one product, push forward the business of low-price medicines and emergent medicines and enhance the sales income of industrial products. For the production, the Company will commence the construction of manufacture and operation information center, optimize the layout of industrial bases and positioning of work allocation, build classical plants and shops, promote the six-sigma management and actively implement the international registration and certification of the preparations and production lines. For medical services, the Company will continue improving the nation-wide commercial network, enhance the supply chain management capacity, promote the extended supply chain services, improve the coverage of retail stores and better the operating abilities.

Report of the Board of Directors

(IV) Possible Risks

1. Industrial Policy Risk: With the deepening of medical system reform and the issuance of a number of industrial policies and laws in respect of medical charge control, control of medicines, reform of public hospitals, monitoring and restrictions on adjuvant drugs, new policies on drug review, consistency evaluation of generic drugs and cancellation of governmental pricing and revocation of Good Agricultural practice of Medicinal plants and Animals (“GAP”) certification for TCM, significant effect has been brought to the future development of the pharmaceutical industry, bringing policy risks to the Company;
2. Some drugs may suffer risks of policy-oriented price reduction, tender price reduction, loss of tender and secondary negotiation, so the drug prices will further be adjusted down, resulting in a small profitability margin;
3. The fluctuations in prices of build medicinal materials have brought significant effect on the cost of the Company’s TCM products;
4. Exchange risk may arise from the settlement currency used in overseas purchase of drugs;
5. Risk of fluctuation in export prices of APIs;
6. Environmental Protection Risk: With the issuance of new environmental protection law and regulations, the environmental protection requirements will become stricter and the control of pollutants from the production of APIs will be strengthened, resulting in increase in expenses paid by the Company for work safety, compliance and environmental protection.

Countermeasures:

In response to the said risks, the Company’s management will keep an eye on the policy changes, strengthen the interpretation and analysis of policies, make arrangement in advance and adjust strategies and tactics at proper time. In particular, the Company will strengthen the marketing management and market access platform functions, establish our own sales policies and tendering management system, enhance the improvement of production process, safety management and environmental protection level, and push forward the construction of lean management and risk control system. For possible risks, the Company will actively propose solutions to lower down their overall effect on the business of the Company.

(V) Miscellaneous

(1) *Capital Need of the Company to Maintain Current Business and Complete the Works under Construction*

In 2016, the sources of funds required for the development of the Company mainly include the existing funds and some debt financing, including bank loans and bonds.

(2) *Particulars on Major Plans for Investment or Acquisition of Capital Assets and How to Finance the said Plans within the Coming Year*

In 2016, the Company will adhere to the acquisition strategy focusing on industry and commerce, and improve the existing core network in terms of the medical service network arrangement, and expand the areas of Northeast China and Northwest China. For the pharmaceutical production, the Company will focus on the product structure of medical treatment field, implement the gradient transfer of production, control major raw materials and enter the biological and grand health fields for which the funds come from the same sources.

IV. EXPLANATIONS ON FACTS NOT DISCLOSED IN ACCORDANCE WITH THE STANDARDS AND REASONS SUCH AS INAPPLICABILITY OF STANDARDS OR SPECIAL REASONS

Applicable Not applicable

V. OTHER DISCLOSURES

(I) **Comments on Classification Information on Report of Board and Accounts**

No significant change during the reporting year.

(II) **Charity and other Donations**

See the 2015 Social Accountability Report of Shanghai Pharmaceutical Group Co., Ltd. for details.

(III) **Particulars on Number of Employees, Compensation, Compensation Policies, Bonus, Stock Option Plan and Training Plan**

See the following sections "Particulars on Employees" and "Compensation Policies".

(IV) **Share Capital**

See the following section "Particulars in Changes in Ordinary Shares and Shareholders" for details.

(V) **Particulars on Directors, Supervisors and Officers**

As of 31 December 2015, all particulars on the directors, supervisors and officers of the Company are set out in the following section "Particulars on Directors, Supervisors and Officers".

(VI) **Service Contracts of Management**

During the Reporting Period, the Company has not entered into any contract with any individual, company or corporation to manage or dispose all or any part of major business of Shanghai Pharma except for service contracts concluded with the management and those disclosed herein.

Report of the Board of Directors

(VII) Material Interest of Directors, Supervisors and Controlling Shareholders in Transactions, Arrangements and Contracts

During the Reporting Period, no director or supervisor (including any entity connected with a director or supervisor) or controlling shareholder (including any subsidiary of a controlling shareholder) of the Company had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance of the Company (including its subsidiaries).

(VIII) Rights of Directors and Supervisors to Subscribe Shares of the Company

The Company does not grant any right to any director, supervisor or his/her spouse or children of less than 18 years old to subscribe for any share or bonds of the Company (including its affiliates). For the year ended on 31 December 2015, the Company hasn't entered into any entity-linked agreement.

(IX) Indemnification Clauses Approved for Directors and Supervisors

The Company has maintained the responsibility insurances for directors, supervisors and officers in accordance with Article A.1.8 of the Company Governance Code. Except such insurances, the Company has no valid indemnification clauses (See Companies (Directors' Report) Regulation of the Company Ordinance for the definition) approved during the Reporting Period and at the time of approval of the Report.

(X) Interest of Directors and Supervisors in Competitive Business

As of 31 December 2015, no director or supervisor of the Company has interest in any business which competes or may compete, either directly or indirectly with any business of the Group.

(XI) Profit distribution of Common Stocks

The Company's profit distribution plan for 2015 is shown below in "Significant Events I – Plan For Profit Distribution of Ordinary Shares or Conversion of Capital Reserve Fund into Share Capital".

I. PLAN FOR PROFIT DISTRIBUTION OF ORDINARY SHARES OR CONVERSION OF CAPITAL RESERVE FUND INTO SHARE CAPITAL

(I) Formulation, implementation or adjustments of cash dividend policies

Pursuant to Article 245 of the Articles of Association, the profit distribution policy of the Company states that the Company implements a consistent and stable profit distribution policy, and that the Company's profit distribution stresses the importance of reasonable reward to the investors as well as the sustainable development of the Company. The dividend may be distributed by the Company by way of cash, shares or the combination of both. When the profit for the year and the accumulated undistributed profit are positive, the Company shall distribute dividend by way of cash if there are no events such as significant investment plan or major cash expenses. The cumulative cash dividends of the Company for the latest three (3) years shall not be less than 30% of the average annual distributable profit for the same three-year period. The detailed distribution plan will be determined by the shareholders' general meeting of the Company in accordance with the Company's actual operating results for the year.

In accordance with the PRC Company Law and the Articles of Association, the Company may only distribute dividends out of its annual profit available for distribution. Annual profit available for distribution refers to: the balance of the Company's profit after tax after deducting (i) accumulated loss in the previous years; and (ii) allocation to statutory surplus reserve, and (if any) allocation to discretionary surplus reserve (according to such priorities for allocations to such reserves).

Calculated on the aforesaid basis, the Company's reserve fund available for distribution as at 31 December 2015 was RMB1,245,886,000 based on the financial statements prepared under the Hong Kong Financial Reporting Standards. In addition, details of the changes in reserves (including the reserve fund available for distribution) as at 31 December 2015 are set out in the Note 11 of the financial statements under Accounting Standard for Business Enterprises of China and Note 46 of the financial statements under the Hong Kong Financial Reporting Standards.

According to the profit distribution plan of the Company for 2015 as resolved at the 21st meeting of the fifth session of the board of directors of Shanghai Pharmaceuticals, the profit distribution plan of the Company is to distribute to all shareholders a cash dividend of RMB3.30 (tax inclusive) for every 10 Shares on the basis of the total share capital of 2,688,910,538 Shares of Shanghai Pharmaceuticals as at the end of 2015, subject to approval by the shareholders' annual general meeting of the Company for 2015. The profit distribution plan complied with the Articles of Association and approval procedures of the Company, fully protected the legal interests of small and medium investors. The independent non-executive directors of the Company have provided their view in this regard.

Significant Events

Cash dividend of H shares expected to be paid before 30 August 2016. About withholding of tax for non-PRC resident shareholders and investors of Northbound Trading:

1. Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of Document Guo Shui Fa [1993] No. 045 issued by the State Administration of Taxation on 28 June 2011, the dividend distributed by the Company to non-PRC resident individual shareholders of H Shares is subject to PRC individual income tax at a rate agreed by the applicable tax agreement or arrangement between China and the jurisdictions that the shareholders reside in, ranging from 5% to 20% (as the case may be). The Notice further states that the tax rate applicable to dividend income as stated in the relevant tax agreement or arrangement is 10% in general, therefore the Company may withhold 10% of the dividend for tax payment without prior approval of the competent tax authority. Shareholders who reside in a jurisdiction where the applicable tax rate for dividend is lower than 10% (as stated in the relevant tax agreement or arrangement) are entitled to a refund of the excessive amount withheld by the Company, though such refund is subject to the approval of the competent tax authority. For shareholders who reside in a jurisdiction where the tax rate for dividend is above 10% but less than 20% (as stated in the relevant tax agreement or arrangement), we shall withhold the individual income tax at the actual rate in accordance with the relevant tax agreement or arrangement without the approval of the competent tax authority. For shareholders who reside in a jurisdiction where the tax rate for dividend is 20% (as stated in the relevant tax agreement or arrangement) or no tax agreement or arrangement has been entered into with China, we shall withhold the individual income tax at the rate of 20%. A brief introduction to the above arrangements has been made in the letter issued by the State Administration of Taxation to the Hong Kong Inland Revenue Department on 28 June 2011. The letter further specified that Hong Kong resident individuals shall pay a 10% individual income tax for the dividend received from the Company. Therefore the Company shall deduct 10% from the dividend to be distributed to non-PRC resident individual shareholders of H Shares as individual income tax, unless otherwise specified in the relevant requirements and procedures of the PRC tax authorities.
2. Pursuant to the PRC Enterprise Income Tax Law and its implementation regulations, non-PRC resident enterprises which have not established any organizations or premises in China are subject to a 10% enterprise income tax for all the income generated in China. Also, according to the Notice on Issues Relevant to the Withholding of Enterprise Income Tax on Dividends Paid by PRC Resident Enterprises to Offshore Non-resident Enterprise Holders of H Shares issued by the State Administration of Taxation on 6 November 2008, PRC resident enterprises shall withhold dividend distributed to overseas non-PRC resident enterprise holders of H Shares at a uniform rate of 10% as enterprise income tax since 2008. Overseas non-PRC resident enterprise shareholders enjoying tax concessions under the relevant tax agreement or arrangement are eligible to a refund of the excessive amount withheld by the Company, though the refund is subject to the approval of the competent tax authorities.

3. For investors of the Hong Kong Stock Exchange (including enterprises and individuals) investing in the A Shares of the Company listed on the Shanghai Stock Exchange (the “Northbound Trading”), their dividends will be distributed in RMB by the Company through the Shanghai Branch of China Securities Depository and Clearing Corporation Limited as the nominee account holding such Shares. The Company will withhold and pay income taxes at the rate of 10% on behalf of those investors and will report to the tax authorities for the withholding. For investors of Northbound Trading who are tax residents of other countries and whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of lower than 10%, those enterprises and individuals may, or may authorise a withholding agent to, apply to the competent tax authorities for the entitlement of the rate under such tax treaty. Upon approval by the tax authorities, the paid amount in excess of the tax payable based on the tax rate according to such tax treaty will be refunded.

4. For investors of the Shanghai Stock Exchange (including enterprises and individuals) investing in the H Shares of the Company listed on the Hong Kong Stock Exchange (the “Southbound Trading”), the Company has entered into the Agreement on Distribution of Cash Dividends of H Shares for Southbound Trading (港股通H股股票現金紅利派發協議) with the Shanghai Branch of China Securities Depository and Clearing Corporation Limited, pursuant to which, the Shanghai Branch of China Securities Depository and Clearing Corporation Limited, as the nominee of the holders of H Shares for Southbound Trading, will receive the cash dividends distributed by the Company and distribute the cash dividends to the relevant investors of H Shares of Southbound Trading through its depository and clearing system. The cash dividends for the investors of H Shares of Southbound Trading will be paid in RMB. Pursuant to the Notice on the Tax Policies Related to the Pilot Program of the Northbound Trading (關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知) (Cai Shui [2014] No.81), for dividends received by mainland investors from investing in H shares listed on the Hong Kong Stock Exchange through Northbound Trading, the company of such H shares shall withhold and pay individual income tax at the rate of 20% on behalf of the investors. For dividends received by mainland securities investment funds from investing in H shares listed on the Hong Kong Stock Exchange through Northbound Trading, the tax payable shall be the same as that for individual investors. The company of such H shares will not withhold or pay the income tax of dividends for mainland enterprise investors and those enterprise investors shall report and pay the relevant tax themselves.

Significant Events

- (II) Plan or Proposal for the Distribution of Profit of Ordinary Shares and Conversion of Capital Reserve Fund into Share Capital for the Latest Three Years (including the Reporting Period) of the Company

Unit: RMB

| Year of dividends | Bonus share for every 10 Shares | Dividend for every 10 Shares (tax inclusive) | Conversion into share capital for every 10 Shares | Amount of cash dividends (tax inclusive) | Net profit attributable to shareholders of listed company based on the consolidated statement for the year of dividends | Percentage in net profit attributable to shareholders of listed company based on the consolidated statement (%) |
|-------------------|---------------------------------|--|---|--|---|---|
| 2015 | 0 | 3.30 | 0 | 887,340,477.54 | 2,876,989,142.22 | 30.84 |
| 2014 | 0 | 2.90 | 0 | 779,784,056.02 | 2,591,129,073.77 | 30.09 |
| 2013 | 0 | 2.60 | 0 | 699,116,739.88 | 2,213,577,876.66 | 31.58 |

- (III) The inclusion of Shares Repurchased through Cash Offer in Cash Dividend

Not Applicable

- (IV) The Company shall disclose reasons and usage of and plans when profit recorded and positive in the parent company's distributable profit to ordinary shareholders, but no proposal for any distribution of cash dividend for ordinary shares during the Reporting Period

Applicable Not applicable

II FULFILLMENT STATUS OF COMMITMENTS

Applicable Not Applicable

For details, please refer to the Announcement of Shanghai Pharmaceuticals in relation to the Fulfillment Status of Commitments by De facto Controller, Shareholders, Related Parties, Acquirers and the Company (Company's announcement Lin No. 2014-001), the Announcement of Shanghai Pharmaceuticals in relation to the Amendments to the Commitment of Shanghai Pharmaceuticals (Group) regarding Land and Premises (Company's announcement Lin No. 2014-006), the Announcement of Shanghai Pharmaceuticals in relation to the Amendments to the Commitment of Shanghai Pharmaceuticals (Group) regarding the Shares held by Employees and the Employee Share Ownership Committee (Company's announcement Lin No. 2014-007), and the Announcement of Shanghai Pharmaceuticals on the Progress of Commitment Resolution (Company's announcement No. Lin 2014-008).

Pursuant to the Hong Kong Prospectus of 6 May 2011, each of Shanghai Pharmaceutical (Group) and SIIC executed a non-competition deed in favour of the Company, undertaking, among other things, that:

- (i) in the event it acquires, procures or otherwise comes to possess businesses or assets that compete or could potentially compete with the businesses of the Company, it shall, pursuant to its noncompetition deed, irrevocably grant the Company the right of first refusal to acquire all of such businesses or assets at any time;
- (ii) it and its subsidiaries shall avoid any business or operations that may compete with the Company;
- (iii) it shall avoid investing in any other companies or enterprises that compete with the business and operations of the Company; and
- (iv) it shall bear all losses and expenses directly and indirectly incurred by the Company as a result of a breach by it of its undertakings set forth in its non-competition deed.

The Company has received the respective statements of Shanghai Pharmaceutical (Group) and SIIC confirming their compliance with their commitments pursuant to the respective non-competition deeds during the period of the year 2015.

To promote stability and healthy development of the Company, and safeguarding the interests of all shareholders, the controlling shareholders of the Company, persons acting in concert, directors, supervisors and senior management promised no disposal of company stock (Including A Shares and H Shares) (See company interim announcement 2015-023) within six months from 11 July 2015. Up to now, this commitment has been fulfilled, within the time limit, the controlling shareholders of the Company, persons acting in concert, directors, supervisors and senior management did not acquire or disposal A Shares and H Shares of the Company.

- (l) If there is an earning forecast as regard to the assets or projects of the Company and the reporting period remains in the earning prediction period, the Company will give an explanation as to the achievement of the forecast as regard to the assets or projects and the relevant reasons.

Not Applicable

III. APPROPRIATION AND SETTLEMENT OF FUNDS DURING THE REPORTING PERIOD

Applicable Not applicable

IV STATEMENT OF THE BOARD OF DIRECTORS ON THE “NON – STANDARD AUDIT REPORT” PREPARED BY THE AUDITOR

- (l) Statement of the board of directors and the board of supervisors on the “Non-standard audit report” prepared by the Auditor

Applicable Not applicable

Significant Events

(II) Board of director's analysis on the cause and impact of changes in accounting policies and methods of accounting estimation or calculation

Applicable Not applicable

(III) Board of director's analysis on the cause and impact of material errors correction in the previous period

Applicable Not applicable

V APPOINTMENT AND DISMISSAL OF CERTIFIED PUBLIC ACCOUNTANTS

Unit: RMB

| | Current engagement |
|--|--|
| Name of the domestic accounting firm | PricewaterhouseCoopers Zhong Tian LLP |
| Remuneration for the domestic accounting firm | Charged a total of RMB20 million together with the overseas accounting firm (relevant disbursement and taxation expenses inclusive) |
| Number of years of service of the domestic accounting firm | 5 years |
| Name of the overseas accounting firm | PricewaterhouseCoopers |
| Remuneration for the overseas accounting firm | Charged a total of RMB20 million together with the firm domestic accounting firm (relevant disbursement and taxation expenses inclusive) |
| Number of years of service of the overseas accounting firm | 5 years |

| | Name | Remuneration |
|--|---------------------------------------|-----------------|
| Accounting firm for internal control audit | PricewaterhouseCoopers Zhong Tian LLP | RMB1.45 million |

Appointment and dismissal of certified public accountants

Applicable Not applicable

Statement of the change in accounting firm during the auditing period

There is no change in auditors appointed by the Company during the latest three years.

VI RISKS OF SUSPENSION OF LISTING

Applicable Not applicable

VII ISSUES RELEVANT TO INSOLVENCY AND RESTRUCTURING

Applicable Not applicable

VIII MATERIAL LITIGATIONS AND ARBITRATIONS

Applicable Not applicable

IX PUNISHMENT AND RECTIFICATION OF THE LISTED COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS, DE FACTO CONTROLLERS AND ACQUIRERS

Applicable Not applicable

X INTEGRITY OF THE COMPANY AND ITS CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLER DURING THE REPORTING PERIOD

During the Reporting Period, the Company and its Controlling Shareholders and de facto Controller had no unperformed court judgment in effect and substantial amount of debts due and outstanding.

XI EQUITY INCENTIVE PLANS, EMPLOYEE INCENTIVE SCHEMES AND OTHER INCENTIVE SCHEMES OF THE COMPANY AND IMPACT

Applicable Not applicable

Significant Events

XII SIGNIFICANT CONNECTED TRANSACTIONS

Applicable Not Applicable

(I) Connected transactions relating to daily operations

1. *Events disclosed in interim announcements without subsequent development or changes during implementation*

| Overview of Events | Search Index |
|---|---|
| <p>The Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Continuing Connected Transactions in 2015 and The Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding the Adjustment of the Connected Transaction Framework Agreement were approved at the 14th meeting of the fifth session of the Board of Directors on 26 March 2015 and the 18th meeting of the fifth session of the Board of Directors on 26 August 2015. Pursuant to the Proposal, from January to December 2015, the Group (Note 1) estimated amount payable for the acceptance of services from SIIC and its subsidiaries, Shanghai Shangshi and its subsidiaries (excluding Shanghai Pharmaceutical (Group) and its subsidiaries) shall not exceed RMB0.5 million. The estimated amount of continuing connected transactions between the Group and Shanghai Pharmaceutical (Group) and its subsidiaries shall not exceed RMB150 million, in which the amount receivable from the sales of products and the provision of services to Shanghai Pharmaceutical (Group) and its subsidiaries shall not exceed RMB10 million; the amount payable for the procurement of products and production equipments and the acceptance of services from Shanghai Pharmaceutical (Group) and its subsidiaries shall not exceed RMB40 million; the amount payable by the Group for leasing premises and production equipments from Shanghai Pharmaceutical (Group) and its subsidiaries shall not exceed RMB100 million. (Note 2)</p> <p>The actual amount of the continuing connected transactions conducted by the Group with SIIC and its subsidiaries, Shanghai Shangshi and its subsidiaries (including Shanghai Pharmaceutical (Group) and its subsidiaries) in 2015 did not exceed the amount approved at the meeting of the Board stated above.</p> | <p>The Company's announcement Lin No.2015-009</p> <p>The Company's announcement Lin No.2015-031</p> |

| Overview of Events | Search Index |
|--|--|
| <p>The Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Entry into Financial Services Framework Agreement and Connected Transactions was approved at the 2014 annual general meeting held on 29 May 2015. For the period from the effective date of the Agreement to the date of 2015 annual general meeting of Shanghai Pharmaceuticals, the maximum daily balance of deposits by the Group with Shanghai Shangshi Group Finance Co., Ltd. (the "Finance Company") shall not exceed RMB1.2 billion; for the period from the effective date of the Agreement to the date of 2015 annual general meeting of Shanghai Pharmaceuticals, maximum outstanding balance of comprehensive credit facilities provided by the Finance Company to the Group shall not exceed RMB1.8 billion. (Note 3).</p> <p>As at 31 December 2015, neither the maximum daily balance of deposits by the Group with the Finance Company nor the comprehensive credit facilities actually provided by the Finance Company to the Group have exceeded the aforesaid amounts approved at the annual general meeting.</p> | <p>The Company's Announcement Lin No. 2015-010</p> |
| <p>The Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Entry into the Continuing Connected Transactions Framework Agreement and Continuing Connected Transactions with Jiangxi Nanhua Medicines Co., Ltd. was approved at the 18th meeting of the fifth session of the Board of Directors on 26 August 2015. During the period from 26 August 2015 to 31 December 2015, the amount receivable by the Group from the sale of products and the provision of render services to Jiangxi Nanhua Medicines shall not exceed RMB520 million. (Note 4)</p> <p>The actual amount of the continuing connected transactions conducted by the Group with Jiangxi Nanhua Medicines Co., Ltd. from 26 August 2015 to 31 December 2015 did not exceed the amount approved at the meeting of the Board stated above.</p> | <p>The Company's announcement Lin No.2015-030</p> |

Note 1: The Group referred in "(I) Connected transactions relating to daily operations" represents the Company and its subsidiaries.

Note 2: These connected transactions (as defined under the Listing Rules of the Shanghai Stock Exchange) entered into with Shanghai Pharmaceutical (Group) and its subsidiaries also constitute the "connected transactions with connected persons at the level of the Company" defined under Chapter 14A of the Hong Kong Listing Rules. During the period from January to December 2015, among these daily connected transactions: (1) the relevant percentage ratios (as defined under Chapter 14 of the Hong Kong Listing Rules, the same below) other than profits

Significant Events

ratio corresponding to the actual amount of the transactions in relation to the sale of raw materials and products and the provision of distribution agency services were less than 0.1%; (2) the relevant percentage ratios other than profits ratio corresponding to the actual amount of the transactions in relation to the procurement of raw materials and products and the commissioned processing services were less than 0.1%; (3) the relevant percentage ratios other than profits ratio corresponding to the actual amount from leasing premises and production equipment were more than 0.1% but less than 5%.

Note 3: These connected transactions under the Financial Services Framework Agreement (as defined under the Listing Rules of the Shanghai Stock Exchange) also constitute the “connected transactions with connected persons at the level of the Company” defined under Chapter 14A of the Hong Kong Listing Rules. As of 31 December 2015, among these connected transactions: (1) the relevant percentage ratios other than profits ratio for actual deposit services, calculated on an annual basis, were higher than 0.1% but lower than 5%; (2) actual loan services were conducted on normal business terms, and the Group did not grant any of its assets to the Finance Company as securities for these loan services; (3) the relevant percentage ratios other than profits ratio for actual settlement and other financial services, calculated on an annual basis, were less than 0.1%.

Note 4: These connected transactions (as defined under the Listing Rules of the Shanghai Stock Exchange) entered into with Jiangxi Nanhua Medicines Co., Ltd. also constitute the “connected transactions with connected persons at the level of the subsidiaries” defined under Chapter 14A of the Hong Kong Listing Rules. During the period from 26 August 2015 to 31 December 2015, among these daily connected transactions: (1) the relevant percentage ratios other than profits ratio corresponding to the actual amount of the transactions in relation to the sale of raw materials and products and the provision of distribution agency services were more than 1% but less than 5%.

2. *Events disclosed in interim announcements with subsequent development or changes during implementation*

None

3. *Events not disclosed in interim announcements*

Applicable Not Applicable

Unit: RMB

| Connected party | Connected relationship | Type of the connected transaction | Particulars of the connected transaction | Pricing principle of the connected transaction | Trading price of the connected transaction | Amount of the connected transaction | Proportion in the amount of transactions of the same type (%) | Settlement method of the connected transaction | Market price | Reason for the difference between trading price and market price |
|---|---|-----------------------------------|---|--|--|-------------------------------------|---|--|--------------|--|
| Shanghai Pharmaceutical (Group) Co., Ltd. | Parent company | Other outflow | Property leasing | Market price | 2,490.52 | 2,490.52 | 53.32 | Cash | 2,490.52 | No |
| Shanghai Asia Pioneer Pharmaceutical Co., Ltd. | Wholly-owned subsidiary of parent company | Other outflow | Leasing of property and equipment | Market price | 1,634.73 | 1,634.73 | 35.00 | Cash | 1,634.73 | No |
| Shanghai Indu-Land Real Estate Management Co., Ltd. | Wholly-owned subsidiary of parent company | Other outflow | Property leasing and property service, etc. | Market price | 545.72 | 545.72 | 11.68 | Cash | 545.72 | No |
| Shanghai Indu-Land Real Estate Management Co., Ltd. | Wholly-owned subsidiary of parent company | Other inflow | Rendering service | Market price | 260.00 | 260.00 | 0.22 | Cash | 260.00 | No |
| Shanghai Asia Pioneer Pharmaceutical Co., Ltd. | Wholly-owned subsidiary of parent company | Other inflow | Rendering service, etc. | Market price | 59.93 | 59.93 | 0.05 | Cash | 59.93 | No |
| Shanghai Investment & Tender Co., Ltd. (上海上投招標有限公司) | Subsidiary of shareholders | Other outflow | Receiving service | Market price | 0.23 | 0.23 | 0.0001 | Cash | 0.23 | No |
| Shanghai Assets and Equity Auction Company | Subsidiary of shareholders | Other outflow | Receiving service | Market price | 23.22 | 23.22 | 0.01 | Cash | 23.22 | No |
| Total | | | | / | / | 5,014.35 | / | / | / | / |
| Significant sales return | | | | | None | | | | | |
| Connected Transaction | | | | | / | | | | | |

Note: The above transactions also constituted “connected transactions with connected persons at the level of the Company” under Chapter 14A of the Hong Kong Listing Rules. During the period from January to December 2015, except for transactions related to leasing of premises and production equipment, the relevant percentage ratios corresponding to other connected transactions, other than profits ratios, were less than 0.1%, and therefore exempt from the reporting, annual review, announcement and independent shareholders’ approval requirements under the Hong Kong Listing Rules.

4. Confirmation of continuing connected transactions between Shanghai Pharmaceuticals and its connected persons in 2015

- (1) Premises and production equipment leasing between the Group (including the Company and its subsidiaries) and Shanghai Pharmaceutical Group and its subsidiaries

As one of the controlling shareholders of the Company, Shanghai Pharmaceutical (Group) and its subsidiaries are all connected persons of the Company. The continuing connected transactions between the Company and Shanghai Pharmaceutical (Group) and its subsidiaries in respect of property and equipment leasing are exempt from independent shareholders’ approval under Chapter 14A of the Hong Kong Listing Rules, but shall be subject to reporting, annual review and announcement requirements. During the period from January to December 2015, the amount of property and equipment leasing payable by the Company as a lessee was RMB46,709,700.

Significant Events

Unit: RMB'000

| Date of transaction | Lessee | Lessor | Connected relationship | Transaction | Actual amount | Annual cap |
|---|---|--|---|------------------------|---|------------|
| During the period from January to December 2015 | Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd. | Shanghai Pharmaceutical (Group) | Parent company | Property | 6.49 | / |
| | Shanghai Fahrenheit Pharmacy Distribution Co., Ltd. | | Parent company | | 401.97 | / |
| | Wholesale Department of Shanghai Medical Instrument Co., Ltd. | | Parent company | | 46.00 | / |
| | Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd. | | Parent company | | 51.53 | / |
| | Shanghai Sunve Yangtze River Biochemical Pharmaceutical Factory | | Parent company | | 15.35 | / |
| | Shanghai Zhonghua Pharmaceutical Co., Ltd. | | Parent company | | 228.72 | / |
| | Shanghai Huayu Pharmaceutical Co., Ltd. | | Parent company | | 322.77 | / |
| | Shanghai Leiyunshang Pharmaceutical Co., Ltd. | | Parent company | | 494.08 | / |
| | Shanghai Traditional Chinese Medicine Co., Ltd. | | Parent company | | 11.70 | / |
| | Shanghai Pharmaceuticals Holding Co., Ltd. | | Parent company | | 45.97 | / |
| | Shanghai Pharmaceuticals Holding Co., Ltd. | | Parent company | | 541.03 | / |
| | Shanghai Medical Instruments Co., Ltd. | | Parent company | | 252.10 | / |
| | Shanghai Haichang Medical Plastic Plant | | Parent company | | 65.19 | / |
| | Shanghai Pharmaceutical Materials Supply and Marketing Co., Ltd | | Parent company | | 7.62 | / |
| | Shanghai Pharmaceuticals Holding Co., Ltd. | | Shanghai Indu-Land Real Estate Management Co., Ltd. | | Wholly-owned subsidiary of parent company | Property |
| | Shanghai Pharmaceuticals Holding Co., Ltd. | 143.34 | | / | | |
| | Shanghai Pharmaceuticals Holding Co., Ltd. | 115.94 | | / | | |
| | Shanghai Pharmaceuticals Holding Co., Ltd. | 264.25 | | / | | |
| | Shanghai Zhonghua Pharmaceutical Co., Ltd. | 12.15 | | / | | |
| | Shanghai SPH New Asiatic Pharmaceutical Co. Ltd | Shanghai Asia Pioneer Pharmaceutical Co., Ltd. | Wholly-owned subsidiary of parent company | Property and equipment | 1,634.74 | / |
| Total | | / | / | / | 4,670.97 | 10,000.00 |

Every lease agreement entered into between the Group and Shanghai Pharmaceutical (Group) and its subsidiaries had fixed annual rent and property management fee, strictly complied with fair market principles, including but not limited to property and equipment leasing at fair and reasonable market price.

The Group is leasing properties and production equipment from Shanghai Pharmaceutical (Group) as the premises and equipment for its daily operation. Therefore, the above continuing connected transactions are necessary and of continuing nature and will not affect the Company's independence.

- (2) Deposits services under the Financial Services Agreement between the Group and the “Finance Company”

Shanghai Shangshi, the Company, Shanghai Industrial Capital Co., Ltd. (“SI Capital”) and SIIC Dongtan Investment & Development (Holdings) Co., Ltd. (“SIIC Dongtan”) respectively hold 40%, 30%, 20% and 10% of equity interest in the Finance Company. Shanghai Shangshi is one of the controlling shareholders of the Company, and SI Capital and SIIC Dongtan are wholly-owned subsidiaries of Shanghai Shangshi. Both Shanghai Shangshi and the Finance Company are connected persons of the Company. On 29 May 2015, the Company renewed the Financial Services Agreement with Finance Company after the approval at the general meeting held in 2014. The deposit service under the Financial Services Agreement was exempt from independent shareholders approvals required under the Hong Kong Listing Rules but subject to reporting, annual review and announcement requirements.

| Date of transaction | Connected person | Connected relationship | Transaction | Actual amount | Daily cap |
|---|---------------------|---------------------------------------|-----------------|----------------|----------------|
| During the period from January to December 2015 | The Finance Company | Subsidiary of controlling shareholder | Deposit service | RMB976 million | RMB1.2 billion |

The Finance Company undertakes to offer favorable interest rates for the Group’s deposits with reference to the prevailing market rates, which should not be lower than those published by the People’s Bank of China at the time, nor those offered by other major commercial banks in China in the same period or by the Finance Company to third parties, for the same type of deposits.

The business corporation of the Company with the Finance Company will enhance its economic efficiency and offer financial support to its further development.

- ① The Company can further expand its financing channels through business corporation with the Finance Company;
- ② The favourable interest rates for deposits and loans provided by the Finance Company are conducive to improving the Company’s deposit income and lowering financing costs;
- ③ Services provided by the Finance Company to the Company, including the provision of financing sources, involve more efficient processing procedures, and enable the Company to make economical arrangements in respect of the financing term; and
- ④ Through its business corporation with the Finance Company, the Company can further strengthen its bargaining power against external banks.

Significant Events

- (3) Continuing Connected Transactions Framework Agreement between the Group and Jiangxi Nanhua Medicines Co., Ltd.

Jiangxi Nanhua (Shanghai Pharma) Medicines Co., Ltd. (“Nanhua Shanghai Pharma”) is an indirectly wholly-owned subsidiary of the Company. Since Jiangxi Nanhua Medicines holds 49% of equity interests in Nanhua Shanghai Pharma, it is a substantial shareholder of Nanhua Shanghai Pharma. Accordingly, Jiangxi Nanhua Medicines is a connected person of the Company at the subsidiary level. On 26 August 2015, the Company and Jiangxi Nanhua Medicines entered into Continuing Connected Transactions Framework Agreement, pursuant to which, the Group will sell products and render services to Jiangxi Nanhua Medicines and its subsidiaries. Transaction of the Continuing Connected Transaction Framework Agreements is exempt from independent shareholders’ approval, but subject to reporting, annual review and announcement requirements under the Hong Kong Listing Rules.

| Date of transaction | Connected persons | Connected relationship | Transaction | Actual amount | Annual cap |
|---|------------------------------------|---|-----------------------------------|----------------|----------------|
| During the period from 26 August 2015 to 31 December 2015 | Jiangxi Nanhua Medicines Co., Ltd. | Substantial shareholder of subsidiaries | Sale products and render services | RMB405 million | RMB520 million |

Transactions of products and services contemplated under the Agreement shall be carried out based on fair market price. Fair market price means:

- ① in respect of off-the-shelf products or standard services, the open market price of the same products or services; and
- ② in respect of proprietary goods or services, following solicitations of quotes from at least two independent suppliers, the market price of transactions of similar types.

As a newly-established pharmaceutical company, Nanhua Shanghai Pharma lacks sufficient source of customers and sales channels, and would have difficulty in establishing its scale in the short term. Through utilising Jiangxi Nanhua Medicines’ customer base of over 2,000 in the Jiangxi province, subject to obtaining sufficient support from its suppliers, Nanhua Shanghai Pharma can share the mature market established by Jiangxi Nanhua Medicines, and will be able to benefit from the upstream and downstream resources and the brand name of Jiangxi Nanhua Medicines, which would in turn allow to effectively expand the sales volume.

(4) Confirmation of Continuing Connected Transactions

The directors of the Company (including independent non-executive directors) confirm that, all of the above connected transactions for the year ended 31 December 2015 are conducted in the daily and ordinary course of business of the Group on normal commercial terms in compliance with the relevant connected transaction agreement, and are fair and reasonable and in the interest of the shareholders of the Company as a whole. PricewaterhouseCoopers, the overseas auditor of the Company, has been engaged to report on the above continuing connected transactions subject to report, annual review and announcement for the year ended 31 December 2015 in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Assurance Engagements Other Than Audits or Reviews of Historical Financial Information) issued by the Hong Kong Institute of Chartered Public Accountants and with reference to Practice Note No. 740 (Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules). It has also confirmed that any of the above continuing connected transactions was (1) approved by the board of directors of the Company; (2) priced basing on the pricing policy of the Group, as regard to the continuing connected transaction of provision products or services by the Group; (3) carried out in accordance with the relevant agreement regulating the transaction; and (4) each of the amount of the transaction has not exceeded the respective annual cap amount for such continuing connected transactions as announced on 27 March 2015 and 27 August 2015.

(II) Connected transactions relating to acquisition and disposal of assets and equity

- Events disclosed in interim announcements without subsequent development or changes during implementation*
None
- Events disclosed in interim announcements with subsequent development or changes during implementation*
None
- Events not disclosed in interim announcements*
 Applicable Not applicable
- Performance with agreed target shall be disclosed during the Reporting Period*
None

Significant Events

(III) Material connected transaction relating to joint external investment

1. *Events disclosed in interim announcements without subsequent development or changes during implementation*

| Overview of events | Search index |
|--|---|
| The company expects to contribute RMB250 million to set up Shanghai Healthcare Industry Equity Investment Fund Partnership (Limited Partnership) (tentative name, subject to the final name as registered with the administration of industry and commerce) with Shanghai Real Power Capital Co., Ltd. Jointly established by Shanghai Real Power, the Healthcare Fund Management Company and other funds strategy investors, the Company expects to contribute RMB12.5 million to set up Shanghai Ruikang Capital Management Co., Ltd (tentative name, subject to the final name as registered with the administration of industry and commerce), which will be as custodian of the Healthcare Fund. (Note 1) | The Company's announcement Lin No. 2015-032 |
| On 8 January 2016, the Company officially entered into the Limited Partnership Agreement Regarding the Establishment of Shanghai Healthcare Industry Equity Investment Fund Partnership (Limited Partnership) 《關於設立上海健康醫療產業股權投資基金合夥企業(有限合夥)之有限合夥協議》, and subscribed and invested an amount of RMB250 million for the establishment of Shanghai Healthcare Industry Equity Investment Fund Partnership (Limited Partnership). The size of the Fund shall be no less than RMB1,434.4 million. | The Company's announcement Lin No. 2016-003 |

Note 1: SIIC and Shanghai Shangshi, which are the controlling shareholders of the Company, indirectly hold in aggregate 32.91% of equity interest in Shanghai Real Power. The Real Power Innovation Fund is managed by Shanghai Real Power, and Shanghai Shangshi holds a share of 44.44% in phase-one of the Real Power Innovation Fund. Therefore, Shanghai Real Power and the Real Power Innovation Fund are each an associate of SIIC and Shanghai Shangshi, and are each a connected persons of the Company according to Hong Kong Listing Rules.

The purposes of the Group for participating in the establishment of this fund are:

- ① achieving innovation in investment and research and development;
- ② following the development trend of capital markets and leveraging public capital in large investment projects;
- ③ adopting a market-based approach to enhance investment efficiency; and
- ④ maximizing the return on financial investments.

2. *Events disclosed in interim announcements with subsequent development or changes during implementation*
None
3. *Events not disclosed in interim announcements*
Applicable Not applicable

(IV) Credits and liabilities or guarantees with related parties

1. *Events disclosed in interim announcements without subsequent development or changes during implementation*
None
2. *Events disclosed in interim announcements with subsequent development or changes during implementation*
None
3. *Events not disclosed in interim announcements*
Applicable Not applicable

Significant Events

Related parties has the following guarantees for the Company:

| Guarantor | Value of guarantee (RMB'000) | Commencement date of guarantee | Expiry date of guarantee | Guarantee fully fulfilled |
|---|------------------------------|--------------------------------|--------------------------|---------------------------|
| Shanghai Shangshi Group Finance Co., Ltd. | 13,000.00 | 10 November 2015 | 9 January 2017 | No |
| Shanghai Shangshi Group Finance Co., Ltd. | 12,000.00 | 9 December 2015 | 8 February 2017 | No |
| Shanghai Shangshi Group Finance Co., Ltd. | 10,000.00 | 9 October 2015 | 8 June 2016 | No |
| Shanghai Shangshi Group Finance Co., Ltd. | 9,000.00 | 14 August 2015 | 13 April 2016 | No |
| Shanghai Shangshi Group Finance Co., Ltd. | 9,000.00 | 8 September 2015 | 7 May 2016 | No |
| Shanghai Shangshi Group Finance Co., Ltd. | 6,000.00 | 16 December 2015 | 15 February 2017 | No |
| Shanghai Shangshi Group Finance Co., Ltd. | 4,000.00 | 15 December 2015 | 8 February 2017 | No |
| Shanghai Shangshi Group Finance Co., Ltd. | 2,800.00 | 16 July 2015 | 15 March 2016 | No |
| Shanghai Pharmaceutical (Group) | 2,160.00 | 20 September 2003 | 19 September 2018 | No |
| Total | 67,960.00 | | | |

(V) Significant related parties

Save as disclosed above, significant related party transactions which do not constitute connected transactions under the Listing Rules in the year are disclosed in Note 44 to the annual financial statements prepared under the Hong Kong Financial Reporting Standards.

XIII MATERIAL CONTRACTS AND PERFORMANCE THEREOF

(I) Trusteeship, contracting and leasing

Applicable Not applicable

(II) Guarantees

Applicable Not Applicable

Unit: RMB'000

| External guarantees provided by the Company (excluding those provided to its subsidiaries) | | | | | | | | | | | | | |
|--|---|---|--------------------|---------------------------------------|--------------------------------|--------------------------|-------------------|---------------------------|-------------------|-----------------------------|-----------------------|---------------------------------------|------------------------|
| Guarantor | Relationship between the guarantor and the listed-company | Guarantee | Value of guarantee | Date of guarantee (date of agreement) | Commencement date of guarantee | Expiry date of guarantee | Type of guarantee | Guarantee fully fulfilled | Guarantee overdue | Overdue amount of guarantee | Any counter guarantee | Guarantee provided to related parties | Connected relationship |
| Shanghai Pharmaceuticals Distribution Co., | Wholly-owned subsidiary | Shanghai Luoda Pharmaceutical Co., Ltd | 900.00 | | 2014/4/16 | 2015/4/13 | Joint guarantee | Yes | No | | No | No | Associate |
| Shanghai Pharmaceuticals Distribution Co., | Wholly-owned subsidiary | Shanghai Luoda Pharmaceutical Co., Ltd | 900.00 | | 2015/4/14 | 2015/7/8 | Joint guarantee | Yes | No | | No | No | Associate |
| Shanghai Pharmaceuticals Distribution Co., | Wholly-owned subsidiary | Shanghai Luoda Pharmaceutical Co., Ltd | 850.00 | | 2015/8/31 | 2016/8/26 | Joint guarantee | No | No | | No | No | Associate |
| Shanghai Pharmaceuticals Distribution Co., | Wholly-owned subsidiary | Shanghai Luoda Pharmaceutical Co., Ltd | 650.00 | | 2015/12/22 | 2016/12/21 | Joint guarantee | No | No | | No | No | Associate |
| Shanghai Pharmaceuticals Distribution Co., | Wholly-owned subsidiary | Chongqing Medicines Shanghai Pharma Sales Co.,Ltd | 1,283.50 | | 2014/9/5 | 2015/6/23 | Joint guarantee | Yes | No | | No | No | Associate |
| Shanghai Pharmaceuticals Distribution Co., | Wholly-owned subsidiary | Chongqing Medicines Shanghai Pharma Sales Co.,Ltd | 523.54 | | 2015/3/26 | 2015/11/23 | Joint guarantee | Yes | No | | No | No | Associate |
| Shanghai Pharmaceuticals Distribution Co., | Wholly-owned subsidiary | Chongqing Medicines Shanghai Pharma Sales Co.,Ltd | 110.70 | | 2015/7/17 | 2016/2/17 | Joint guarantee | No | No | | No | No | Associate |
| Hangzhou Kailun Pharmaceutical Co., Ltd. | Holding subsidiary | Hangzhou Yuhang Oil Co., Ltd. (杭州 翰特石油有限公司) | 1,000.00 | | 2014/5/26 | 2016/5/8 | Joint guarantee | No | No | | No | No | others |
| Hangzhou Kailun Pharmaceutical Co., Ltd. | Holding subsidiary | Hangzhou Yuhang Oil Co., Ltd. (杭州 翰特石油有限公司) | 1,000.00 | | 2014/11/25 | 2016/7/27 | Joint guarantee | No | No | | No | No | others |
| Total value guaranteed during the Reporting Period (excluding those provided to its subsidiaries) | | | | | | | | | | | | 3,034.24 | |
| Total balance guaranteed at the end of the Reporting Period (A) (excluding those provided to its subsidiaries) | | | | | | | | | | | | 3,068.70 | |
| Guarantees provided by the Company and its subsidiaries to its subsidiaries | | | | | | | | | | | | | |
| Total value guaranteed for its subsidiaries during the Reporting Period | | | | | | | | | | | | 300,899.60 | |
| Total balance guaranteed for its subsidiaries at the end of the Reporting Period (B) | | | | | | | | | | | | 146,999.15 | |
| Total value guaranteed by the Company (including those provided to its subsidiaries) | | | | | | | | | | | | | |
| Total value guaranteed (A+B) | | | | | | | | | | | | 150,067.85 | |
| Percentage of total value guaranteed in the Company's net assets (%) | | | | | | | | | | | | 5.01 | |
| Among which: | | | | | | | | | | | | | |
| Value guaranteed for shareholders, de facto controller and related parties (C) | | | | | | | | | | | | | |
| Value directly or indirectly guaranteed for guaranteed parties whose gearing ratio exceeds 70% (D) | | | | | | | | | | | | 139,222.15 | |
| Amount of total value guaranteed exceeding 50% of net assets (E) | | | | | | | | | | | | | |
| Total of value guaranteed for the above three items (C+D+E) | | | | | | | | | | | | 139,222.15 | |
| Details of possible joint and several settlement liabilities for undue guarantee | | | | | | | | | | | | | |
| Details of guarantee | | | | | | | | | | | | | |

Note: Hangzhou Kailun Pharmaceutical Co., Ltd. is a newly purchased company by the group during the reporting period, whose guarantees have already occurred before the purchasing.

Significant Events

(III) Appoint custodian for management of funds

(1) *Asset management mandates*

Applicable Not applicable

(2) *Entrusted loans*

Applicable Not applicable

(3) *Other asset management mandates and investment in derivatives*

Applicable Not applicable

Other asset management mandates and investment in derivatives

The Company conducted transaction of redemption state bonds, recorded revenue of RMB9,120,301.02.

(IV) Other material contracts

None

XIV. STATEMENTS ABOUT OTHER SIGNIFICANT EVENTS

Applicable Not Applicable

1. Zhangzhou Pien Tze Huang Pharmaceutical Co., Ltd (hereinafter referred to as "Pien Tze Huang" sued Xiamen Traditional Chinese Medicine Co., Ltd (hereinafter referred to as "Xiamen Traditional Chinese Medicine"), Xiamen Evening News Media Development Co., Ltd and Xiamen Daily at Zhangzhou Municipal Intermediate People's Court (hereinafter referred to as "Zhangzhou Intermediate Court") for unfair competition, but Xiamen Traditional Chinese Medicine filed an application for objection to jurisdiction to Zhangzhou Intermediate Court on 13 March 2014. On 4 April 2014, Xiamen Traditional Chinese Medicine received Civil Judgment (2014) Zhang Min Chu Zhi No. 35-3, in which Zhangzhou Intermediate Court rejected the objection to the case's jurisdiction by Xiamen Traditional Chinese Medicine. On 13 April 2014, Xiamen Traditional Chinese Medicine appealed to Fujian Provincial Higher People's Court (hereinafter referred to as "Fujian Higher Court) for objection to jurisdiction. On 23 June 2014, Fujian Higher Court issued Civil Judgment (2014) Min Min Zhong Zi No. 660 to revoke Civil Judgment (2014) Zhang Min Chu Zi No. 35-3 issued by Zhangzhou Intermediate Court and transferred the case to the jurisdiction of Xiamen Municipal Intermediate People's Court (hereinafter referred to as "Xiamen Intermediate Court"). On 18 August 2014, Xiamen Traditional Chinese Medicine received (2014) Xia Min Chu Zi No. 937 Notice from Xiamen Municipal Intermediate People's Court, Fujian Province. It was noted that Fujian Higher Court further transferred the case to the jurisdiction of Fuzhou Municipal Intermediate People's Court (hereinafter referred to as "Fuzhou Intermediate Court"). On 22 October 2014, Xiamen Traditional Chinese Medicine received notice from Fuzhou Intermediate Court that the time period for producing evidence on the case was extended to 7 November 2014. On 5 December 2014, Xiamen Traditional Chinese Medicine received Notice on Members of Collegial Panel from Fuzhou Intermediate Court and the statement of claim submitted by Pien Tze Huang. Some amendments were made to the ordinary statement of claim. On 19 December 2014, Xiamen Traditional Chinese Medicine filed an objection to the jurisdiction of Fuzhou Intermediate Court for the reason that the amended claims were beyond its scope of jurisdiction. According to the Civil Judgment ([2014] Rong Min Chu Zi No. 1431- 1) received by Xiamen Traditional Chinese Medicine on 9 January 2015, its objection to the jurisdiction was rejected by the Fuzhou Intermediate Court through the first trial. On 19 January 2015, Xiamen Traditional Chinese Medicine further submitted its appeal for objection to the jurisdiction to the Fujian Higher Court. On 4 March 2015, the Civil Judgment ([2015] Min Min Zhong Zi No. 446) was issued by the Fujian Higher Court as a final verdict, which repealed the aforesaid appeal and affirmed that the lawsuit shall be governed by the Fuzhou Intermediate Court. On 8 May 2015, Fuzhou Intermediate Court convened pretrial conference against the case. On 3 August 2015, Fuzhou Intermediate Court convened pretrial conference against the case again. On 31 August 2015, Fuzhou Intermediate Court convened the third pretrial conference against the case. The case was separately judged by Fuzhou Intermediate Court on 22 December 2015 and 5 January 2016.

Significant Events

2. On 18 June 2014, Xiamen Traditional Chinese Medicine applied to Trademark Bureau of State Administration for Industry and Commerce of the People's Republic of China (referred to as "Trademark Bureau of State Administration for Industry and Commerce") for registering trademarks of "Pill of Eight Treasures Pien Tze Huang" ("八寶丹片仔癯") (Application No.11683990) and "Pien Tze Huang Pill of Eight Treasures" ("片仔癯八寶丹") (Application No.11683929) on items under the fifth category of "traditional Chinese medicine" on 1 November 2012 by Pien Tze Huang, asking for the rejection of registering these two contentious trademarks according to relevant regulations. On 30 October 2015, Trademark Bureau of State Administration for Industry and Commerce made decisions that trademarks were not allow to register, including trademark of "Pill of Eight Treasures Pien Tze Huang" No.11683990 [(2015) Shang Biao Yi Zi No.0000052574] and trademark of "Pill of Eight Treasures Pien Tze Huang" No.11683929 [(2015) Shang Biao Yi Zi No.0000052569], and the registration of the two trademarks of Pien Tze Huang was rejected.
3. On 17 August 2015, Xiamen Traditional Chinese Medicine filed with Fuzhou Intermediate Court to claim against Pien Tze Huang, Railway Station Pharmacy of Fuzhou Huichun Medicine Chain Co., Ltd.(referred as to "Huichun Medicine Railway Station Pharmacy"), Fuzhou Huichun Medicine Chain Co., Ltd. (referred as to "Huichun Medicine") for unfair competition, demanding to issue an order to Pien Tze Huang to stop infringing false propaganda on Babaodan series products of Xiamen Traditional Chinese Medicine; compensate economic loss and reasonable rights fee totaling RMB2.997 million to Xiamen Traditional Chinese Medicine; to issue a public statement on provincial press and its official website for consecutive six months clarifying the facts and eliminating adverse effects to Xiamen Traditional Chinese Medicine; to issue an order to Huichun Medicine Railway Station Pharmacy and Huichun Medicine to jointly and severally compensate Xiamen Traditional Chinese Medicine economic loss of RMB3,000; and to issue an order to the three defendants to jointly assume to legal costs to case. Fuzhou Intermediate Court accepted the case with case (2015) Rong Min Chu Zi No.1518. Pien Tze Huang submitted its objection to the jurisdiction to the Fuzhou Intermediate Court, claiming Fuzhou Intermediate Court was beyond its scope of jurisdiction and asking for transfer the case to Zhangzhou Municipal Intermediate People's Court (hereinafter referred to as "Zhangzhou Intermediate Court"). On 22 September 2015, Fuzhou Intermediate Court issued Civil Judgment (2015) Rong Min Chu Zi No.1518 and rejected the objection to the jurisdiction of Pien Tze Huang. Pien Tze Huang was not satisfying the Judgment, and appealed to Fujian Provincial Higher People's Court (referred to as "Fujian Higher Court"). On 7 December 2015, Fujian Higher Court issued Civil Judgment (2015) Min Min Zhong Zi No. 2095 to revoke Fujian Intermediate Court Civil Judgment and transferred the case to the jurisdiction of Zhangzhou Municipal Intermediate People's Court, and the litigations involving Huichun Medicine and Huichun Medicine Railway Station Pharmacy still under trial by Fuzhou Intermediate Court.

XV. POSITIVE PERFORMANCE OF SOCIAL RESPONSIBILITIES

(I) Performing social responsibilities

Details are set out in the “2015 Social Responsibility Report of Shanghai Pharmaceuticals Holding Co., Ltd.” disclosed by the Company.

(II) Description of the environmental protection work performed by the listed company and its subsidiaries which are in industry with serious pollution recognized by the national environmental protection authorities

During the Reporting Period, subsidiaries of the Company as pharmaceuticals production enterprises strictly complied with national and local laws and regulations and emission standards; The Group continues to improve the management system to prevent environmental risks, conducting the monthly follow-up examination on the sources of environmental risks, actively take measures to control and reduce environmental risk level. Emergency exercises of environmental pollution plans were carry out every year, such as the normal use of pollution control facilities to ensure the corporate stable emission standards of pollutant. Clean energy alternatives and cleaning productions auditing task of coal-fired boiler are carried out as required by the government. EHS management system is established and performed via improving environment condition with standardized and systematic environmental management, with an aim to achieve the strategy target of becoming an energy-saving and eco-friendly enterprise.

XVI CONVERTIBLE CORPORATE BONDS

Applicable Not applicable

XVII UTILISATION OF PROCEEDS

In 2011, the Company first issued H shares to foreign investors, which were traded on Hong Kong Stock Exchange on May 20, 2011. The net funds of the H shares (deducted issuance costs) were HK\$15,492.30 million. At the end of the reporting period, the funds raised by the H shares have been used up and PricewaterhouseCoopers Zhong Tian (special general partnership) issued “The use of the raised funds report and verification report of Shanghai Pharmaceuticals Holding Co., Ltd. ended December 31, 2015.” PricewaterhouseCoopers Zhong Tian special Shen Zi (2016) No. 0980) in terms of the use of the raised funds of H shares.

Changes in Ordinary Share Capital and Information about Shareholders

I. CHANGES IN ORDINARY SHARE CAPITAL

(I) Table of changes in ordinary share capital

1. *Table of changes in ordinary share capital*

During the Reporting Period, there was no change in the total number of shares and share capital structure of the Company.

At the end of the Reporting Period, the total share capital of the Company was 2,688,910,538 Shares, comprising 1,923,016,618 A Shares and 765,893,920 H Shares.

2. *Descriptions of changes in Ordinary shares*

None

3. *Impact on the latest financial indicators such as earnings per share and net assets per share and that of the last year form changes in share, if any*

None

4. *Other information that the Company deems necessary or the securities regulators require disclosing*

None

(II) Changes in trade-restricted shares

Applicable Not applicable

At the end of the Reporting Period, the total share capital of the Company was 2,688,910,538 Shares, including 2,688,828,938 Shares without trade restrictions, comprising 1,922,935,018 A Shares and 765,893,920 H Shares). As at the date of this annual report, the Company has sufficient public float to meet the minimum public float requirements stipulated under the Securities Law of the People's Republic of China and the Hong Kong Listing Rules.

II. ISSUE AND LISTING OF SECURITIES

(I) Issue of securities during the Reporting Period

For details, please refer to the section 10 of "Information about Bonds" below.

(II) Changes in the total number of Ordinary Shares, the shareholding structure and the asset and liability structure of the Company

None

(III) Details of Shares Held by Company's Employees

Applicable Not applicable

Changes in Ordinary Share Capital and Information about Shareholders

III. SHAREHOLDERS AND DE FACTO CONTROLLER

(I) Number of shareholders

| | |
|---|--------|
| Aggregate number of ordinary shareholders as at the end of the Reporting Period | 82,943 |
| Aggregate number of shareholders as at the end of the month prior to the disclosure date of the annual report | 83,293 |

Note 1: Among the aggregate 82,943 shareholders as at the end of the Reporting Period, 80,535 were A-share holders and 2,408 were H-share holders.

Note 2: Among the aggregate 83,293 shareholders as at the end of the month prior to the disclosure date of the annual report, 80,894 were A-share holders and 2,399 were H-share holders.

(II) Top 10 shareholders and top 10 shareholders without trade restrictions and their shareholdings at the end of the Reporting Period

Unit: Shares

| Shareholdings of top ten shareholders | | | | | | | |
|--|---|--|-----------------------------|--|-------------------|------------|---|
| Name of shareholder (in full) | Increase/decrease during the Reporting Period | Number of shares held at the end of the Reporting Period | Shareholding percentage (%) | Number of trade restricted Shares held | Pledged or frozen | | Nature of shareholders |
| | | | | | Status | Number | |
| HKSCC NOMINEES LIMITED | 311,600 | 748,139,720 | 27.82 | 0 | Unknown | | Foreign shareholder |
| Shanghai Pharmaceutical (Group) | 0 | 716,516,039 | 26.65 | 0 | pledged | 13,648,772 | State-owned legal person |
| SIIC and its wholly-owned subsidiaries and Shanghai Shangshi | 0 | 238,586,198 | 8.87 | 0 | Unknown | | State-owned legal person and foreign shareholders |
| Shenergy (Group) Co., Ltd. | 0 | 81,199,520 | 3.02 | 0 | Unknown | | State-owned legal person |
| Shanghai Guosheng and Shanghai Shengrui | -66,159,222 | 68,016,190 | 2.53 | 0 | Unknown | | State-owned legal person |
| China Securities Finance Corporation Limited | / | 67,226,524 | 2.50 | 0 | Unknown | | Unknown |
| Central Huijin Investment Ltd. | / | 24,891,300 | 0.93 | 0 | Unknown | | Unknown |
| NSSF 604 Combination | / | 23,052,474 | 0.86 | 0 | Unknown | | Unknown |
| China Life Insurance Company Limited – traditional – ordinary insurance products –005L – CT001Shanghai | / | 15,009,898 | 0.56 | 0 | Unknown | | Unknown |
| Industrial and Commercial Bank of China Limited Enterprise annuity plan- China Construction Bank | / | 12,801,238 | 0.48 | 0 | Unknown | | Unknown |

Changes in Ordinary Share Capital and Information about Shareholders

| Shareholdings of top 10 shareholders without trade restrictions | | | |
|---|---|--------------------------------|-------------|
| Name of shareholder | Number of Shares without trade restrictions | Class and number of Shares | |
| | | Class | Number |
| HKSCC NOMINEES LIMITED | 748,139,720 | Overseas listed foreign shares | 748,139,720 |
| Shanghai Pharmaceutical (Group) | 716,516,039 | RMB ordinary shares | 716,516,039 |
| SIIC and its wholly-owned subsidiaries and Shanghai Shangshi | 238,586,198 | RMB ordinary shares | 222,301,798 |
| | | Overseas Listed foreign shares | 16,284,400 |
| Shenergy (Group) Co., Ltd. | 81,199,520 | RMB ordinary shares | 81,199,520 |
| Shanghai Guosheng and Shanghai Shengrui | 68,016,190 | RMB ordinary shares | 68,016,190 |
| China Securities Finance Corporation Limited | 67,226,524 | RMB ordinary shares | 67,226,524 |
| Central Huijin Investment Ltd | 24,891,300 | RMB ordinary shares | 24,891,300 |
| NSSF 604 Combination | 23,052,474 | RMB ordinary shares | 23,052,474 |
| China Life Insurance Company Limited – traditional –ordinary insurance products –005L – CT001Shanghai | 15,009,898 | RMB ordinary shares | 15,009,898 |
| Industrial and Commercial Bank of China Limited Enterprise annuity plan-China Construction Bank | 12,801,238 | RMB ordinary shares | 12,801,238 |
| Note on connected relations or concerted actions of the above shareholders | SIIC is the De Facto Controller of Shanghai Shangshi, which is a Controlling Shareholder of Shanghai Pharmaceutical (Group). Shanghai Shengrui is a wholly subsidiary of Shanghai Guosheng, which is a wholly owned subsidiary of Shanghai SASAC. The Company is not aware of any affiliation among other shareholders or whether they are persons acting in concert as stipulated under the “Administrative Measures on Disclosure of Changes in Shareholders’ Shareholdings in Listed Companies”. | | |
| Note on shareholders of Preference Shares with voting rights restored and number of shares held | / | | |

Changes in Ordinary Share Capital and Information about Shareholders

| Number of and the trade restrictions on the Shares held by the top 10 Shareholders holding trade-restricted Shares | | | | | |
|--|---|-----------------------------------|--|---|--|
| No. | Name of shareholders holding trade-restricted Shares | Number of trade-restricted Shares | The listing and trading of trade-restricted Shares | | Trade restrictions |
| | | | Time available for listing and trading | Number of additional Shares available for listing and trading | |
| 1 | Hainan Zhong Wang Investment and Management Company Limited | 81,600 | To be decided | 0 | The consideration payable to Shanghai Pharmaceutical (Group) in the equity division reform remained outstanding. |
| Note on connected relations or concerted actions of the above Shareholder | | / | | | |

Note 1: Shares held by HKSCC NOMINEES LIMITED are held on behalf of its clients and the number of Shares it holds as shown in the table above excludes the 16,284,400 H Shares held by SIIC and its wholly owned subsidiaries. As the relevant rules of the Hong Kong Stock Exchange do not require clients to report whether the shares that they hold are pledged or frozen, HKSCC NOMINEES LIMITED is unable to provide statistics on the number of shares that have been pledged or frozen.

Note 2: The latest information of the 13,648,772 pledged Shares of Shanghai Pharmaceutical (Group): pursuant to the equity transfer agreement entered into between Shanghai Pharmaceutical (Group) and China Great Wall Asset Management Corporation (hereinafter "Great Wall") (the vendor) in relation to the acquisition of 39.01% equity interest of Shanghai Asia Pioneer Pharmaceutical Co., Ltd. by Shanghai Pharmaceuticals (Group), Great Wall has the option to receive cash or A Shares of Shanghai Pharmaceuticals as consideration upon the expiry of the lock-up period of the Shares of Shanghai Pharmaceuticals held by Shanghai Pharmaceutical (Group). As such, Shanghai Pharmaceutical (Group) pledged 13,648,772 A Shares (floating shares with trade restrictions) of Shanghai Pharmaceuticals held by it to Great Wall on 20 September 2011 to secure the payment of such consideration and the share pledge period started from 20 September 2011 to 15 March 2015 (please refer to the Company's announcement Lin No. 2011-038 for more details). Upon the expiry of the lock-up period of the aforesaid 13,648,772 pledged Shares expired (please refer to the Company's announcement Lin No. 2013-001 for more details, parties of which entered into a supplementary equity transfer agreement, second supplementary equity transfer agreement and third supplementary equity transfer agreement on 15 March 2013, 27 March 2014 and 27 March 2015, respectively. pursuant to which, the parties agreed to further extend the period of fulfilling the obligation of consideration payment in relation to the equity transfer by one year, as such Great Wall has the option to receive cash or A Shares of Shanghai Pharmaceuticals as consideration within 10 working days from 1 March 2016. In accordance with the share pledge agreement entered into between Shanghai Pharmaceutical (Group) and Great Wall, the pledge will be released upon payment of consideration by Shanghai Pharmaceutical (Group). Up to date, the parties are still in the progress of negotiation in respect to the extension of the agreement and no agreement has been entered into.

Changes in Ordinary Share Capital and Information about Shareholders

(III) Strategic investors or general legal persons becoming the top ten shareholders by placing of new shares

Applicable Not applicable

IV. DETAILS IN CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLER

(I) Controlling Shareholders

1 Legal persons

| | |
|--|--|
| Name | Shanghai Industrial Investment (Holdings) Co., Ltd. |
| Person in charge of the company or legal representative | Wang Wei (王偉) |
| Date of establishment | 17 July 1981 |
| Principal business | Enhancing the five core businesses – financial investment, pharmaceuticals (whole industry chain), infrastructure (highways, water treatment, solid waste disposal and new border business), real estate, consumer goods, and actively developing new businesses such as elderly care and new energy protection. |
| Equity interests in other controlled and invested companies whose shares were listed in the PRC or overseas during the Reporting Period | <p>(1) Shanghai Industrial Holdings Limited (a company listed on the Hong Kong Stock Exchange with stock code 00363)</p> <p>(2) Shanghai Industrial Urban Development Group Limited (a company listed on the Hong Kong Stock Exchange with stock code 00563)</p> <p>(3) Shanghai Industrial Environmental Holding Co., Ltd. (a company listed on the Main Board of Singapore Exchange with stock code 5GB)</p> <p>(4) Shanghai Industrial Development Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600748)</p> <p>(5) Semiconductor Manufacturing International Corporation (a company listed on the Hong Kong Stock Exchange with stock code 00981 and the New York Stock Exchange under the ticker symbol "SMI")</p> <p>(6) Shanghai International Shanghai Growth Investment Limited (a company listed on the Hong Kong Stock Exchange with stock code 00770)</p> |

| | |
|--|--|
| Name | Shanghai Shangshi (Group) Co., Ltd. |
| Person in charge of the company or legal representative | Wang Wei (王偉) |
| Date of establishment | 20 August 1996 |
| Principal business | Investment in industries, domestic trading (except those with special provisions), and operation and management of state-owned assets to the extent authorised |
| Equity interests in other controlled and invested companies whose shares were listed in the PRC or overseas during the Reporting Period | Shanghai Industrial Development Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600748) |

Changes in Ordinary Share Capital and Information about Shareholders

| | |
|--|--|
| Name | Shanghai Pharmaceutical (Group) Co., Ltd. |
| Person in charge of the company or legal representative | Lou Dingbo (樓定波) |
| Date of establishment | 23 April 1997 |
| Principal business | Scientific research on pharmaceutical products, medical equipment and related products, production, sale, installation and maintenance of pharmaceutical equipment, investment in industries, and import and export business as approved by the State. |
| Equity interests in other controlled and invested companies whose shares were listed in the PRC or overseas during the Reporting Period | Nil |

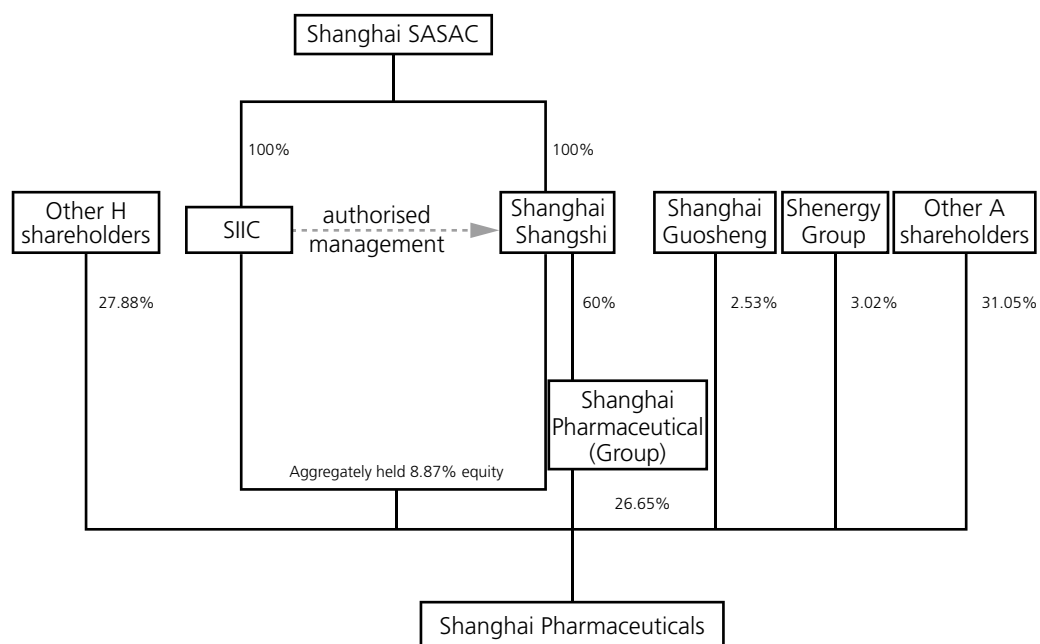
2. *Natural person*
Not applicable
3. *Nothing Special need to be disclosed in relation to the controlling shareholder*
Not applicable
4. *Details and date of changes of the controlling shareholder during the Reporting Period*
Not applicable

(II) De Facto Controller

1. *Legal person*
The de facto controller of the Company is Shanghai SASAC.
2. *Natural person*
Not applicable
3. *Nothing special need to be disclosed in relation to de facto controller*
Not applicable
4. *Details and date of changes of de facto controller during Reporting Period*
Not applicable

Changes in Ordinary Share Capital and Information about Shareholders

5. The chart illustrating the ownership and control relationship between the Company and the de facto controller



6. The ultimate controller controlled the Company through a trust or other asset management company
Not applicable

(III) Other information of the controlling shareholder and the ultimate controller

None

V. OTHER LEGAL PERSON SHAREHOLDERS WITH SHAREHOLDING OF OVER 10%

Applicable Not applicable

VI. LIMITATION ON THE REDUCTION OF SHAREHOLDING

Applicable Not applicable

Changes in Ordinary Share Capital and Information about Shareholders

VII. DISCLOSURE OF INTERESTS AS REQUIRED BY THE SFO

(I) Director's interests

Directors' interests are set out in the section titled "Directors, Supervisors, Senior Management and Employees" below.

(II) Interests and short positions of substantial shareholders and other persons in the Shares and underlying shares

As of 31 December 2015, according to the information available to the Company and to the knowledge of the directors, the following Shareholders had interests or short positions in the Shares or underlying shares which were subject to disclosure by the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were directly or indirectly interested in 5% or more of the voting rights of the total number of the issued H Shares or A Shares at the shareholders' general meetings of the Company:

| Name of shareholder | Class of Shares | Nature of Interests in Shares | Number of Shares | Percentage of H Shares/A Shares held as at the end of the Reporting Period to the entire issued H Shares/A Shares (%) | Percentage in total share capital of the Company as at the end of the Reporting Period (%) |
|--|-----------------------|--|--|---|--|
| SIIC group ^{Note 1(1)} | A Shares/ H Shares | Interests of controlled corporation | 955,102,237(L) | 48.82 (A Shares)/ 2.13 (H Shares) | 35.52 |
| Shanghai Shangshi group ^{Note 1(2)} | A Shares | Beneficial owner/Interests of controlled corporation | 938,317,837(L) | 48.79 | 34.90 |
| Shanghai Pharmaceutical (Group) | A Shares | Beneficial owner | 716,516,039(L) | 37.26 | 26.65 |
| Credit Suisse (Hong Kong) Limited | H Shares | Interests commonly held with another person | 99,632,100(L) 99,632,100(S) | 13.01(L) 13.01(S) | 3.71(L) 3.71(S) |
| Credit Suisse AG | H Shares | Interests of controlled corporation | 99,632,100(L) 99,632,100(S) | 13.01(L) 13.01(S) | 3.71(L) 3.71(S) |
| JPMorgan Chase & Co. | H Shares | Beneficial owner/ Investment Manager/ Custodian/Approved/ lending agent | 85,144,941(L) 373,600(S) 74,144,860(P) | 11.11(L) 0.04(S) 9.68(P) | 3.17(L) 0.01(S) 2.76(L) |
| NSSF | H Shares | Beneficial owner | 66,633,400(L) | 8.70(L) | 2.48(L) |
| Blackrock, Inc. | H Shares | Interests of controlled corporation | 46,450,997(L) | 6.06(L) | 1.73(L) |
| The Capital Group Companies, Inc. | H Shares | Interests of controlled corporation | 45,991,800(L) | 6.00(L) | 1.71(L) |

(L) Represents long position, (S) represents short position, (P) represents shares in lending pool

Changes in Ordinary Share Capital and Information about Shareholders

Note 1: (1) SIIC is a wholly-owned subsidiary of Shanghai SASAC. SIIC group refers to SIIC and its wholly owned subsidiaries. According to the Decision on Authorising Shanghai Industrial Investment (Holdings) Co., Ltd. to Operate the State-owned Assets of Shanghai Overseas Companies, its Major Overseas Group Companies and Shanghai Shangshi (Group) Co., Ltd. (Hu Guo Zi Wei Shou [1998] No.6) issued by the Shanghai SASAC in 1998, SIIC was authorised to be the de facto controller of Shanghai Shangshi and is therefore deemed to hold Shares of the Company through Shanghai Shangshi. As at the end of the Reporting Period, SIIC group held 955,102,237 Shares of the Company in total (including A Shares and H Shares), of which 500,000 A Shares and 16,284,400 H Shares were directly held by SIIC group, and 938,317,837 A Shares were indirectly held by SIIC through Shanghai Shangshi Group.

(2) Shanghai Shangshi is a wholly-owned subsidiary of the Shanghai SASAC. Shanghai Shangshi Group refers to Shanghai Shangshi and its wholly-owned subsidiaries. Shanghai Shangshi holds 60% equity interests in Shanghai Pharmaceutical (Group) and is therefore deemed to hold Shares of the Company through Shanghai Pharmaceutical (Group). As at the end of the Reporting Period, out of the 938,317,837 A Shares held by Shanghai Shangshi Group in the Company, 221,801,798 A Shares were directly held by Shanghai Shangshi group, while 716,516,039 A Shares were indirectly held by Shanghai Shangshi through Shanghai Pharmaceutical (Group).

Note 2: (1) Figures disclosed above are based on the information provided on the website of the Hong Kong Stock Exchange (www.hkexnews.hk).

(2) Pursuant to Section 336 of the SFO, the shareholders of the Company are required to file a disclosure of interests form when certain conditions are fulfilled. When a shareholding in the Company changes, it is not necessary for the Shareholder to notify the Company and the Hong Kong Stock Exchange unless certain conditions have been fulfilled, therefore a shareholder's latest shareholding in the Company may be different from the shareholding filed with the Hong Kong Stock Exchange.

(3) Save as disclosed above, as at 31 December 2015, the Company was not aware of any other person (other than the Directors, Supervisors and Chief Executive of the Company) who had interests or short positions in the Shares or underlying shares of the Company which were required, pursuant to Section 336 of the SFO, to be entered in the register maintained by the Company.

VIII. PRE-EMPTIVE RIGHTS

The Articles of Association contains no mandatory provisions on pre-emptive rights. According to the Articles of Association, the Company may increase its registered capital by way of offering new shares to unspecified investors, placing new shares to existing shareholders or issuing new shares to existing shareholders or by other means permitted by laws and administrative regulations.

IX. PURCHASE, SALES AND REDEMPTION OF SHARES

During the period from January to December 2015, none of the Company or its subsidiaries purchased, sold or redeemed any listed Shares of Shanghai Pharmaceuticals.

Information Related to Preference Shares

Applicable Not applicable

Directors, Supervisors, Senior Management and Employees

I. CHANGES IN SHAREHOLDINGS AND REMUNERATION

(I) Changes in shareholdings and remuneration of directors, supervisors and senior management, existing and resigned during the Reporting Period

✓Applicable □Not applicable

Unit: Share

| Name | Position (Note) | Gender | Age | Starting date of term of office | Expiry date of term of office | Number of Shares held at the beginning of the year | Number of Shares held at the end of the year | Increase/decrease of Shares during the year | Reasons for change | Total remuneration payable by the Company during the Reporting Period (RMB10,000) (before tax) | Whether obtained salary from corporate related party |
|---------------------|--|--------|-----|---------------------------------|-------------------------------|--|--|---|--------------------|--|--|
| Lou Dingbo | Chairman, Executive Director | Male | 54 | 5 June 2013 | 5 June 2016 | 40,000 A Shares | 40,000 A Shares | 0 | / | 0.00 | Yes |
| Cho Man | Executive Director, President | Male | 55 | 5 June 2013 | 5 June 2016 | 20,009 A Shares | 20,009 A Shares | 0 | / | 201.17 | No |
| Hu Fengxiang | Executive Director | Male | 60 | 5 June 2013 | 5 June 2016 | 20,000 A Shares | 20,000 A Shares | 0 | / | 0.00 | Yes |
| Zhou Jie | Non-Executive Director | Male | 49 | 5 June 2013 | 5 June 2016 | 0 | 0 | 0 | / | 0.00 | Yes |
| Jiang Ming | Non-Executive Director | Male | 59 | 31 March 2010 | 5 June 2016 | 0 | 0 | 0 | / | 0.00 | No |
| Chen Naiwei | Independent Non-Executive Director | Male | 59 | 31 March 2010 | 5 June 2016 | 0 | 0 | 0 | / | 23.00 | No |
| Wan Kam To | Independent Non-Executive Director | Male | 63 | 5 June 2013 | 5 June 2016 | 0 | 0 | 0 | / | 25.00 | No |
| Tse Cho Che, Edward | Independent Non-Executive Director | Male | 60 | 5 June 2013 | 5 June 2016 | 0 | 0 | 0 | / | 23.00 | No |
| Li Zhenfu | Independent Non-Executive Director | Male | 53 | 31 May 2012 | 5 June 2016 | 0 | 0 | 0 | / | 20.00 | No |
| He Chuan | Chief Supervisor | Male | 55 | 16 December 2014 | 5 June 2016 | 12,500 A Shares | 12,500 A Shares | 0 | / | 0.00 | Yes |
| Xin Keng | Supervisor | Male | 49 | 5 June 2013 | 5 June 2016 | 0 | 0 | 0 | / | 0.00 | No |
| Chen Xin | Supervisor | Female | 53 | 31 March 2010 | 5 June 2016 | 10,000 A Shares | 10,000 A Shares | 0 | / | 0.00 | Yes |
| Liu Yanjun | Vice President | Male | 51 | 5 June 2013 | 5 June 2016 | 60,000 A Shares | 60,000 A Shares | 0 | / | 139.97 | No |
| Ren Jian | Vice President | Male | 51 | 31 March 2010 | 5 June 2016 | 81,518 A Shares | 81,518 A Shares | 0 | / | 145.46 | No |
| Shu Chang | Vice President | Male | 58 | 8 October 2012 | 5 June 2016 | 4,600 A Shares | 4,600 A Shares | 0 | / | 139.34 | No |
| Mao Jianyi | Vice President | Male | 48 | 19 November 2013 | 5 June 2016 | 0 | 0 | 0 | / | 142.87 | No |
| Shen bo | Chief Financial Officer, The secretary of the board of directors and the joint Company Secretary | Male | 43 | 31 March 2010 | 5 June 2016 | 71,700 A Shares | 71,700 A Shares | 0 | / | 145.25 | No |
| Han Min | The secretary of the board of directors and the joint company secretary | Female | 39 | 8 September 2010 | 7 Aug 2015 | 58,000 A Shares | 58,000 A Shares | 0 | / | 77.92 | No |
| Total | / | / | / | / | / | 378,327 A Shares | 378,327 A Shares | 0 | / | 1,082.98 | / |

Note 1: Save as disclosed above, as at 31 December 2015, according to the information available to the Company and to the knowledge of the directors, none of the directors, supervisors and senior management of the Company had any interest or short position in the Company or its associated corporations (as defined in Part XV of the SFO) as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Note 2: During the Reporting Period, none of the Company's directors and supervisors had any material interest, either directly or indirectly, in any contracts of significance in relation to the Company's business entered into by the Company or any of its subsidiaries.

Note 3: Note of the current and resigned (during the Reporting Period) directors, supervisor and senior executives had been punished by securities regulators in the past three years.

Directors, Supervisors, Senior Management and Employees

| Name | Work Experience in the past five years |
|-------------------|--|
| Lou Dingbo | <p>Mr. Lou Dingbo, born in February 1962, obtained a bachelor's degree from Department of Mechanical Engineering of Northeastern University (formerly Northeastern Engineering Institute), and an EMBA degree from China Europe International Business School. He is an engineer and senior economist. Mr. Lou is the chairman and an executive director of the Company and holds directorship in certain subsidiaries of the Company (described below). Mr. Lou Dingbo has extensive experience in enterprise operation management, mergers & acquisitions and reorganization, financial hedging and marketing. Since August 2012, Mr. Lou has been an director of Shanghai Industrial Investment (Holdings) Co., Ltd. He has been president and chairman of Shanghai Pharmaceutical (Group) Co., Ltd. since October 2012 and July 2012, respectively. He has been a member of China Association of Scientists since January 2015. Since November 2013, Mr. Lou has been the vice president of Shanghai Biopharmaceutical Industry Association; since June 2013, he has been the vice president for China Pharmaceutical Industry Association, China Pharmaceutical Industry Research and Development Association, president of Shanghai Pharmaceutical Profession Association, respectively, as well as a member of the board of directors of East China University of Science and Technology, a member of the first executive committee of China Association for Public Companies and a member of the first supervisory committee of The Listed Companies Association of Shanghai; since October 2012, he has served as the vice president for Shanghai Federation of Economic Organizations and Shanghai Federation of Industrial Economics. He served as legal representative, executive director and general manager of Baosteel Stainless Steel Co., Ltd., deputy general manager of Baoshan Iron & Steel Co., Ltd. ("Baosteel"), and general manager of the stainless steel business unit. He also served as assistant to general manager of Baosteel, legal representative and executive director of Shanghai Baosteel International Economic and Trading Co., Ltd.. Mr. Lou Dingbo has also worked as president of the Stainless Steel Council of China Special Steel Enterprises Association, executive director of the International Stainless Steel Forum (ISSF), and chairman of the Economics and Statistics Committee of the International Stainless Steel Forum (ISSF).</p> |

Directors, Supervisors, Senior Management and Employees

| Name | Work Experience in the past five years |
|---------------------|--|
| Cho Man | Mr. Cho Man, born in May 1961, has a bachelor's degree in pharmacy from Sichuan University (formerly West China University of Medical Science) and a master's degree in management from the School of Management of Fudan University. He is a senior economist. Mr. Cho is an executive director and the president of the Company and holds directorship in certain subsidiaries of the Company (described below). He served as vice chairman and chief executive officer of The Wing Fat Printing Co., Ltd., vice president of China Resources Pharmaceutical Group Limited, deputy general manager of Sanjiu Enterprise Group, general manager and chairman of Sanjiu Economic Trading Co., Ltd., general manager and chairman of Nine Stars Printing and Packaging Co., Ltd., head of sales department and vice director of Shenzhen South Pharmaceutical Factory, and pharmacist, head of transfusion medicine department and head of the drug injection department of Nanfang Hospital, First Military Medical University, Guangzhou. |
| Hu Fengxiang | Mr. Hu Fengxiang, born in July 1956, obtained an associate degree in accounting of industrial enterprises from Shanghai Television University. He is an accountant. Mr. Hu is an executive director of the Company and does not hold any directorship in any subsidiaries of the Company. He has been the executive director of Shanghai Pharmaceutical (Group) Co., Ltd. since June 2013. He has been the vice president of Shanghai Pharmaceutical (Group) Co., Ltd. since July 2010. Mr. Hu previously served as the chief financial officer and deputy chief financial officer of Shanghai Pharmaceutical (Group) Co., Ltd., chairman of Shanghai Asia Pioneer Pharmaceutical Co., Ltd., director and deputy director of the audit office of Shanghai Pharmaceutical (Group) Corporation, and general manager, deputy general manager, deputy chief accountant and head of department of finance of Shanghai Sunve Pharmaceutical Co., Ltd.. |
| Zhou Jie | Mr. Zhou Jie, born in December 1967, master in engineering from Shanghai Jiao Tong University. He is a non-executive director of the Company, and holds directorship in any subsidiaries of the Company. Mr. Zhou has been a non-executive director of Semiconductor Manufacturing International Corporation (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00981 and the New York Stock Exchange under the ticker symbol "SMI") since January 2009; the president and executive director of Shanghai Industrial Investment (Holdings) Co., Ltd. since April 2012 and May 2008, respectively; the vice chairman, CEO and an executive director of Shanghai Industrial Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00363) since April 2012 and November 2007, respectively. His previous positions included the chairman of the board of directors of Shanghai Pharmaceutical (Group) Co., Ltd., the chairman of the Board, executive director and chairman of Supervisory board of the Company, the vice executive president of Shanghai Industrial Investment (Holdings) Co., Ltd., the vice executive CEO of Shanghai Industrial Holdings Limited, and the chairman and general manager of Shanghai SIIC Asset Management Co., Ltd.. |

Directors, Supervisors, Senior Management and Employees

| Name | Work Experience in the past five years |
|--------------------|---|
| Jiang Ming | <p>Mr. Jiang Ming, born in September 1957, obtained a bachelor's degree from the History Department of Fudan University and is an associate research fellow. He joined the Company in March 2010 as a non-executive director and does not hold any directorship in any subsidiary of the Company. Mr. Jiang has been the vice president of Shanghai Guosheng Group Co., Ltd. since May 2008. His previous positions included clerk at the director level of the Organisation Department of the CPC Shanghai Municipal Committee, general manager of China Rural Development Trust and Investment Corporation, general manager of securities business department of China Xinda Trust and Investment Company, and deputy general manager and general manager of the Headquarters of China Galaxy Securities Co., Ltd..</p> |
| Chen Naiwei | <p>Mr. Chen Naiwei, born in August 1957, obtained degrees of bachelor of economic law from East China University of Political Science and Law and doctorate of civil and commerce law from Macau University of Science and Technology. He is a professor of law and PRC practising lawyer. He joined the Company in March 2010 as an independent non-executive director and does not hold any directorship in any subsidiaries of the Company. Mr. Chen has been the vice president of China Law Association on Science and Technology since October 2010; independent non-executive director of Shanghai Taisheng Wind Power Equipment Co., Ltd. (a company listed on the Shenzhen Stock Exchange with stock code 300129) since August 2010; independent non-executive director of Shanghai Kinlita Chemical Co., Ltd. (a company listed on the Shenzhen Stock Exchange with stock code 300225) since July 2013; an independent non-executive director of Shanghai Jiaoyun Group Co., Ltd (a company listed on Shanghai Stock Exchange with stock code 600676) since November 2014; arbitrator of the China International Economic and Trade Arbitration Commission since October 2005; the vice president of the Technology Law and Intellectual Property Law Research Center of Shanghai Law Society since March 2005; professor of law at Fudan University since August 2004; arbitrator of the Court of Arbitration for Sport of the International Olympics Committee since December 2002; arbitrator of Shanghai Arbitration Commission since October 1999; and senior partner of Allbright Law Offices since September 1999. His previous positions included the head of the Faculty of Law and the director of the Center for the Study of Intellectual Property at Shanghai Jiao Tong University and the independent non-executive director of ZTE Corporation (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00763 and on the Shenzhen Stock Exchange with stock code 000063), president of Shanghai Lawyers Association.</p> |

Directors, Supervisors, Senior Management and Employees

| Name | Work Experience in the past five years |
|---------------------------|--|
| <p>Wan, Kam To</p> | <p>Mr. Wan Kam To, born in January 1953, graduated from the Accounting Department of Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) with a higher diploma. He is a certified accountant in Hong Kong, and a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Hong Kong Institute of Directors. He is an independent non-executive director of the Company and does not hold any directorship in any subsidiary of the Company. Mr. Wan Kam To has extensive experience in auditing, finance, advisory and management for over 30 years. He has been an independent non-executive director of Target Insurance (Holdings) Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 06161) since November 2014; an independent non-executive director of Harbin Bank Co., Ltd. (a company listed on The Stock Exchange of Hong Kong Limited with stock code 06138) since October 2013, an independent non-executive director of Kerry Logistics Network Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00636) since November 2013, an independent non-executive director of S. Culture International Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 01255) since May 2013, an independent non-executive director of KFM Kingdom Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 03816) since September 2012, an independent non-executive director of Dalian Port (PDA) Company Limited (a company listed on The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange with stock code 02880 and 601880 respectively) since June 2011, an independent non-executive director of Huaneng Renewables Corporation Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00958) since August 2010, an independent non-executive director of Fairwood Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00052) since September 2009, an independent non-executive director of China Resources Land Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 01109) since March 2009. He once served as an independent director of Mindray Medical International Limited (a company listed on the New York Stock Exchange under the ticker symbol MR), an independent director of RDA Microelectronics, Inc. (a company listed on NASDAQ under the ticker symbol RDA), an independent non-executive director of GreaterChina Professional Services Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 08193) and a partner of PricewaterhouseCoopers in Hong Kong (from May 1992 to June 2008), etc.</p> |

Directors, Supervisors, Senior Management and Employees

| Name | Work Experience in the past five years |
|----------------------------|--|
| TSE, Cho Che Edward | <p>Mr. Tse Cho Che, Edward, born in June 1956, holds a bachelor's degree and a master's degree in civil engineering from the Massachusetts Institute of Technology, the United States, and a master of business administration as well as a Ph.D. in civil engineering from the University of California, Berkeley, the United States. Mr. Tse is an independent non-executive director of the Company and does not hold any directorship in any subsidiary of the Company. He has been engaged in management consultancy and corporate senior management for nearly 30 years, with extensive experience and expertise in definition and implementation of corporate transformation, establishment of organizations, business strategy and overseas expansion. He holds the position of Chairman in Gao Feng Advisory Company from April 2014 up until now. He was the chairman of the board in Greater China region of Booz & Company, an independent director of Baoshan Iron & Steel Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600019), director of Shanghai Automotive Industry Corporation (Group), executive vice president of corporate planning and development division and business president of Greater China region of HKT Limited, a part-time member of the Central Policy Unit of the Hong Kong Special Administrative Region, and president of Greater China region of Boston Consulting Group.</p> |
| Li Zhenfu | <p>Mr. Li Zhenfu, born in July 1963, has a bachelor degree in science from Beihang University and a master degree in science from Illinois Institute of Technology in the United States of America. He joined the Company as an independent non-executive director of the Company in May 2012, and does not hold any directorship in any subsidiary of the Company. Mr. Li Zhenfu is the founder and CEO of GL Capital Group and has been the chief executive officer of GL Capital Group since 2010. Mr. Li Zhenfu is a member of the China Entrepreneur Club, a member of the Committee of 100 of United States of America, a member of the International Board of Overseas Directors of Illinois Institute of Technology, the honorary Vice Chairman of China Charity Federation, and a member of China Advisory Board of The Nature Conservancy. Between 2004 and 2010, Mr. Li Zhenfu was the president of Novartis China. Prior to such appointments, Mr. Li Zhenfu had worked in the Pritzker Organisation for 11 years, where he held in a number of positions with investment, advisory and general management responsibilities. In the last five years at the Pritzker Organisation, he was president of Getz Commercial at Getz Bros. & Co., Inc..</p> |

Directors, Supervisors, Senior Management and Employees

| Name | Work Experience in the past five years |
|------------------------|---|
| <p>He Chuan</p> | <p>Mr. He Chuan, born in January 1961, has a master's degree in business administration from the City University of Hong Kong and is a political engineer. He is the chief supervisor of the Company, and does not hold any directorship in any subsidiaries of the Company. He has been the secretary of the Discipline Inspection Committee since August 2013. From December 2008 up until now, he serves as the chief supervisor and a member of the Party Committee of Shanghai Pharmaceutical (Group) Co., Ltd.. He previously served as the chief supervisor of Shanghai Traditional Chinese Medicine Co., Ltd. (上海市藥材有限公司), the chairman of Shanghai Indu-Land Real Estate Management Co., Ltd. (上海英達萊置業有限公司), the deputy secretary of the Party Committee of Shanghai Pharmaceutical (Group) Co., Ltd., the deputy secretary of the Party Committee and the secretary of the Discipline Inspection Committee of Shanghai Iron and Steel Research Institute (上海鋼鐵研究所), the head of organization department and cadre department of the Party Committee of Shanghai Industry (上海市工業黨委) and the deputy secretary of the corporate administration office of Shanghai No. 2 Iron & steel Factory (上海第二鋼鐵廠), etc.</p> |
| <p>Xin Keng</p> | <p>Mr. Xin Keng, born in December 1967, has a bachelor's degree in engineering and a master's degree in engineering from Shanghai Jiao Tong University. He is an engineer. He is currently the supervisor of the Company and does not hold any directorship in any subsidiaries of the Company. He has served as principal of the finance management department of Shenergy (Group) Co., Ltd. since August 2009. His previous positions included principal of securities department of Shenergy Company Limited, investment principal of state-owned assets department of Wenhui Xinmin United Press Group, deputy general manager of Wenxin Investment Co., Ltd. (文新投資有限公司), and deputy manager of financing division of investment banking department of Haitong Securities Co., Ltd. (海通證券股份有限公司).</p> |

Directors, Supervisors, Senior Management and Employees

| Name | Work Experience in the past five years |
|-------------------|--|
| Chen Xin | <p>Ms. Chen Xin, born in May 1963, holds an undergraduate degree in economic management from the Open College of Party School of the Central Committee of the Communist Party of China (CCCPC) and a graduate degree (part-time) in politics from the Party School of the CCCPC, and is a senior political engineer. She joined the Company as an employee supervisor of the Company in March 2010 and holds no concurrent office of director in any of the Company's subsidiaries. She has been the chairman of Shanghai Industrial Holdings Limited Union since March 2015. Ms. Chen has been the chairman of Shanghai Pharmaceutical Trade Union, a member of the standing committee of Shanghai Federation of Trade Unions, and a member of the standing committee of China Energy Chemistry Trade Union since August 2001. Her previous positions included director of the department of organisation of Shanghai Pharmaceutical (Group) Co., Ltd. and vice chairman of Shanghai Pharmaceutical Trade Union, etc.</p> |
| Liu Yanjun | <p>Mr. Liu Yanjun, born in February 1965, holds a bachelor's degree in Naval Medicine, a master degree in surgery and a PhD in surgery from Second Military Medical University. He is currently a vice president of the Company and chairman of Shanghai Jiaolian Medicine Research and Development Co., Ltd.. He holds a concurrent office of director in the Company's subsidiaries (described below). Mr. Liu was previously deputy general manager of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (a company listed on The Stock Exchange of Hong Kong Limited with stock code 01349), research director and research associate in cancer research office of molecular biology institute of Second Military Medical University, visiting scholar at San Diego Sidney Kimmel Cancer Center in California, United States, and attending physician and lecturer in Eastern Hepatobiliary Surgery Hospital subordinated to Second Military Medical University.</p> |

Directors, Supervisors, Senior Management and Employees

| Name | Work Experience in the past five years |
|------------------|--|
| Ren Jian | Mr. Ren Jian, born in March 1965, obtained a bachelor's degree in Inorganic Materials from East China Institute of Chemical Technology, and an EMBA of China Europe International Business School and is an engineer. He is currently a vice president of the Company and holds a concurrent office of director in the Company's subsidiaries (described below). Mr. Ren was the head of the human resources department, the head of the organization cadre department, the head of the leader management department and vice president of Shanghai Pharmaceutical (Group) Co., Ltd.. |
| Shu Chang | Mr. Shu Chang, born in September 1958, obtained a bachelor's degree in arts majoring in French from Beijing International Studies University and master of economics from the Graduate School of New York University, United States. He is a vice president of the Company and holds no concurrent office of director in any of the Company's subsidiaries. He was the assistant to the chairman of CibaGeigy Corp., a Swiss pharmaceuticals company; investment banking manager of Morgan Stanley, United States; vice president of Asia-Pacific region, Landsat, an international satellite company, United States; chairman of Shenzhen Zhengguo (Jun'an) Investment Company, Ltd. (深圳正國(君安)投資有限公司); vice president of China Minsheng Credit Guarantee Investment Company (中國民生投資信用擔保有限公司); managing director of Huachen Wuzhou Electronic Commerce Co., Ltd (華晨五洲電子商務有限公司); director, executive of the strategy committee under the board of directors, chief financial officer and chief asset management officer of SAIC Motor Corporation, Ltd.; director, chief investment and development officer and deputy general manager of the finance division of JinJiang International Holdings Co., Ltd., vice president of Beijing Automobile Investment Co., Ltd.; assistant executive president of Shanghai Industrial Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00363), and vice president of Shanghai Industrial Urban Development Group Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00563). |

Directors, Supervisors, Senior Management and Employees

| Name | Work Experience in the past five years |
|-------------------|--|
| Mao Jianyi | Mr. Mao Jianyi, born in May 1968, was a college graduate at medical faculty of Shanghai Second Medical University, and obtained a MBA degree from Shanghai PCEC East Asia College and a Ph.D. in economics from Shanghai University of Finance and Economics (International Open University of Washington in the United States (美國華盛頓國際公開大學)). Mr. Mao is a physician. He is currently vice president of the Company and holds a concurrent office of director in subsidiaries of the Company (described below). He served as vice president of the prescription drug division of Shanghai Pharmaceutical (Group) Co., Ltd., general manager of Shanghai No.1 Biochemical and Pharmaceutical Co., Ltd. of the prescription drug division of Shanghai Pharmaceutical (Group) Co., Ltd., general manager of Shanghai Zhong Xi Pharmaceutical Co., Ltd. and Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd., and director of Shenzhen Kondarl (Group) Co. Ltd. (a company listed on the Shenzhen Exchange with stock code 000048), etc. |
| Shen Bo | Mr. Shen Bo, born in March 1973, obtained a bachelor's degree majoring in accounting from Shanghai Institute of Construction Materials Industry and master of professional accountancy from Chinese University of Hong Kong. He has passed the PRC Certified Public Accountants examination. He is the chief financial officer of the Company, Secretary of the board of directors, Joint Company Secretary and con-currently holds office of director in a subsidiary of the Company (described below). He has been a non-executive director of Tianda Pharmaceuticals Co., Ltd. (a company listed on the stock Exchange of Hong Kong Limited with stock code 00455) since August 2015. He has been a non-executive director of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (a company listed on The Stock Exchange of Hong Kong Limited with stock code 01349) since June 2012. His previous positions included the deputy manager of the finance department of Shanghai Jinling Co., Ltd., the chief financial officer of Shanghai Industrial Pharmaceutical Investment Co., Ltd., and the general manager of the finance department of Shanghai Pharmaceutical (Group) Co., Ltd, etc. |

Statements on other matters

The board of directors of Shanghai Pharmaceuticals currently consists of nine members, including three executive directors, two non-executive directors and four independent non-executive directors, all elected by the shareholders. The term of each session of the board of directors is generally three years, which is renewable upon re-election. The board of supervisors of Shanghai Pharmaceuticals consists of three members. Except for the employee representative supervisor who was elected by employees, other supervisors were elected by the shareholders of the Company. The term of each session of the board of supervisors is generally three years, which is renewable upon re-election. The senior management of Shanghai Pharmaceuticals consists of six members, all appointed by the board of directors for a term equal to that of the session of board of directors and the board of supervisors, which is renewable upon reappointment by the board of directors.

Directors, Supervisors, Senior Management and Employees

The Company has received the annual confirmation letter issued by each of the four independent non-executive directors, namely Mr. Chen Naiwei, Mr. Wan Kam To, Mr. Tse Cho Che, Edward and Mr. Li Zhenfu, in respect of their independence in accordance with Rule 3.13 of the Hong Kong Listing Rules, and still believes that they are independent parties.

(II) Equity incentives issued to Directors, Supervisors and Senior Management during the Reporting Period

Applicable Not applicable

II. POSITIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT, EXISTING AND RESIGNED DURING THE REPORTING PERIOD

(I) Positions in Shareholder Entities

Applicable Not applicable

| Name | Name of shareholder entity | Position held at the shareholder entity | Starting date of term of office | Expiry date of term of office |
|--|--|---|---------------------------------|-------------------------------|
| Lou Dingbo | Shanghai Industrial Investment (Holding) Co., Ltd. | Director | August 2012 | – |
| Lou Dingbo | Shanghai Pharmaceutical (Group) Co., Ltd. | Chairman and executive director | July 2012 | – |
| Lou Dingbo | Shanghai Pharmaceutical (Group) Co., Ltd. | President | October 2012 | – |
| Hu Fengxiang | Shanghai Pharmaceutical (Group) Co., Ltd. | Executive director | June 2013 | – |
| Hu Fengxiang | Shanghai Pharmaceutical (Group) Co., Ltd. | Vice President | July 2010 | – |
| Zhou Jie | Shanghai Industrial Investment (Holding) Co., Ltd. | Executive director | May 2008 | – |
| Zhou Jie | Shanghai Industrial Investment (Holding) Co., Ltd. | President | April 2012 | – |
| Zhou Jie | Shanghai Shangshi (Group) Co., Ltd. | Vice Chairman | April 2012 | – |
| Zhou Jie | Shanghai Shangshi (Group) Co., Ltd. | President | April 2012 | – |
| Jiang Ming | Shanghai Guosheng Group Co., Ltd. | Vice President | May 2008 | – |
| Jiang Ming | Shanghai Shengrui Investment Co., Ltd. | Executive director | January 2010 | December 2015 |
| He Chuan | Shanghai Pharmaceutical (Group) Co., Ltd. | Chief Supervisor | December 2008 | – |
| Xin Keng | Shenergy (Group) Co., Ltd. | Principal of the finance department | August 2009 | – |
| Explanation of positions in Shareholder Entities | None | | | |

Directors, Supervisors, Senior Management and Employees

(II) Positions in subsidiaries

✓Applicable □Not applicable

| Name | Name of subsidiary | Position held at the subsidiary | Starting date of term of office | Expiry date of term of office |
|------------|---|---------------------------------|---------------------------------|-------------------------------|
| Lou Dingbo | Chiatai Qingchunbao Pharmaceutical Co., Ltd. | Chairman | October 2012 | – |
| Lou Dingbo | Shanghai Pharmaceuticals Distribution Co., Ltd. | Chairman | June 2013 | – |
| Lou Dingbo | Hangzhou Huqingyutang Pharmaceutical Co., Ltd. | Chairman | June 2013 | – |
| Lou Dingbo | SPH Keyuan Xinhai Pharmaceutical Co., Ltd. | Chairman | December 2014 | – |
| Lou Dingbo | Shanghai Pharma Northern Investment Co., Ltd. | Chairman | December 2014 | – |
| Lou Dingbo | Shanghai Pharmaceuticals Grand Health Cloud Commerce Co., Ltd. | Chairman | March 2015 | – |
| Cho Man | Shanghai No. 1 Biochemical and Pharmaceutical Co., Ltd. | Chairman | June 2013 | – |
| Cho Man | Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd. | Chairman | June 2013 | – |
| Cho Man | SPH Changzhou Pharmaceutical Co., Ltd. | Chairman | June 2013 | – |
| Cho Man | Xiamen Traditional Chinese Medicine Co., Ltd. | Chairman | June 2013 | – |
| Cho Man | Shanghai Pharmaceuticals Qingdao Growful Medicine Co., Ltd. | Chairman | June 2013 | – |
| Cho Man | SPH Keyuan Xinhai Pharmaceutical Co., Ltd. | Director | June 2013 | – |
| Cho Man | Shanghai Pharmaceuticals Grand Health Cloud Commerce Co., Ltd. | Vice chairman | March 2015 | – |
| Liu Yanjun | Shanghai Jiaolian Drug Development Co., Ltd. | Chairman | February 2014 | – |
| Liu Yanjun | Shanghai Pharmaceutical Group (Benxi) Northern Pharma Co., Ltd. | Executive director | November 2014 | – |
| Liu Yanjun | Shanghai Yichuang Research and Development Centre of Traditional Chinese Medicine Co., Ltd. | Chairman | October 2015 | – |
| Ren Jian | Liaoning SPH Herbapex Pharmaceutical (Group) Co., Ltd. | Chairman | February 2011 | – |
| Ren Jian | Shanghai Pharmaceutical Group (Dali) Red Yew Co., Ltd. | Chairman | February 2015 | – |
| Mao Jianyi | Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd. | Chairman | October 2013 | – |
| Mao Jianyi | Shanghai Pharmaceutical Group Pharma Sales Co., Ltd. | Executive director | June 2014 | – |
| Mao Jianyi | Shanghai Sunve Co., Ltd. | Chairman | December 2009 | – |

Directors, Supervisors, Senior Management and Employees

| Name | Name of subsidiary | Position held at the subsidiary | Starting date of term of office | Expiry date of term of office |
|--|--|---------------------------------|---------------------------------|-------------------------------|
| Mao Jianyi | Shanghai Pharma Shanghai Zhongxi Pharmaceuticals Co., Ltd | Chairman | January 2015 | - |
| Mao Jianyi | Chiatai Qingchunbao Pharmaceuticals Co., Ltd. | Director | June 2013 | - |
| Mao Jianyi | SPH Dong Ying (Jiangsu) Pharmaceuticals Co., Ltd. | Director | July 2013 | - |
| Mao Jianyi | Shanghai Pharmaceuticals Qingdao Growful Medicine Co., Ltd. | Director | December 2014 | - |
| Shen Bo | Shanghai Medical Instruments Co., Ltd. | Chairman | April 2011 | - |
| Shen Bo | Shanghai Pharmaceuticals Distribution Co, Ltd. | Supervisor | April 2010 | - |
| Shen Bo | SPH Keyuan Xinhai Pharmaceutical Co., Ltd. | Director | April 2011 | - |
| Shen Bo | SPH Changzhou Pharmaceutical Co., Ltd. | Director | June 2007 | - |
| Shen Bo | Shanghai Pharma Northern Investment Co., Ltd. | Director | January 2012 | - |
| Shen Bo | Chiatai Qingchunbao Pharmaceutical Co., Ltd. | Director | March 2013 | - |
| Shen Bo | SPH Dong Ying (Jiangsu) Pharmaceuticals Co., Ltd. | Director | July 2013 | - |
| Shen Bo | China International Pharmaceutical (Holding) Corporation Limited | Director | May 2014 | - |
| Shen Bo | Shanghai Pharmaceuticals Grand Health Cloud Commerce Company Limited | Chief supervisor | March 2015 | - |
| Shen Bo | Shanghai Hefeng Pharmaceutical Co., Ltd. | Chairman | November 2015 | - |
| Shen Bo | Shanghai Industrial Group Pharmaceutical Co. Ltd. | Executive director | October 2015 | - |
| Shen Bo | Shanghai Huarui Investment Co. Ltd. | Executive director | October 2015 | - |
| Explanation of positions in other entities | None | | | |

(III) Service Contracts of Directors and Supervisors

Save for the contracts between the Company and the Company's directors and supervisors in respect of complying with relevant laws and regulations, Articles of Association and provisions under Rule 19A.54 and Rule 19A.55 of the Hong Kong Listing Rules, neither the directors nor the supervisors had entered into any service contract which is not terminable within one year without payment of compensation (other than statutory compensation).

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND THE SENIOR MANAGEMENT

| | |
|--|---|
| <p>Procedure for determining the remuneration of directors, supervisors and senior management</p> | <p>The remuneration and assessment committee of the board of directors of the Company considers and recommends to the board of directors the remuneration and other benefits to be paid to the directors of the Company. The remuneration of the directors and supervisors of the Company are resolved at the shareholders' general meeting. The remuneration of all directors of the Company is monitored regularly by the remuneration and assessment committee to ensure an appropriate level of remuneration and compensation. The remuneration of the senior management of the Company is provided in accordance with the remuneration system for the senior management of the Company, which is implemented by the remuneration and assessment committee.</p> |
| <p>Determination criteria for the remuneration of directors, supervisors and senior management</p> | <p>The Company has a well-established assessment mechanism to carry out assessment and give rewards and punishments according to the administrative measures relating to annual assessment of the responsibility for operation, with reference to indicator systems including core indicators, operating indicators and control indicators.</p> |
| <p>Payment of the remuneration payable to directors, supervisors and senior management</p> | <p>The directors, supervisors and senior management of the Company receive remuneration from the Company in strict compliance with the operating responsibility assessment mechanism. The remuneration disclosed by the Company is in line with that actually paid.</p> |
| <p>Total remuneration actually received by all directors, supervisors and senior management at the end of the Reporting Period</p> | <p>The remuneration actually received by the directors, supervisors and senior management of the Company in 2015 is RMB1,082.98 million in total.</p> |

Directors, Supervisors, Senior Management and Employees

IV. CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

| Name | Position | Change situation | Reasons for changes |
|---------|---|------------------|---------------------|
| Han Min | Secretary of the board of directors, Joint Company Secretary | Resignation | Voluntary |
| Shen Bo | Secretary of the board of directors, Joint Company Secretary | Appointment | Job Demand |

V. THE RECORDS OF BEING PUBLISHED BY SECURITIES REGULATORS IN RECENT THREE YEARS

Applicable Not applicable

VI. EMPLOYEES OF PARENT COMPANY AND MAJOR SUBSIDIARIES

(I) Employees

| Number of in-service employees of the parent company | 140 |
|---|-----------------------------------|
| Number of in-service employees of the major subsidiaries | 41,033 |
| Total number of in-service employees | 41,173 |
| The number of retired employees whose expenses are borne by the parent company and the major subsidiaries | 72 |
| Composition of professions | |
| Type of profession | Number of staff in the profession |
| Production staff | 14,464 |
| Sales staff | 16,313 |
| Technical staff | 4,388 |
| Finance staff | 1,493 |
| Administrative staff | 2,948 |
| Others (Service staff) | 1,567 |
| Total | 41,173 |

Directors, Supervisors, Senior Management and Employees

| Education level | |
|---|-------------------|
| Type of education level | Number of persons |
| PhD | 54 |
| Master | 867 |
| University graduate | 7,628 |
| College graduate | 11,808 |
| Specialized secondary school (high school) graduate | 12,982 |
| Below specialized secondary school graduate | 7,834 |
| Total | 41,173 |

(II) Remuneration Policy

The Company insisted on the remuneration philosophy of “Position, Ability, Performance” and established management measures on appraisal of operating results and remunerations of the senior management of the Company and management measures on appraisal of operating responsibility and remunerations of subsidiaries respectively. Meanwhile, the Company constructed differentiated remuneration systems for management staff, marketing staff, R&D staff, technical quality management staff and production staff with reasonable docking between the various remuneration systems, so as to effectively motivate the employees and stimulate their creativity, continually improve the Company’s business results and enhance the achievement of the Company’s strategic goal.

The remuneration and compensation package of the employees generally includes salary, allowance and bonus, as well as pension, medical insurance, housing fund, work-related injury insurance and other benefits from the Company. The Company sounds the mechanisms of employee income growth and underpinning which make the employees share the fruits of development of the Company. The Company participates in various employee welfare schemes, such as pension, medical insurance, housing fund, maternity and unemployment insurance organized by the provincial and municipal governments in accordance with the relevant regulations of China.

Directors, Supervisors, Senior Management and Employees

(III) Training Program

Based on the strategies and annual work priorities, the Company offers professional, effective, personalized training sessions and solutions to all levels of staff according to the development requirements of each position and the career development of individual employees. Pursuant to the requirements of the regulatory departments of the State, the Company provides systematic training on GMP, GSP, operational skills and occupational safety to its employees every year. The Company has organized special training sessions including law and internal control for management staff of all levels pursuant to the compliance requirements for listed companies. In order to enhance comprehensive management level and leadership capability, the Company organized leadership development programs for mid to senior management, training for middle-aged and young professional cadre, as well as training for new managers. Combined with marketing transformation, the Company has organized training projects for regional managers and district managers. To keep pushing ahead the Lean Six Sigma project, over 210 employees participated in the Champion and Green Belt training organized by the Company, of which 72 were the first batch awarded the Green Belt qualification. With an aim to strengthening new staff's commitment to corporate culture and sense of belonging to the enterprise, the Company organized an "Orientation Training Scheme for New Graduates—Soaring High" for more than 150 new staff members with undergraduate degrees or above from 17 subsidiaries. The Company held specialized trainings include EHS Concept, QC laboratory operation, Identification of traditional Chinese Medicine, Pharmaceutical analysis technique, planned water use projects to adapt to the new regulations and policies. Cooperating with training institutions, the Company also organized and launched systematic training for profession streams such as financial management, human resources, Forensic Audit, internal lecturer, technician, secretary of the party committee and Grassroots team leaders.

(IV) Pension Scheme

Shanghai Pharmaceuticals participates in a pension benefits scheme for employees organised by the local provincial and municipal governments in accordance with the relevant requirements of the PRC and pays pension contributions for all employees on a monthly basis. Retired employees are entitled to receive a monthly pension from the local provincial and municipal governments. Details are set out in Notes 30 to the financial statements in accordance with the Chinese Accounting Standards for Business Enterprises, and Note 34 to the financial statements prepared in accordance with the Hong Kong Financial Reporting Standards.

Directors, Supervisors, Senior Management and Employees

(V) Labour Outsourcing

In order to keep the research and development, production, marketing and management functions of the Company under control, the Company is not committed to any large scale labour outsourcing.

VII.FIVE HIGHEST PAID INDIVIDUALS

The remunerations for the five highest paid individuals (including one former director) during the relevant periods ended 31 December 2015 were as follows:

Unit: RMB'000

| | |
|--|-----------|
| Wages and salaries | 5,154.55 |
| Bonus | 9,627.90 |
| Contribution by the employer to the pension scheme | 268.95 |
| Total | 15,051.40 |

For the year ended 31 December 2015, the remuneration bands were as follows:

| Remuneration bands (HKD) | Number of persons |
|---------------------------|-------------------|
| HKD2,000,001–HKD2,500,000 | 2 |
| HKD2,500,001–HKD3,000,000 | 1 |
| HKD3,000,001–HKD3,500,000 | 0 |
| HKD3,500,001–HKD4,000,000 | 0 |
| HKD4,000,001–HKD4,500,000 | 1 |
| HKD4,500,001–HKD5,000,000 | 0 |
| HKD5,000,001–HKD5,500,000 | 0 |
| HKD5,500,001–HKD6,000,000 | 0 |
| HKD6,000,001–HKD6,500,000 | 1 |

One of the above five top salary persons is a director of Shanghai Pharmaceuticals.

In 2015, Shanghai Pharmaceuticals did not pay any award to any directors or the above five highest paid individuals for joining the Group or as compensation for the loss of office. None of the directors waived or agreed to waive his/her remunerations as above.

Corporate Governance

I. CORPORATE GOVERNANCE

The Company has established and kept improving the corporate governance structure of the Company strictly in accordance with the relevant laws, regulations and rules such as the Company Law of the PRC, the Securities Law of the PRC, the Standards on Corporate Governance of Listed Companies, the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange and the Hong Kong Listing Rules as well as the Articles of Association of the Company. During the Reporting Period, the Company has formulated The Detailed Implementation Rules Regarding Audit Committee of the board in accordance with the code provision C.3.3 of the Corporate Governance Code, which gives the function of supervising risk management to the audit committee of the board. Meanwhile, the Company has also revised a series of internal rules and regulations to ensure compliance operation and standardized decision-making by the Company in terms of system building, such as Management Measures Regarding Main Data, Management Measures Regarding Supplier Integrity Compliance, Management systems Regarding Headquarters' Budget. There is no discrepancy between the actual situation of corporate governance and that required in the Company Law of the PRC and relevant provisions of CSRC. The System Governing Inside Information and Informed Parties was considered and approved at the 3rd meeting of the fourth session of the board of directors of the Company on 20 April 2010 and has been put into practice, and was amended at the 3rd meeting of the fifth session of the board of directors of the Company on 22 August 2013 in accordance with relevant regulatory requirements. (For details, please refer to the Company's announcement Lin No. 2010-027 and the Company's announcement Lin No. 2013-024. Unless otherwise specified hereinafter, such announcements have been published on the Shanghai Securities News, Securities Times and the website of Shanghai Stock Exchange at <http://www.sse.com.cn>. The relevant information can also be found on the website of the Hong Kong Stock Exchange at <http://www.hkexnews.hk> and the Company's website.)

II. GENERAL MEETING

| Session | Date of convening | Websites designated for information disclosure of resolutions | Date of information disclosure of resolutions |
|---|-------------------|---|---|
| 2014 Annual General Meeting of Shanghai Pharmaceuticals | 29 May 2015 | Company's announcement Lin No. 2015-019 | 30 May 2015 |

III. DUTY PERFORMANCE OF DIRECTORS

(I) Attendance of directors at the board meetings and the shareholders' general meeting

| Name of director | Independent director or not | Attendance at the board meetings | | | | | | | Attendance at the general meetings |
|---------------------|-----------------------------|--|----------------------|------------------------------------|---------------------|---------|-----------------|---|---|
| | | Required attendance for the year (times) | Attendance in person | Attendance by way of communication | Attendance by proxy | Absence | Attendance rate | Any failure in attending in person for two consecutive meetings | Attendance for the general meetings (times) |
| Lou Dingbo | No | 7 | 7 | 5 | 0 | 0 | 100% | No | 1 |
| Cho Man | No | 7 | 7 | 5 | 0 | 0 | 100% | No | 1 |
| Hu Fengxiang | No | 7 | 7 | 5 | 0 | 0 | 100% | No | 1 |
| Zhou Jie | No | 7 | 7 | 5 | 0 | 0 | 100% | No | 1 |
| Jiang Ming | No | 7 | 7 | 5 | 0 | 0 | 100% | No | 1 |
| Chen Naiwei | Yes | 7 | 7 | 5 | 0 | 0 | 100% | No | 1 |
| Wan Kam To | Yes | 7 | 7 | 5 | 0 | 0 | 100% | No | 1 |
| Tse Cho Che, Edward | Yes | 7 | 7 | 5 | 0 | 0 | 100% | No | 1 |
| Li Zhenfu | Yes | 7 | 7 | 5 | 0 | 0 | 100% | No | 1 |

| | |
|---|---|
| Number of board meetings held in the year | 7 |
| Including: Number of on-site meetings | 2 |
| Number of meetings held by way of communication | 5 |
| Number of meetings held on-site with attendance by way of communication available | / |

(II) Independent directors' objections to the Company's relevant matters

During the Reporting Period, independent directors had no objections to the Company's relevant matters.

IV. SIGNIFICANT OPINIONS AND RECOMMENDATIONS PUT FORWARD BY THE SPECIAL COMMITTEES UNDER THE BOARD OF DIRECTORS DURING THE REPORTING PERIOD WHILE PERFORMING THEIR DUTIES

During the Reporting Period, the special committees under the board of directors while performing their duties approved all the resolutions submitted for consideration. For specific details on their duty performance, please refer to the “Corporate Governance Report” below.

V. RISKS DISCOVERED BY THE BOARD OF SUPERVISORS

The board of supervisors of the Company had no objection to any supervision matters during the Reporting Period.

VI. INABILITY OF THE COMPANY AND ITS CONTROLLING SHAREHOLDERS TO ENSURE INDEPENDENCE AND MAINTAIN THEIR CAPACITY OF INDEPENDENT OPERATION IN TERMS OF BUSINESS, PERSONNEL, ASSETS, ORGANISATION AND FINANCE

There is no such case under which the Company and its Controlling Shareholders are not able to ensure their respective independence and maintain their capacity of independent operation in terms of business, personnel, assets, organisation and finance.

Corresponding solutions, working progress and subsequent working plans of the Company in case of horizontal competition

The Company has no horizontal competition with the Controlling Shareholders.

VII. THE ESTABLISHMENT AND IMPLEMENTATION OF THE ASSESSMENT MECHANISM AND INCENTIVE MECHANISM FOR SENIOR MANAGEMENT DURING THE REPORTING PERIOD

The remuneration of senior management of the Company is paid in accordance with the remuneration system for the senior management of the Company, which is implemented by the remuneration and assessment committee. The Company has a well-established assessment mechanism to carry out assessment and give rewards and punishments according to the relevant administrative measures on annual assessment of the responsibility for operation, with reference to indicator systems including core indicators, operating indicators and control indicators.

VIII. WHETHER TO DISCLOSE SELF-EVALUATION REPORT ON INTERNAL CONTROL

Applicable Not applicable

For details, please refer to the “Self-evaluation Report on Internal Control” disclosed by the Company.

Matters relating to material defects on internal control during the Reporting Period

Applicable Not applicable

IX. MATTERS RELATING TO THE AUDIT REPORT ON INTERNAL CONTROL

For details, please refer to the Audit Report on Internal Control released by the Company.

Whether to disclose Audit Report on Internal Control: Yes

X. CORPORATE GOVERNANCE REPORT

Shanghai Pharmaceuticals, as a company dual-listed in the A-share and H-share market, shall comply with the laws and regulations of both the PRC and Hong Kong. As an A-share listed company, the Company did not breach any relevant PRC laws and regulations. Meanwhile, the Company fully complied with the principles and code provisions stipulated under the Corporate Governance Code and the Rules Governing the Listing of Stocks on Shanghai Stock Exchange and the Hong Kong Listing Rules.

(I) Compliance with the Model Code by Directors and Supervisors

The board of directors of the Company has confirmed that the Company has adopted the Model Code. After sufficient enquiry, all the directors and supervisors have confirmed that during the Reporting Period, they complied with the Model Code in all aspects.

(II) Board of Directors

1. *Composition of the board of directors*

The Company's board of directors comprises nine directors, including three executive directors, namely Mr. Lou Dingbo, the chairman, Mr. Cho Man, director and the president and Mr. Hu Fengxiang, a director; two non-executive directors, namely Mr. Zhou Jie and Mr. Jiang Ming; and four independent non-executive directors, namely Mr. Chen Naiwei, Mr. Wan Kam To, Mr. Tse Cho Che, Edward and Mr. Li Zhenfu. The biographical details of the directors are set out in the section headed “Directors, Supervisors and Senior Management” in this annual report.

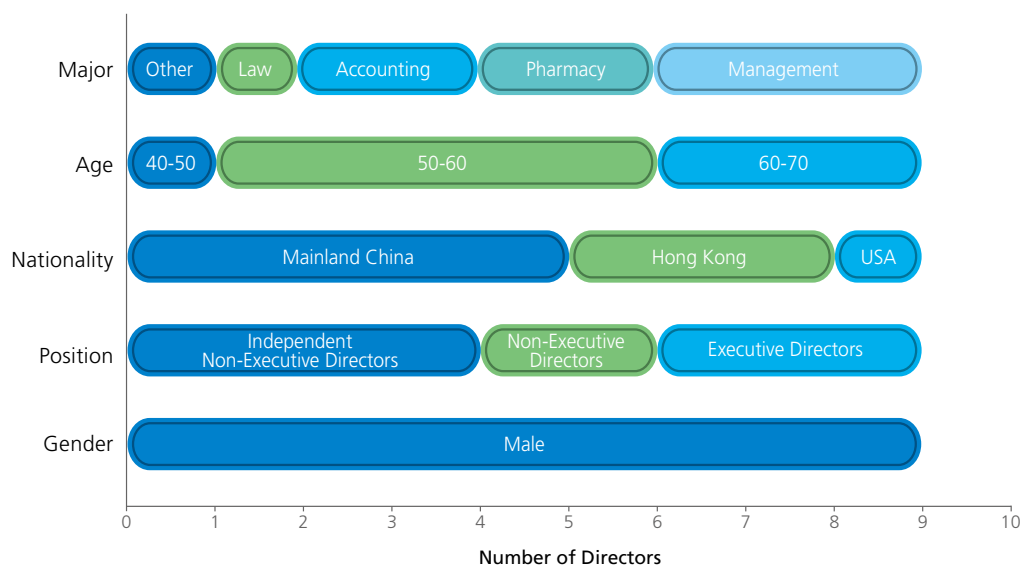
As far as the Company is aware, the members of the board of directors, the chairman and the president had no relationship in respect of finance, business or family or relevant material relationship with each other.

Pursuant to the Articles of Association, the term of office of the directors (including independent non-executive directors) is three years, renewable upon re-election at its expiry, provided that the term of office of the independent non-executive directors shall not exceed a consecutive period of six years. The board of directors or shareholder(s) individually or collectively holding over 3% of the Company's Shares may nominate directors. The

Corporate Governance

nomination method and procedures for independent non-executive directors shall also comply with the relevant requirements of laws, administrative regulations and departmental rules, if any.

To fulfill the requirements under the revised code provision A.5.6 of the Corporate Governance Code which became effective from 1 September 2013, the seventh meeting of the fifth session of the board of directors of the Company passed the Diversification Policy for Board Members of Shanghai Pharmaceuticals on 28 March 2014. When assessing candidates for the Board, the board of directors will take into consideration the aspects of diversity as listed in this policy, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. Each of the current nine directors of the board of directors possesses professional background and/or has extensive professional knowledge in the Company's business.



2. Primary duties of the board of directors

The Company has complied with the provisions of the Code on Corporate Governance Practices and distinguished between the roles of the chairman and the president. Mr. Lou Dingbo is the current Chairman and Mr. Cho Man is the President. Meanwhile, with a view to differentiate the duties of the board of directors and the management, the board of directors is responsible for significant decision-makings within the scope of the Articles of Association, whilst the management is responsible for daily operations and implementation of relevant decisions. Pursuant to the Articles of Association, the specific duties of the board of directors include:

- to convene the general meetings and to report on its work to the general meetings;
- to implement the resolutions passed at the general meetings;
- to determine the Company's business plan and investment proposals;

- to formulate the Company's annual financial budget and final accounts;
- to formulate the Company's profit distribution proposal and loss recovery proposal;
- to formulate the Company's proposals for the increase or reduction of the Company's registered capital and for the issuance of debentures or other securities and for the listing;
- to draw up proposals for material acquisition, repurchase of the Company's shares and the plans for the merger, division, dissolution and change of corporate form of the Company;
- to make decisions on any asset disposals of the Company and its controlled subsidiaries (other than those subject to the consideration of the general meeting), any asset disposals between the Company and its controlled subsidiaries and between its controlled subsidiaries, and any merger and division of its controlled subsidiaries, unless otherwise stipulated in laws, administrative regulations, departmental rules, regulations of the securities authorities of the place where the Company is listed or the Articles of Association;
- to determine the establishment of the Company's internal management organizations;
- to appoint or remove the president and the secretary to the board of directors of the Company; to appoint or remove any other member of senior management including the vice president and the chief financial officer of the Company based on the nominations of the president and to decide on their remuneration, as well as reward and punishment issues;
- to set up the Company's basic management system;
- to formulate the proposals for any amendments to the Articles of Association;
- to manage the information disclosure of the Company;
- to propose to the general meeting for the appointment or removal of the Company's accounting firms;
- to receive the work report of the president and to inspect his/her work;
- to perform the corporate governance functions; and
- to exercise such other functions and powers as authorized by the laws, administrative regulations, departmental rules, the Articles of Association or the shareholders' general meetings.

Corporate Governance

3. Board meetings

Pursuant to the rules of procedure of the board of directors, at least four regular meetings of the board of directors shall be held every year and shall be convened by the chairman. Notice of a regular board meeting shall be served on all directors and supervisors prior to the date of the meeting in accordance with relevant requirements.

During the Reporting Period, the board of directors held a total of seven meetings, at which proposals were considered in relation to the Company's business results, appointment of Secretary of the Board, policies formulation guarantee plan for 2015, credit facilities for 2015, mergers and acquisitions as well as the performance of the corporate governance function, etc. Attendance details of the directors during the Reporting Period are set out in the paragraph headed "Attendance of directors at the board meetings and shareholders' general meetings" above.

In accordance with code provision A.2.7 of the Corporate Governance Code, independent non-executive directors met with the chairman individually at least once during the Reporting Period.

(III) Committees under the Board

1. Remuneration and assessment committee

The remuneration and assessment committee under the board of directors of the Company consists of three directors, namely Mr. Chen Naiwei, acting as its convener/chairman, Mr. Wan Kam To and Mr. Li Zhenfu. The remuneration and assessment committee is a special body established under the board of directors, mainly responsible for formulating and implementing the performance review standards for directors, the president and other senior management members of the Company, and formulating and reviewing the remuneration policies and proposals for directors, the president and other senior management.

During the Reporting Period, the remuneration and assessment committee held two meetings, at which the performance review report on senior management for 2014 and the proposal for assessment on management responsibilities of the senior management for 2015 were discussed. Set out below is the attendance record of the members of the remuneration and assessment committee during the Reporting Period:

| Name of member | Actual/required attendance (times) | Attendance rate |
|---|------------------------------------|-----------------|
| Mr. Chen Naiwei (independent non-executive director) | 2/2 | 100% |
| Mr. Wan Kam To (independent non-executive director) | 2/2 | 100% |
| Mr. Li Zhenfu (independent non-executive director) | 2/2 | 100% |

2. *Audit committee*

The audit committee under the board of directors of the Company consists of three directors, including Mr. Wan Kam To, acting as its convener/chairman, Mr. Chen Naiwei and Mr. Tse Cho Che, Edward. The Audit Committee is a body specifically set up under the Board, mainly responsible for the relationship between the Company and the external auditors, reviewing the financial information of the Company, and supervising the financial reporting mechanism and risk management and internal control systems of the Company.

During the Reporting Period, the audit committee held a total of five meetings, at which matters were considered in relation to the Company's business results, the self-appraisal report on internal control of the Company for 2014, summary of audit division for 2015 and internal audit plan for 2016, audit schedule on financial report for 2015, etc. Set out below is the attendance record of the members of the audit committee during the Reporting Period:

| Name of member | Actual/required attendance (times) | Attendance rate |
|---|------------------------------------|-----------------|
| Mr. Wan Kam To (independent non-executive director) | 5/5 | 100% |
| Mr. Chen Naiwei (independent non-executive director) | 5/5 | 100% |
| Mr. Tse Cho Che, Edward (independent non-executive director) | 5/5 | 100% |

Pursuant to the requirements under the announcement ([2008] No. 48) of CSRC and the work rules of independent directors, the audit committee held two meetings with the certified public accountants and the accounting firm for annual audit respectively before their on-site audit and after the issuance of preliminary opinions, to confirm the audit schedule and arrangements, and to review the Shanghai Pharmaceuticals' financial statements for 2015. On such basis, the audit committee is of the opinion that the Shanghai Pharmaceuticals' financial reports for 2015 are prepared in accordance with the Accounting Standards for Business Enterprises of the PRC, and give a true and fair view in all material aspects of Shanghai Pharmaceuticals' business results for 2015 and its financial position as at 31 December 2015, and is resolved to submit the same to the board of directors for consideration and approval.

In accordance with code provision C.3.3 of the Corporate Governance Code, the audit committee met with the auditor without the presence of executive directors at least once during the Reporting Period.

Pursuant to the Rule 14A.55 of the Hong Kong Listing Rules, the audit committee and independent non-executive directors has reviewed the continuing connected transactions of the Company. The actual amount of the connected transactions entered into by the Company and its subsidiaries in the ordinary course of business in 2015 did not exceed the amount approved by the board of directors.

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3. Strategy committee

The strategy committee under the board of directors of the Company consists of three directors, including Mr. Lou Dingbo, acting as its convener/chairman, Mr. Tse Cho Che, Edward, and Mr. Li Zhenfu. The strategy committee is a special body established under the board of directors focusing on strategy study as entrusted by the board of directors, mainly responsible for conducting forward-looking study on corporate development strategy and related issues, performing evaluations and making recommendations.

During the Reporting Period, the strategy committee held two meetings, at which the scrolling strategic planning of “Three Three Three Plus One” was considered. Set out below is the attendance of the members of strategic committee during the Reporting Period:

| Name of member | Actual/required attendance (times) | Attendance rate |
|---|------------------------------------|-----------------|
| Mr. Lou Dingbo (chairman and executive director) | 2/2 | 100% |
| Mr. Tse Cho Che, Edward (independent non-executive director) | 2/2 | 100% |
| Mr. Li Zhenfu (independent non-executive director) | 2/2 | 100% |

4. Nomination committee

The nomination committee under the board of directors consists of three directors, including Mr. Tse Cho Che, Edward, acting as its convener/chairman, Mr. Lou Dingbo and Mr. Chen Naiwei. The nomination committee is a special body established under the board of directors, mainly responsible for analysing the candidates for directors of the Company and the selecting criteria and procedures and making recommendations to the board of directors. The nomination committee may also be responsible for analysing the candidates for the senior management of the Company and the selecting criteria and procedures and making recommendations to the board of directors when necessary.

During the Reporting Period, the nomination committee held one meeting, at which matters were considered in relation to the Diversification Policy for Board Members, the structure of the Board, etc. Set out below is the attendance record of the members of nomination committee during the Reporting Period:

| Name of member | Actual/required attendance (times) | Attendance rate |
|---|------------------------------------|-----------------|
| Mr. Tse Cho Che, Edward (Independent Non-Executive Director) | 1/1 | 100% |
| Mr. Lou Dingbo (Chairman and Executive Director) | 1/1 | 100% |
| Mr. Chen Naiwei (Independent Non-Executive Director) | 1/1 | 100% |

(IV) Board of supervisors

The board of supervisors of the Company consists of three supervisors, including Mr. He Chuan, chairman of the board of supervisors, Mr. Xin Keng, the supervisor, and Ms. Chen Xin, the employee supervisor. Please refer to the section headed “Directors, Supervisors, Senior Management and Employees” herein for the supervisors’ biographical details. In accordance with the Articles of Association of the Company, the board of supervisors should report to the general meeting and exercise the following functions and powers in compliance with laws:

- to review the financial information such as the financial reports, business reports and plans for distribution of profits prepared by the Board and to be submitted to the general meetings and to make the comments in writing after review;
- to review the Company’s financial position;
- to supervise the behaviours of the directors, president and any other member of the senior management in performing their duties, and to advise on the dismissal of directors, president or any other member of the senior management who are in breach of laws, administrative regulations, the Articles of Association or resolutions of the general meetings;
- to demand the directors, president and any other member of the senior management to rectify their error if they have acted in a way detrimental to the Company’s interest;
- to propose to convene an extraordinary general meeting, and where the Board fails to perform the duties in relation to convening or presiding over a general meeting as required by the Company Law of the PRC, to convene and preside over the general meeting;
- to propose motions at a general meeting;
- to initiate litigations against directors, the president and any other member of the senior management in accordance with the provisions of the Company Law of the PRC;
- to investigate into any abnormalities in operation of the Company; and if necessary, to employ professional institutions such as accounting firms and law firms to assist in its work, and the expenses shall be borne by the Company;
- to act on behalf of the Company in negotiations with or in bringing actions against directors;
- other functions and powers as authorized by the laws, administrative regulations, departmental rules and the provisions of the Articles of Association or by the general meetings.

Corporate Governance

During the Reporting Period, the board of supervisors held a total of four meetings, at which the Company's performance, financial accounts, budgets, 2014 profit distribution plan, engagement and remuneration of auditors and other matters were supervised and reviewed. Set out below is the attendance of the board of supervisors during the Reporting Period:

| Name of member | Actual/required attendance (times) | Attendance rate |
|----------------|------------------------------------|-----------------|
| Mr. He Chuan | 4/4 | 100% |
| Mr. Xin Keng | 4/4 | 100% |
| Ms. Chen Xin | 4/4 | 100% |

(V) Remuneration of Auditors

With reference to the Company's actual situation of business development, the audit fee payable to PricewaterhouseCoopers Zhong Tian LLP, and the overseas auditor, PricewaterhouseCoopers by Shanghai Pharmaceuticals for 2015 was set at RMB20,000,000 (relevant disbursement and taxation expenses inclusive) while the audit fee for internal control was set at RMB1,450,000 (relevant disbursement and taxation expenses inclusive) upon consultation and confirmation by the Company with the domestic auditor, PricewaterhouseCoopers Zhong Tian LLP, and the overseas auditor, PricewaterhouseCoopers. In 2015, a non-audit service fee of approximately RMB1.6579 million (taxation expense and disbursement inclusive) was paid by the Company to the affiliates or network members of the Company's auditors mainly for consulting services.

(VI) Emoluments of Senior Management

Please refer to "Changes in shareholdings and remuneration of existing and resigned directors, supervisors and senior management during the Reporting Period" above for details.

(VII) Accountability and Audit

The directors have reviewed the effectiveness of the Group's internal control system which covered all material control aspects, including finance, operation and compliance controls and risk management functions. The board of directors of the Company considers that the current internal control system of the Group is effective.

The directors are responsible for overseeing the preparation of financial report for each accounting period to give a true and fair view of the financial position, business results and cash flows of the Group. During the Reporting Period, the Company disclosed its annual report for 2014, interim report for 2015 and the first and third quarterly reports for 2015 in accordance with relevant laws and regulations and the listing rules of the places where the Company is listed.

In preparing the financial report for the year ended 31 December 2015, the directors have adopted and consistently applied appropriate accounting policies, and have made judgements and estimates that are prudent and reasonable. As far as the directors are aware, there was no event, condition or material uncertainty that may cast doubt upon the Group's ability to continue its operation as a going concern.

A statement by the auditors in respect of their responsibilities for reporting the financial statements is set out in the section headed "Independent Auditor's Report".

(VIII) About Shareholders

The Company treats all shareholders equally with an aim to ensure that their rights can be fully exercised and their legitimate interests can be safeguarded and that the general meetings can be convened and held in strict compliance with the relevant laws and regulations. The Articles of Association and rules of procedures for the general meeting specify in detail the specific procedures for convening an extraordinary general meeting and proposing provisional motions at general meetings. Shareholders individually or collectively holding ten percent (10%) or more of Shares of the Company may request the Board to convene an extraordinary general meeting and such request shall be in written form. The Board shall decide on whether the proposal is approved based on the provisions of laws, administrative regulations and the Articles of Association as well as the specific circumstances. Shareholders individually or collectively holding three percent (3%) or more of Shares may raise provisional proposals and submit them in writing to the convenor ten (10) days before the holding of the general meeting. The convenor shall include in the agenda of the meeting the issues raised in the proposals that fall within the scope of responsibility of the general meeting. The Company encourages all shareholders to attend the general meetings and welcome shareholders to voice their opinions at the meetings. Shareholders who request to inspect relevant information or seek to obtain the relevant materials shall provide written documents evidencing the class and number of Shares they are holding. For the contact information for shareholders to make inquiries or submit temporary proposals to the Company, please refer to the section "Basic Information" above.

(IX) Investor Relations

The Company places great emphasis on investor relations. During the Reporting Period, the Company enhanced investor relations management and made refine plans on basis of the three-year investor relations plan. Following the publication of its annual report, interim report, first-quarter report, third-quarter report, the Company convened four analyst conferences and global investor teleconferences. The management of the Company organised three roadshows for global institutional investors after the annual report, annual general meeting, and third-quarter report. Throughout the whole year, the Company was invited by a number of brokers to over 20 investment strategy seminars, and met hundreds of industrial analysts and institutional investors from domestic and abroad. In addition, the Company improves its communication with investors through the "SSE e-interaction" online platform, telephone and e-mail. A variety of communication methods have allowed the Company and investors to enhance mutual understanding and trust. Professional analysts at domestic and abroad published dozens of indepth analysis reports and corporate reviews on the Company during the year, which have maintained a good market image of the Company, and increased the market value steadily as well.

Corporate Governance

(X) Company Secretary

The primary responsibility of the company secretary of the Company is to ensure good information exchange between board members and the compliance with the policies and procedures of the board of directors as well as all applicable regulations. Mr. Shen Bo and Ms. Mok Ming Wai are the joint company secretaries of the Company and received relevant training in 2015, which is in conformity with Rule 3.29 of the Hong Kong Listing Rules. Ms. Mok Ming Wai (a director of KCS Hong Kong Limited) is one of the joint company secretaries of the Company, while Mr. Shen Bo, the board secretary of the Company, serves as her internal main contact person of the Company. In order to comply with Rule 3.29 of the Hong Kong Listing Rules, Mr. Shen Bo and Ms. Mok Ming Wai both received relevant professional training of no less than 15 hours for the year ended 31 December 2015.

(XI) Training for Directors

During the Reporting Period, all directors participated in continuing education programmes to develop and update their knowledge and skills. Among the directors, Mr. Lou Dingbo, Mr. Cho Man read newspapers, publications and updated information on the economy, pharmacy, directors' duties and other materials; Mr. Hu Fengxiang, Mr. Chen Naiwei, Mr. Wan Kam To, Mr. Tse Cho Che, Edward self-studied amendments to risk management and internal control of the Corporate Governance Code published by the Stock Exchange; Mr. Zhou Jie participated in trainings about Overview on China Connect Service, Draft of Foreign Investment Law and certain issues to be considered in the overseas investment by Chinese investors provided by the external institutions. The trainings for directors of how to pay the right role in the risk management. Mr. Jiang Ming and Mr. Wan Kam To participated in the first and second session of directors and supervisors' training class of 2015 for listing companies provided by CSRC, respectively; and Mr. Li Zhenfu self-studied newspapers, publications and updated information on directors' duties. Mr. Yin Jintao has participated in other external training, such as the updates of HK Stock Exchange, risk management and internal control speech, the discussion meeting for independent executive directors and learned how directors handle the inter information and sensitive material. The Company has kept a training log to assist the directors to record the training programmes in which they have participated.

According to the Corporate Governance Code, the management shall provide the board members with monthly updates containing information including the performance, financial position and future prospect of the Company so as to enable the directors to perform their duties under the Hong Kong Listing Rules. The Company regularly provides all the directors with monthly data collection so that the directors are able to make informed decisions and perform their responsibilities and duties as directors of the Company.

(XII) Articles of Association

There was no amendments to the Articles of Association in 2015.

Relevant Information of the Corporate Bonds

Applicable Not Applicable

I. BASIC INFORMATION OF CORPORATE BONDS

Unit: Yuan Currency: RMB0,000

| Name of Bond | Abbreviation | Code | Date of Issue | Due Date | Balances | Interest Rate | Repayment of principal and interest | Trading Place |
|--|--------------|--------|-----------------|-----------------|----------|---------------|--|-------------------------|
| Shanghai Pharmaceuticals Holding Co., Ltd. Public Issuance of 2016 Corporate Bonds (first tranche) | 16 SPH 01 | 136198 | 26 January 2016 | 26 January 2019 | 200,000 | 2.98% | Interest paid annually, with the last installment of interest paid together with the principal | Shanghai Stock Exchange |

Other information of Corporate Bonds

None

II. CONTACT PERSON OF CUSTODIAN OF THE CORPORATE BONDS AND ITS CONTACT METHODS AND THE CONTACT METHODS OF THE CREDIT RATING AGENCY

| | | |
|-----------------------------|----------------|---|
| Bond Custodian | Name | Credit Suisse Founder Securities Limited |
| | Office Address | 15/F, South Tower, Financial Street Centre, No. 9A, Financial Street, Xicheng District, Beijing |
| | Contact Person | Zhang Haibin |
| | Contact Number | 010-6653 8729 |
| Credit Rating Agency | Name | Zhong Cheng Xin Credit Rating Co., Ltd. (中誠信證券評估有限公司) |
| | Office Address | 21/F, Anji Building, No. 760 South Tibet Road, Huangpu District, Shanghai |

Other information:

None

III. USE OF RAISED FUNDS FROM THE CORPORATE BONDS

The amount of bonds for this tranche of public offering was RMB2 billion. After deducting issuing expenses of RMB2 million, the net proceeds was RMB1.998 billion, which has been utilized as scheduled in accordance with the use of proceeds as set out in the prospectus.

Relevant Information of the Corporate Bonds

IV. INFORMATION OF THE CREDIT RATING AGENCY OF THE CORPORATE BONDS

In accordance with the relevant requirements of the CSRC, rating industry practice and relevant requirements of rating system of Zhong Cheng Xin Credit Rating Co., Ltd. (hereinafter referred to as "ZCX Rating"), from the date of the issuing of first rating report (should be the date specified on the rating report), ZCX Rating will continue to pay attention to factors such as changes of external operating environment, changes of operation and financial conditions and security for repayment of debt for bonds during period of validity of credit rating of bonds or the duration of bonds, so as to consistently keep track of credit risks of bonds. Track rating contains regular and irregular track rating.

During period of track rating, ZCX Rating will conduct regular track rating of the year within two months from the day of publish of the Company's annual report. Furthermore, from the date of issuing the rating report, ZCX Rating will pay close attention to information in relation to the Company and bonds. Where there occurs any major events which may exert influence on the bonds' credit rating, ZCX Rating will launch irregular track rating promptly as it considers necessary, based on the relevant information provided by the Company, and make investigation, analysis in this regard and issue the rating results of the irregular track rating.

If the Company fails or refuse to provide relevant information, ZCX Rating will conduct analysis based on the relevant conditions, whereupon confirm or adjust the subject, bond credit level, or announce the credit rating to be temporarily void. Relevant information including the results of regular and irregular track rating conducted by ZCX Rating will be published on website specified by regulatory institutions.

V. CREDIT INCREASING MECHANISM, DEBT REPAYING PLAN AND OTHER RELEVANT INFORMATION OF THE CORPORATE BONDS DURING THE REPORTING PERIOD

This tranche of bonds is unsecured.

The Company will formulate annual and monthly plans for the use funds in accordance with the payment arrangement of the principal and interest upon due in the future, and reasonably appropriate and allocate funds so as to ensure the payment of interest and principal upon due. The funds resources for repaying the debts of this tranche of corporate bonds mainly derived from cash flow from operating activities, bank borrowings, etc.

VI. MEETINGS OF HOLDERS OF CORPORATE BONDS

No meeting of holders of the corporate bonds was held during the reporting period.

Relevant Information of the Corporate Bonds

VII. PERFORMANCE OF THE CUSTODIAN OF THE CORPORATE BONDS

The custodian of the bonds of "16 SPH 01" is Credit Suisse Founder Securities Limited. During the reporting period, Credit Suisse Founder Securities Limited strictly follows requirements of laws and regulations such as "Administration Measures for the Issuance and Dealing of Corporate Bonds" and "Practice Code for the Custodian of the Corporate Bonds" and obligations of the "Bonds Custody Agreement" to perform its responsibilities as the custodian of bonds.

VIII. ACCOUNTING DATA AND FINANCIAL INDICATOR FOR THE RECENT TWO YEARS AS OF THE END OF REPORTING PERIOD

Unit: Yuan Currency: RMB

| Major indicator | 2015 | 2014 | Increase or decrease over the same period of the previous year (%) | Reason for changes (over 30%) |
|---|-------------------|-------------------|--|-------------------------------|
| Earnings before interest, tax, depreciation and amortization | 5,530,952,844.19 | 5,031,295,792.23 | 9.93 | |
| Net cash flows from operating activities | 1,349,162,853.33 | 1,335,674,135.37 | 1.01 | |
| Net cash flows from investing activities | -1,908,913,327.37 | -1,844,573,224.17 | -3.49 | |
| Net cash flows from financing activities | 636,435,279.05 | -948,811,062.99 | / | |
| Balance of cash and cash equivalents at the end of the period | 11,277,854,942.41 | 11,190,420,441.63 | 0.78 | |
| Current ratio | 1.41 | 1.52 | -7.24 | |
| Quick Ratio | 1.01 | 1.10 | -8.18 | |
| Gearing Ratio | 54.52% | 51.66% | Increase 2.86 percentage points | |
| Total debt to EBITDA ratio | 7.33 | 6.61 | 10.89 | |
| Interest Coverage Ratio | 7.80 | 7.50 | 4.00 | |
| Cash interest coverage ratio | 4.61 | 4.60 | 0.22 | |
| EBITDA Interest Coverage Ratio | 9.02 | 8.60 | 4.88 | |
| Loan Repayment Ratio | 100% | 100% | 0 | |
| Interest coverage | 100% | 100% | 0 | |

Relevant Information of the Corporate Bonds

IX. INFORMATION OF THE ASSETS OF THE COMPANY AT THE END OF REPORTING PERIOD

Details of the analysis of assets and liabilities are set out in item (III) of Section IV in this report.

X. INFORMATION OF PAYMENT OF INTEREST OF OTHER BOND AND DEBT FINANCING INSTRUMENTS OF THE COMPANY

Not Applicable

XI. INFORMATION OF BANKING FACILITIES, USE AND REPAYMENT OF BANK LOANS OF THE COMPANY DURING THE REPORTING PERIOD

The Company keeps good credit records with each major bank and other financial institutions, and maintains long-term cooperative partnership with domestic major commercial banks, which make it enjoys strong ability in indirect debt financing. As of 31 December 2015, the total banking facilities granted by the bank to the Group was RMB46.2 billion, of which RMB14.6 billion has been utilized. The Company may carry out financing activities up to the amount of the above total amount to support the business development of the Group.

The Company repays the principal and interests of its bank loans on time.

XII. PERFORMANCE OF OBLIGATIONS AND COMMITMENT OF PROSPECTUS DURING THE REPORTING PERIOD OF THE COMPANY

Not Applicable

XIII. SIGNIFICANT MATTERS AND ITS EFFECT ON THE OPERATION AND REPAYMENT OF DEBTS OF THE COMPANY

Not Applicable

Financial Report

Attached

Catalogue of Documents Available for Inspection

1. The financial statements signed and sealed by the legal representative, chief financial officer and accounting manager.
2. The original copy of the auditor's report signed and sealed by the accounting firm and the certified public accountant.
3. The original documents of the Company and the original copy of the announcements disclosed in the designated newspapers of China Securities Regulatory Commission during the Reporting Period.

Lou Dingbo

Chairman

Shanghai Pharmaceuticals Holding Co., Ltd.

18 March 2016

Independent Auditor's Report



羅兵咸永道

**To the shareholders of
Shanghai Pharmaceuticals Holding Co., Ltd.**

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

We have audited the consolidated financial statements of Shanghai Pharmaceuticals Holding Co., Ltd. (the "Company") and its subsidiaries set out on pages 143 to 272, which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated income statement, 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 a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of 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.

AUDITOR'S RESPONSIBILITY

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

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

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

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 March 2016

Consolidated Balance Sheet

| | Note | As at 31 December | |
|---|---------|-------------------|------------|
| | | 2015 | 2014 |
| | | RMB'000 | RMB'000 |
| Assets | | | |
| Non-current assets | | | |
| Land use rights | 7 | 1,186,988 | 1,095,630 |
| Investment properties | 8 | 262,065 | 275,115 |
| Property, plant and equipment | 9 | 6,317,493 | 5,197,819 |
| Intangible assets | 10 | 5,684,769 | 5,260,312 |
| Investments in jointly controlled entities | 12 | 476,488 | 374,742 |
| Investments in associates | 13 | 3,160,418 | 2,370,871 |
| Deferred income tax assets | 26 | 316,258 | 264,591 |
| Available-for-sale financial assets | 14 | 278,484 | 187,433 |
| Other non-current prepayments | 15 | 743,080 | 402,813 |
| Other long-term receivables | 16 | 332,929 | 252,912 |
| | | 18,758,972 | 15,682,238 |
| Current assets | | | |
| Inventories | 17 | 15,090,624 | 13,088,153 |
| Trade and other receivables and other current assets | 18 | 28,398,588 | 23,950,884 |
| Financial assets at fair value through profit or loss | 20 | 820 | 506 |
| Restricted cash | 19 | 761,146 | 417,634 |
| Cash and cash equivalents | 19 | 11,277,855 | 11,190,420 |
| | | 55,529,033 | 48,647,597 |
| Assets classified as held for sale | 7, 8, 9 | 56,206 | 10,724 |
| | | 55,585,239 | 48,658,321 |
| Total assets | | 74,344,211 | 64,340,559 |
| Equity and liabilities | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | 21 | 2,688,910 | 2,688,910 |
| Share premium | 22 | 14,075,517 | 14,081,665 |
| Other reserves | 22 | 1,204,902 | 1,042,233 |
| Retained earnings | 23 | 11,960,985 | 10,009,325 |
| | | 29,930,314 | 27,822,133 |
| Non-controlling interests | | 3,877,725 | 3,277,019 |
| Total equity | | 33,808,039 | 31,099,152 |

Consolidated Balance Sheet

| | Note | As at 31 December | |
|--|------|-------------------|------------|
| | | 2015 | 2014 |
| | | RMB'000 | RMB'000 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Borrowings | 25 | 93,409 | 105,408 |
| Deferred income tax liabilities | 26 | 392,133 | 380,163 |
| Termination benefit obligations | 29 | 64,159 | 70,472 |
| Other non-current liabilities | 27 | 497,922 | 682,818 |
| Other long-term payables | 28 | 61,995 | – |
| | | 1,109,618 | 1,238,861 |
| Current liabilities | | | |
| Trade and other payables and other current liabilities | 24 | 28,629,549 | 23,701,260 |
| Current income tax liabilities | | 398,018 | 348,162 |
| Borrowings | 25 | 10,398,987 | 7,953,124 |
| | | 39,426,554 | 32,002,546 |
| Total liabilities | | 40,536,172 | 33,241,407 |
| Total equity and liabilities | | 74,344,211 | 64,340,559 |

The notes on pages 151 to 272 are an integral part of these consolidated financial statements.

The financial statements on pages 143 to 272 were approved by the Board of Directors on 18 March 2016 and were signed on its behalf.

Lou Dingbo

Name of Director

Cho Man

Name of Director

Consolidated Income Statement

| | Note | Year ended 31 December | |
|--|------|------------------------|--------------|
| | | 2015 | 2014 |
| | | RMB'000 | RMB'000 |
| Revenue | 6 | 105,516,587 | 92,398,894 |
| Cost of sales | 33 | (92,979,052) | (81,223,392) |
| Gross profit | | 12,537,535 | 11,175,502 |
| Distribution and selling expenses | 33 | (5,348,230) | (4,826,367) |
| General and administrative expenses | 33 | (3,558,145) | (3,285,838) |
| Operating profit | | 3,631,160 | 3,063,297 |
| Other income | 30 | 204,945 | 205,832 |
| Other gains – net | 31 | 221,904 | 357,785 |
| Gains on disposal of subsidiaries and associates | 32 | 5,652 | 156,013 |
| Finance income | 35 | 138,613 | 207,036 |
| Finance expenses | 35 | (647,220) | (603,232) |
| Share of profit of jointly controlled entities | 12 | 122,112 | 102,205 |
| Share of profit of associates | 13 | 494,688 | 310,798 |
| Profit before income tax | | 4,171,854 | 3,799,734 |
| Income tax expense | 36 | (807,486) | (807,717) |
| Profit for the year | | 3,364,368 | 2,992,017 |
| Profit attributable to: | | | |
| Owners of the Company | | 2,876,989 | 2,591,131 |
| Non-controlling interests | | 487,379 | 400,886 |
| | | 3,364,368 | 2,992,017 |
| Earnings per share attributable to owners of the Company for the year (expressed in RMB per share) | | | |
| -Basic and diluted | 37 | 1.07 | 0.96 |

The notes on pages 151 to 272 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

| | Note | Year ended 31 December | |
|--|------|------------------------|-----------------|
| | | 2015 RMB'000 | 2014 RMB'000 |
| Profit for the year | | 3,364,368 | 2,992,017 |
| Other comprehensive income: | | | |
| <i>Items that may be reclassified to profit or loss</i> | | | |
| Change in value of available-for-sale financial assets | | | |
| – Gross | 14 | 29,211 | 32,208 |
| – Tax | 26 | 111 | (8,052) |
| Share of other comprehensive income of investments in an associate | | 605 | – |
| Currency translation differences | | (12,670) | (2,892) |
| Other comprehensive income for the year, net of tax | | 17,257 | 21,264 |
| Total comprehensive income for the year | | 3,381,625 | 3,013,281 |
| Attributable to: | | | |
| – Owners of the Company | | 2,899,616 | 2,612,655 |
| – Non-controlling interests | | 482,009 | 400,626 |
| Total comprehensive income for the year | | 3,381,625 | 3,013,281 |

The notes on pages 151 to 272 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

| | Note | Attributable to owners of the Company | | | | Total | Non-controlling interests | Total equity |
|--|--------|---------------------------------------|---------------|----------------|-------------------|------------|---------------------------|--------------|
| | | Share capital | Share premium | Other reserves | Retained earnings | | | |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | | | |
| Balance at 1 January 2014 | | 2,688,910 | 14,122,285 | 917,561 | 8,225,057 | 25,953,813 | 3,047,167 | 29,000,980 |
| Comprehensive income | | | | | | | | |
| Profit for the year | | - | - | - | 2,591,131 | 2,591,131 | 400,886 | 2,992,017 |
| Other comprehensive income | | | | | | | | |
| Available-for-sale financial assets | | | | | | | | |
| – Gross | 14 | - | - | 31,050 | - | 31,050 | 1,158 | 32,208 |
| – Tax | 26 | - | - | (7,762) | - | (7,762) | (290) | (8,052) |
| Currency translation differences, net | 22 | - | - | (1,764) | - | (1,764) | (1,128) | (2,892) |
| Total other comprehensive income | | | | 21,524 | - | 21,524 | (260) | 21,264 |
| Total comprehensive income | | | | 21,524 | 2,591,131 | 2,612,655 | 400,626 | 3,013,281 |
| Transactions with owners | | | | | | | | |
| Capital injections from non-controlling interests | | - | - | - | - | - | 15,730 | 15,730 |
| Contribution from the intermediate company of the Company | 22 | - | 120,000 | - | - | 120,000 | - | 120,000 |
| Acquisitions of subsidiaries | | - | - | - | - | - | 143,100 | 143,100 |
| Changes in ownership interests in subsidiaries without change of control | | - | (133,555) | - | - | (133,555) | (103,057) | (236,612) |
| Dividends | | - | - | - | (699,117) | (699,117) | (203,335) | (902,452) |
| Appropriation to statutory reserves | 22, 23 | - | - | 103,148 | (103,148) | - | - | - |
| Disposal of subsidiaries | | - | - | - | - | - | (17,370) | (17,370) |
| Others | | - | (27,065) | - | (4,598) | (31,663) | (5,842) | (37,505) |
| Total transaction with owners | | | (40,620) | 103,148 | (806,863) | (744,335) | (170,774) | (915,109) |
| Balance at 31 December 2014 | | 2,688,910 | 14,081,665 | 1,042,233 | 10,009,325 | 27,822,133 | 3,277,019 | 31,099,152 |

Consolidated Statement of Changes in Equity

| | Note | Attributable to owners of the Company | | | | | Non-controlling interests | Total equity |
|--|--------|---------------------------------------|---------------|----------------|-------------------|------------|---------------------------|--------------|
| | | Share capital | Share premium | Other reserves | Retained earnings | Total | | |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | | |
| Balance at 1 January 2015 | | 2,688,910 | 14,081,665 | 1,042,233 | 10,009,325 | 27,822,133 | 3,277,019 | 31,099,152 |
| Comprehensive income | | | | | | | | |
| Profit for the year | | - | - | - | 2,876,989 | 2,876,989 | 487,379 | 3,364,368 |
| Other comprehensive income | | | | | | | | |
| Available-for-sale financial assets | | | | | | | | |
| – Gross | 14 | - | - | 28,813 | - | 28,813 | 398 | 29,211 |
| – Tax | 26 | - | - | 210 | - | 210 | (99) | 111 |
| Currency translation differences, net | 22 | - | - | (7,001) | - | (7,001) | (5,669) | (12,670) |
| Share of other comprehensive income of investments in an associate | | - | - | 605 | - | 605 | - | 605 |
| Total other comprehensive income | | - | - | 22,627 | - | 22,627 | (5,370) | 17,257 |
| Total comprehensive income | | - | - | 22,627 | 2,876,989 | 2,899,616 | 482,009 | 3,381,625 |
| Transactions with owners | | | | | | | | |
| Capital injections from non-controlling interests | | - | - | - | - | - | 181,205 | 181,205 |
| Acquisitions of subsidiaries | 44 | - | - | - | - | - | 190,271 | 190,271 |
| Changes in ownership interests in subsidiaries without change of control | 43 | - | (11,834) | - | - | (11,834) | (31,764) | (43,598) |
| Dividends | | - | - | - | (779,784) | (779,784) | (217,184) | (996,968) |
| Appropriation to statutory reserves | 22, 23 | - | - | 140,042 | (140,042) | - | - | - |
| Disposal of subsidiaries | | - | - | - | - | - | (78) | (78) |
| Others | | - | 5,686 | - | (5,503) | 183 | (3,752) | (3,570) |
| Total transaction with owners | | - | (6,148) | 140,042 | (925,329) | (791,435) | 118,697 | 672,738 |
| Balance at 31 December 2015 | | 2,688,910 | 14,075,517 | 1,204,902 | 11,960,985 | 29,930,314 | 3,877,725 | 33,808,039 |

The notes on pages 151 to 272 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

| | Note | Year ended 31 December | |
|---|---------|------------------------|-----------------|
| | | 2015 RMB'000 | 2014 RMB'000 |
| Cash flows from operating activities | | | |
| Cash generated from operations | 39(i) | 2,060,673 | 1,829,417 |
| Interest paid | | (598,402) | (552,450) |
| Income tax paid | | (851,381) | (698,625) |
| Net cash generated from operating activities | | 610,890 | 578,342 |
| Cash flows from investing activities | | | |
| Cash paid in respect of acquisition of subsidiaries and associates | 43 | (630,857) | (819,573) |
| Cash injection in associates | | (89,741) | (327,000) |
| Proceeds from redemption of treasury bills | | 1,809,120 | 706,387 |
| Purchases of treasury bills | | (1,800,000) | (700,000) |
| Purchases of property, plant and equipment ("PP&E") and investment properties | | (1,581,919) | (1,165,804) |
| Proceeds from disposal of PP&E and investment properties | 39(ii) | 367,642 | 151,999 |
| Proceeds from disposal of land use rights and intangible assets | 39(iii) | 20,582 | – |
| Purchases of land use rights and intangible assets | | (138,544) | (125,689) |
| Interest received | | 139,871 | 204,882 |
| Dividends received | | 233,604 | 263,540 |
| Proceeds from disposal of available-for-sale financial assets | 39(iv) | 12,691 | 7,210 |
| Proceeds from disposal of subsidiaries and associates | 39(v) | 28,196 | 63,366 |
| Payment of plant relocation, net | | (5,362) | (72,586) |
| Compensation received from the intermediate company of the Company | | – | 120,000 |
| Compensation received from the parent of an associate in respect of its business scope change | | 72,068 | 106,593 |
| Deposit paid in respect of business combination | | (67,284) | (55,000) |
| Change of restricted cash of a fixed deposit | | (150,000) | – |
| Other cash flows generated from investing activities | | 10,891 | 1,984 |

Consolidated Statement of Cash Flows

| | Note | Year ended 31 December | |
|---|------|------------------------|-----------------|
| | | 2015 RMB'000 | 2014 RMB'000 |
| Net cash used in investing activities | | (1,769,042) | (1,639,691) |
| Cash flows from financing activities | | | |
| Cash injection from non-controlling interests | | 301,445 | 17,200 |
| Proceeds from borrowings | | 20,529,954 | 14,785,569 |
| Repayments of borrowings | | (18,367,451) | (13,978,766) |
| Dividends paid by the Group | | (1,029,560) | (1,023,696) |
| Acquisitions of non-controlling interests | | (246,323) | (236,669) |
| Other cash flows generated from financing activities | | 46,772 | 40,000 |
| Net cash generated/(used in) financing activities | | 1,234,837 | (396,362) |
| Net increase/(decrease) in cash and cash equivalents | | 76,685 | (1,457,711) |
| Cash and cash equivalents at beginning of year | | 11,190,420 | 12,645,367 |
| Exchange gains on cash and cash equivalents | | 10,750 | 2,764 |
| Cash and cash equivalents at end of year | | 11,277,855 | 11,190,420 |

The notes on pages 151 to 272 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

1.1 History and group reorganisation

Shanghai Pharmaceuticals Holding Co., Ltd. (the “Company”), previously known as Shanghai No. 4 Pharmaceutical Co., Ltd. (上海四藥股份有限公司), was incorporated in the People’s Republic of China (the “PRC”) on 18 January 1994 as a joint stock company with limited liability under the Company Law of the PRC. In March 1994, the Company was listed on Shanghai Stock Exchange on 24 March 1994.

In 1998, Shanghai Pharmaceutical (Group) Corporation, the predecessor of Shanghai Pharmaceutical (Group) Co., Ltd. (“Shanghai Pharma Group”, 上海醫藥(集團)有限公司) which is the intermediate holding company of the Company, injected certain assets and wholly owned subsidiaries (“new assets”) to the Company. In return, the Company issued 40,000,000 new domestic shares of RMB1 each (“A Shares”) and disposed of all of its then assets and liabilities before the new assets injection to Shanghai Pharma Group. After the new assets injection, the Company changed its name to Shanghai Pharmaceutical Co., Ltd. (上海市醫藥股份有限公司) and was then engaged in distribution of pharmaceutical products business.

In 2009, for the purpose of streamlining and restructuring the pharmaceutical businesses under the control of Shanghai Pharma Group and Shanghai Industrial Investment (Holdings) Co., Ltd. (Shanghai Industrial Group, 上海實業(集團)有限公司), the ultimate holding company of the Company, the Company entered into a series of restructuring agreements with Shanghai Pharma Group and Shanghai Industrial Group and their respective subsidiaries. After the above restructuring transactions were completed in 2010, the Company changed its name to Shanghai Pharmaceuticals Holding Co., Ltd. (上海醫藥集團股份有限公司).

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION (continued)

1.1 History and group reorganisation (continued)

On 20 May 2011, the Company issued 664,214,000 overseas-listed shares (“H Shares”) of RMB1 par value at a price of Hong Kong Dollars (HKD) 23 per share. On 17 June 2011, the Company partially exercised the Over-Allotment Option (pursuant to which additional 32,053,200 H Shares were issued). Thereby, the Company totally issued 696,267,200 H Shares in 2011. Pursuant to certain regulations and agreements, 69,626,720 state-owned A Shares of the Company held by the controlling shareholders were transferred to the National Council for Social Security Fund of the PRC (the “NSSF”) and converted into H Shares on a one-for-one basis. As at 31 December 2014 and 2015, the Company totally had 765,893,920 H Shares and 1,923,016,618 A Shares respectively.

The immediate holding company of the Company is Shanghai Pharma Group and the ultimate holding company of the Company is Shanghai Industrial Group.

The address of the Company’s registered office is No. 92 Zhangjiang Road, China (Shanghai) Pilot Free Trade Zone, Shanghai, PRC.

These consolidated financial statements are presented in RMB, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Director son 18 March 2016.

2 PRINCIPAL ACTIVITIES

The Company and its subsidiaries (the “Group”) are principally engaged in following activities:

- Research and development, manufacturing and sale of a broad range of pharmaceutical and healthcare products;
- Pharmaceutical distribution, warehousing, logistics, and other value-added pharmaceutical supply chain solutions and related services to pharmaceutical manufacturers and dispensers, such as hospitals, distributors and retail pharmacies; and
- Operation of a network of retail pharmacy stores.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain available-for-sale financial assets and financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

3.2 Changes in accounting policies and disclosures

(a) *New and amended standards adopted by the Group*

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2015:

- Amendment to HKAS 19 on contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.
- Amendments from annual improvements to HKFRSs – 2010 – 2012 Cycle, on HKFRS 8, 'Operating segments', HKAS 16, 'Property, plant and equipment' and HKAS 38, 'Intangible assets' and HKAS 24, 'Related party disclosures'.
- Amendments from annual improvements to HKFRSs – 2011 – 2013 Cycle, on HKFRS 3, 'Business combinations', HKFRS 13, 'Fair value measurement' and HKAS 40, 'Investment property'.
- Amendments to HKAS 16 and HKAS 41 "Agriculture: bearer plants" change the reporting for bearer plants, such as grape vines, rubber trees and oil palms. Bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. The amendments include them in the scope of HKAS 16 rather than HKAS 41. The produce on bearer plants will remain in the scope of HKAS 41. The amendments are effective for an entity's annual HKFRS financial statements for a period beginning on or after 1 January 2016, with earlier application permitted.

The Group has elected to early adopt the amendments made to HKAS 16 and HKAS 41 in relation to bearer plants in preparing these financial statement. Other than that, the remaining amendments are not material to the Group.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Changes in accounting policies and disclosures (continued)

(b) *New Hong Kong Companies Ordinance (Cap.622)*

In addition, the requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(c) *New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015 and have not been applied in preparing these consolidated financial statements. The Group is assessing the impact of these new and amended standards and interpretations. Based on its current assessment, the Group expects that these new and amended standards and interpretations will not have material impact on the financial statements of the Group.

HKFRS 9, ‘Financial instruments’, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the ‘hedged ratio’ to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

HKFRS 15, ‘Revenue from contracts with customers’ deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 ‘Revenue’ and HKAS 11 ‘Construction contracts’ and related interpretations. HKFRS 15 is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

Amendment to HKAS 27 “Equity method in separate financial statements” allows entities to use equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendment to HKAS 27 is effective for a period beginning on or after 1 January 2016.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Changes in accounting policies and disclosures (continued)

(c) *New standards and interpretations not yet adopted (continued)*

There are no other HKFRSs or HK (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

3.3 Subsidiaries, jointly controlled entities and associates

(a) *Consolidation*

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

(i) Business combination under common control

The Group has applied merger accounting as prescribed in Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” to account for the purchase of entities or businesses ultimately controlled by the same party or parties both before and after the business combination, as if the combination had been occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties. The combined entity recognises the assets, liabilities and equity of the combining entities or businesses at the carrying amounts in the consolidated financial statements of the controlling party or parties prior to the common control combination. These carrying amounts are referred to below as existing book values from the controlling parties’ perspective. There is no recognition of any additional goodwill or excess of the acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of the common control combination to the extent of the continuation of the controlling party or parties’ interests.

(ii) Business combination not under common control

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

Acquisition-related costs are expensed as incurred.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

(a) *Consolidation (continued)*

(ii) Business combination not under common control (continued)

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

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement (Note 3.9).

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(iii) Changes in ownership interests in subsidiaries without change of control

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

(iv) Disposal of subsidiaries

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

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

(b) *Separate financial statements*

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

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

(c) *Jointly controlled entities and associates*

Jointly controlled entities are joint ventures that involve the establishment of corporation in which the Group and other venturers have their respective interests. The jointly controlled entities operate in the same way as other entities, except that a contractual agreement between the Group and other venturers established joint control and none of the participating parties has unilateral control over the economic activity of the jointly controlled entities. Investments in jointly controlled entities are accounted for using the equity method of accounting.

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting.

Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss in the investee after the date of acquisition. Other than the associates and jointly controlled entities acquired as an integrated part of the restructuring transactions as mentioned in Note 1.1 which were accounted for as prescribed in Note 3.3(a)(i), the Group's investment in associates and jointly controlled entities includes goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associate or a jointly controlled entity, any difference between the cost of the associate and the jointly controlled entity and the Group's share of the net fair value of the associate's and jointly controlled entity's identifiable assets and liabilities is accounted for as goodwill.

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

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

(c) *Jointly controlled entities and associates (continued)*

Other than the associates and jointly controlled entities acquired as an integrated part of the restructuring transactions as mentioned in Note 1.1 which were accounted for as prescribed in Note 3.3(a)(i), the Group's share of its jointly controlled entities and associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity or an associate equals or exceeds its interest in the jointly controlled entity or associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity or associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the jointly controlled entity or associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the jointly controlled entity or associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of a jointly controlled entity/an associate' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its jointly controlled entities and associates are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the jointly controlled entities and associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities and associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

3.4 Segment reporting

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

3.5 Foreign currency translation

(a) *Functional and presentation currency*

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

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses are presented in the income statement within 'other (losses)/gains – net'.

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

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

(c) Group companies

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

- (i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) All resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange difference arising are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost or revalued amounts less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

| | |
|-------------------------------------|--------------|
| – Buildings | 5-50 years |
| – Buildings outside Hong Kong | useful lives |
| – Machinery | 4-20 years |
| – Motor vehicles | 4-14 years |
| – Furniture, fittings and equipment | 3-14 years |
| – Medicinal plants | 40 years |
| – Others | 2-20 years |

Medicinal plants are yew trees solely used in the production of certain medicine raw materials. It is expected to bear produce for more than several years, and has a remote like hood of being sold as agricultural produce, except for incidental scrap sales. Produce growly on bearer plant is a biological asset (Note 3.10). Medicinal plants are stated at historical cost less depreciation and impairment.

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.11).

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

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Investment properties

Investment properties, principally comprising buildings, are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group. Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives. The residual values and useful lives of investment properties are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are included in the income statement when the changes arise. The gain or loss on disposal of investment property is calculated as the difference between the net disposal proceeds and the carrying amount at the date of disposal.

3.8 Land use rights

All land in the PRC is state-owned or collectively-owned and no individual land ownership exists. The Group acquires the right to use certain land. The premiums paid for such rights are treated as prepayment for operating lease and recorded as land use rights, which are stated at cost less accumulated amortisation and accumulated impairment losses (if any). Land use rights are amortised over the lease period years using the straight-line method.

3.9 Intangible assets

(a) *Goodwill*

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purpose. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) *Business network*

Business network acquired in a business combination is recognised at fair value at the acquisition date and is amortised using the straight-line method over its estimated useful lives.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Intangible assets (continued)

(c) *Trademarks and patent rights*

Separately acquired trademarks and patent rights are shown at historical cost. Trademarks and patent rights acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and patent rights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives.

(d) *Contractual customer relationships*

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the estimated life of contractual periods.

(e) *Know-how*

Know-how acquired is initially recognised at cost and is amortised on a straight-line method over their useful lives of 5 to 10 years.

(f) *Research and development*

Expenditure on development activities (relating to the design and testing of new or improved products for sale) is capitalised as intangible when the following criteria are fulfilled:

- (i) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (ii) management intends to complete the intangible asset and use or sell it;
- (iii) there is an ability to use or sell the intangible asset;
- (iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;
- (v) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- (vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Intangible assets (continued)

(f) *Research and development (continued)*

Other research expenditures that do not meet these criteria are recognised as an expense as incurred.

Research and development costs comprise costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Subsequent expenditure on development activities after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

Amortisation of development costs is charged to the income statement on a straight-line basis over its estimated useful lives.

(g) *Computer software*

Acquired computer software licenses are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 3 to 5 years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

(h) *Other intangible assets*

Other intangible assets acquired are initially recognised at cost and are amortised on a straight-line method over their useful lives.

3.10 Biological assets

Biological assets of the Group primarily comprise bearer plants and produce growing on bearer plants.

Bearer plants of the Group primarily include yew trees. Biological assets meeting the definition of a bearer plant are accounted for as property, plant and equipment as described in Note 3.6. Produce growing on bearer plants are measured on initial recognition and at the end of each reporting period at their fair value less estimated cost to sell. The fair value of produce growing on bearer plants is estimated with reference to valuations based on the present value of the discounted estimated pre-tax net cash flows of the underlying biological assets. The expected cash flows from the whole life cycle of the produce growing on bearer plants are determined using the estimated market prices of the estimated yield of the ultimate medicine, less production cost, farming and harvest costs and other costs including fertiliser, labour costs and rental costs, required to bring the produce to maturity.

Changes in fair value of biological assets are recognised in the consolidated income statement.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Impairment of non-financial assets

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

3.12 Assets classified as held for sale

Non-current assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets are stated at the lower of carrying amount and fair value less costs to sell.

3.13 Financial assets

(a) *Classification*

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

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables included in 'trade and other receivables and other current assets' and 'cash and cash equivalents' in the balance sheet (Notes 3.17 and 3.18).

(iii) Available-for-sale financial assets

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

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Financial assets (continued)

(b) *Recognition and measurement*

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

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

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

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

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

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

3.15 Impairment of financial assets

(a) *Assets carried at amortised cost*

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

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

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

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

(b) *Assets classified as available for sale*

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

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Impairment of financial assets (continued)

(b) *Assets classified as available for sale (continued)*

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

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

3.16 Inventories

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

3.17 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

3.18 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

3.19 Share capital

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

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20 Trade payables

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

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

3.21 Borrowings

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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

3.22 Borrowing costs

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

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

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

Borrowing costs includes interest expenses and finance charges in respect of financial lease.

3.23 Current and deferred income tax

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

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23 Current and deferred income tax (continued)

(a) *Current income tax*

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

(b) *Deferred income tax*

(i) *Inside basis differences*

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

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

(ii) *Outside basis differences*

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

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

(c) *Offsetting*

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

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.24 Employee benefits

(a) *Pension obligations*

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government.

The Group's contributions to these plans are expensed as incurred.

(b) *Housing funds, medical insurances and other social insurances*

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(c) *Termination benefits*

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

3.25 Provisions

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

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

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

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.26 Government grants

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

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

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

3.27 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied or services rendered, stated net of value added taxes, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) *Sales of goods – wholesale*

The Group recognises revenue from the sale of goods when all the following conditions have been satisfied: (a) the enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods, which is usually at the time when a group entity has delivered goods to the customer, the customer has accepted the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods; (b) the enterprise retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) it is probable that the economic benefits associated with the transaction will flow to the enterprise; and (d) the relevant amount of revenue and costs can be measured reliably. Accumulated experience is used to estimate and provide for sales returns at the time of sale.

(b) *Sales of goods – retail pharmacy operations*

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

(c) *Rental income*

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

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.27 Revenue recognition (continued)

(d) *Interest income*

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

(e) *Sales of services*

The Group provides import and export agency service, consulting service and other miscellaneous services to certain customers. For sales of services, revenue is recognised in accounting period in which the services rendered, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

(f) *Dividend income*

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

3.28 Leases (as a leasee)

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

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

3.29 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors when appropriate.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.30 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries or third parties to secure loans and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgement. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the income statement within other operating expenses.

Where guarantees in relation to loans of subsidiaries or associates are provided for no compensation, the fair value are accounted for as contributions and recognised as part of the cost of the investment in the financial statements of the Company.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, fair value and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group currently does not use any derivative financial instruments to hedge certain risk exposures.

(a) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, the Group has also certain bank deposits, trade and other receivables, trade and other payables and borrowings which are denominated in currencies other than RMB (majority in United States dollars ("USD") and Hong Kong dollars ("HKD")) and details of which have been set out in Notes 18, 19, 24 and 25.

RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control as promulgated by the PRC government.

Management will monitor closely the foreign exchange risk exposure and will consider hedging significant foreign currency exposure should the need arise.

Notes to the Consolidated Financial Statements

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors (continued)

(a) *Foreign exchange risk (continued)*

As at 31 December 2015, if RMB had strengthened/weakened by 5% against the USD and HKD with all other variables held constant, the Group's profit before income tax for the year would have been higher/lower by approximately RMB27,593,000 (2014: higher/lower RMB14,343,000), mainly as a result of foreign exchange gains/losses arising from the translation of USD and HKD-denominated cash and cash equivalents, receivables and payables and borrowings balances.

(b) *Cash flow and fair value interest rate risk*

As the Group has no significant interest-bearing assets (other than restricted cash and cash and cash equivalents), the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk primarily arises from bank borrowings.

Bank borrowings issued at variable rates expose the Group to cash flow interest rate risk. Bank borrowings issued at fixed rates exposed the Group to fair value interest rate risk. In general, the Group raises bank borrowings at floating rates as well as fixed rates, based upon the capital market conditions and the Group's internal requirements. As at 31 December 2015, the Group's borrowings at floating rate and fixed rate amounted to approximately RMB3,843,104,000 and RMB6,649,292,000 respectively.

The Group currently does not use any interest rate swap contracts or other financial instruments to hedge against its interest rate risk exposure. Management will continue to monitor interest rate risk exposure and will consider hedging significant interest rate risk exposure should the need arise.

As at 31 December 2015, if the interest rates on bank borrowings at floating rates had been 10% higher/lower with all other variables held constant, the Group's profit before income tax for the year would have been lower/higher by approximately RMB8,403,000 (2014: lower/higher RMB2,765,000) respectively, mainly as a result of higher/lower interest expenses on bank borrowings.

(c) *Credit risk*

Credit risk primarily arises from cash and cash equivalents, restricted cash, trade and other receivables (including notes receivables) and financial guarantee contracts, except for prepayment. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

For deposits with banks and financial institutions (including restricted cash and cash and cash equivalents), the Group has limited its credit exposure by restricting their selection of banks and financial institutions on reputable international banks, major financial institutions in the PRC and PRC listed banks or state-owned banks.

For customers, management assesses the credit qualities of customers, taking into account their financial positions, past experiences and other factors. Individual risk limits are set and regularly reviewed by management and the utilisation of which is monitored regularly. The Group has no concentration of credit risk in respect of trade receivables.

Notes to the Consolidated Financial Statements

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(c) *Credit risk (continued)*

Notes receivable are mostly to be settled by reputable banks or state-owned banks and therefore the management considers that they will not expose the Group to any significant credit risk.

Management considers that the provisions for impairment of trade and other receivables as of respective balance sheet dates adequately cover the Group's credit risk exposures and it is not anticipated that any material liabilities will arise from the financial guarantee contracts. Provision for trade and other receivables made during the year has been disclosed in Note 18.

(d) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities, discounting bank acceptance notes to banks and the ability to close out market positions. The Group's objective is to maintain adequate committed credit lines to ensure sufficient and flexible funding is available to the Group.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the respective balance sheet dates to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows (including the estimated interest expenses on the related borrowings up to their maturities).

| | Less than 1 year <i>RMB'000</i> | Between 1 and 2 years <i>RMB'000</i> | Between 2 and 5 years <i>RMB'000</i> | Over 5 years <i>RMB'000</i> | Total <i>RMB'000</i> |
|---|---------------------------------------|---|---|-----------------------------------|-------------------------|
| At 31 December 2015 | | | | | |
| Borrowings (Note 25) | 10,398,987 | 18,233 | 63,754 | 11,422 | 10,492,396 |
| Interests payments on borrowings | 200,495 | 3,549 | 2,102 | – | 206,146 |
| Financial liabilities as included in trade and other payables | 26,990,792 | 5,468 | 20,470 | 267,374 | 27,284,104 |
| | 37,590,274 | 27,250 | 86,326 | 278,796 | 37,982,646 |
| At 31 December 2014 | | | | | |
| Borrowings (Note 25) | 7,953,124 | 9,221 | 80,691 | 15,496 | 8,058,532 |
| Interests payments on borrowings | 146,934 | 5,657 | 8,100 | 25 | 160,716 |
| Financial liabilities as included in trade and other payables | 22,505,870 | – | – | – | 22,505,870 |
| | 30,605,928 | 14,878 | 88,791 | 15,521 | 30,725,118 |

Notes to the Consolidated Financial Statements

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(d) *Liquidity risk (continued)*

The estimated amount of interest payable for borrowings are arrived based on the principal borrowing balance and prevailing interest rates at year end date up to the final maturity date of the loan agreements.

Loan guarantee provided to certain parties exposes the Group to liquidity risk and could be called within one year at the respective balance sheet dates. Management monitors the possible loss of the guarantee on a regularly basis. As at 31 December 2015 and 2014, it was not anticipated that any material liabilities will arise from such loan guarantee contracts. An analysis of the Group's outstanding loan guarantee provided to related parties has been disclosed in Note 44 (d).

4.2 Capital management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital. Total debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet). Total capital is calculated as "equity" as shown in the consolidated balance sheets plus total debt.

The gearing ratios are as follows:

| | As at 31 December | |
|-------------------|-------------------|------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Total borrowings | 10,492,396 | 8,058,532 |
| Total equity | 33,808,039 | 31,099,152 |
| Total capital | 44,300,435 | 39,157,684 |
| Gearing ratio (%) | 24% | 21% |

Notes to the Consolidated Financial Statements

4 FINANCIAL RISK MANAGEMENT (continued)

4.3 Fair value estimation

(a) *fair value measurements by level of the following fair value measurement hierarchy*

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2015 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

The following table presents the Group's financial assets that are measured at fair value as at 31 December 2014 and 2015.

| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
|---|--------------------|--------------------|--------------------|------------------|
| As at 31 December 2015 | | | | |
| Financial assets at fair value through profit or loss | 820 | – | – | 820 |
| Available-for-sale financial assets | 162,700 | 59,482 | – | 222,182 |
| | 163,520 | 59,482 | – | 223,002 |
| As at 31 December 2014 | | | | |
| Financial assets at fair value through profit or loss | 506 | – | – | 506 |
| Available-for-sale financial assets | 19,805 | 85,314 | – | 105,119 |
| | 20,311 | 85,314 | – | 105,625 |

Notes to the Consolidated Financial Statements

4 FINANCIAL RISK MANAGEMENT (continued)

4.3 Fair value estimation (continued)

(a) *fair value measurements by level of the following fair value measurement hierarchy (continued)*

There were no transfers between Levels 1 and Level 3 during the year.

(i) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity investments traded in Shanghai Stock Exchange and Shenzhen Stock Exchange classified as trading securities or available-for-sale.

(ii) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The Group's financial assets included in level 2 are all equity investments of which the fair value can be measured by related quoted market prices.

Fair value of the Group's investment properties has been disclosed in Note 8. The fair value is within level 3 of the fair value hierarchy.

Notes to the Consolidated Financial Statements

4 FINANCIAL RISK MANAGEMENT (continued)

4.3 Fair value estimation (continued)

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

The fair value of other long-term receivables, other long-term payables and non-current borrowings as at 31 December 2014 and 2015 approximated to their carrying amount.

The fair value of other long-term receivables, other long-term payables and non-current borrowings is estimated by discounting the future cash flows at the current market rate available to the Group for similar financial instruments.

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and other receivables (excluding prepayments and prepaid current income tax or value-added tax recoverable);
- Restricted cash;
- Cash and cash equivalents;
- Current borrowings;
- Trade and other payables (excluding advance from customers, accrued taxes other than income tax, staff salaries and welfare payables).

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Useful lives and residual values of property, plant and equipment

Management determines the estimated useful lives, residual values and consequently related depreciation expense for its property, plant and equipment.

The estimated useful lives are determined by reference to the expected lifespan of the assets, the Group's business model and its asset management policy. The estimated useful lives could change significantly as a result of certain factors. Management will increase the depreciation expense where useful lives are less than previously estimated lives, or it will write down technically obsolete or non-strategic assets that have been abandoned or sold.

Notes to the Consolidated Financial Statements

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Useful lives and residual values of property, plant and equipment (continued)

The estimated residual values are determined based on all relevant factors (including but not limited to by reference to the industry practice and estimated scrap values).

The depreciation expense will change where the useful lives or residual values of the assets are different from the previous estimates.

(b) Useful lives of business network

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

(c) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy as stated in Note 3.11. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 10).

(d) Net realisable value of inventories

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

(e) Impairment of receivables

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

(f) Income taxes

The Group is subject to income taxes in the PRC and Hong Kong. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Notes to the Consolidated Financial Statements

6 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the board of directors that are used to make strategic decisions. The board of directors consider the business from a business type perspective.

The reportable operating segments derive their revenue primarily from the following four business types in the PRC:

- (a) Pharmaceutical business (Production segment) – research and development, manufacturing and sale of a broad range of pharmaceutical and healthcare products;
- (b) Distribution and supply chain solutions (Distribution segment) – distribution, warehousing, and other value-added pharmaceutical supply chain solutions and related services to pharmaceutical manufacturers and dispensers, such as hospitals, distributors and retail pharmacies;
- (c) Pharmaceutical retail (Retail segment) – operation of a network of retail pharmacy stores; and
- (d) Other business operations (Others) – consulting service, assets management, investment holding, etc.

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

The board of directors assess the performance of the operating segments based on a measure of revenue and operating profit.

Unallocated assets consist of current income tax recoverable and deferred income tax assets. Unallocated liabilities consist of current and deferred income tax liabilities.

Capital expenditure comprises mainly additions to land use rights, investment properties, property, plant and equipment and intangible assets.

Notes to the Consolidated Financial Statements

6 SEGMENT INFORMATION (continued)

The segment information provided to the board of directors for the reportable segments for the year is as follows:

For the year ended 31 December 2015

| | Production segment RMB'000 | Distribution segment RMB'000 | Retail segment RMB'000 | Others RMB'000 | Elimination RMB'000 | Total RMB'000 |
|---|----------------------------------|------------------------------------|------------------------------|-------------------|------------------------|--------------------|
| External revenue | 10,135,394 | 90,196,372 | 4,756,429 | 428,392 | – | 105,516,587 |
| Inter-segment revenue | 1,688,398 | 3,520,323 | 38,781 | 172,146 | (5,419,648) | – |
| Segment revenue | 11,823,792 | 93,716,695 | 4,795,210 | 600,538 | (5,419,648) | 105,516,587 |
| Segment operating profit | 1,403,560 | 2,168,342 | 63,436 | 578 | (4,756) | 3,631,160 |
| Other income | | | | | | 204,945 |
| Other gains – net | | | | | | 221,904 |
| Gains on disposal of subsidiaries and associates | | | | | | 5,652 |
| Finance expenses – net | | | | | | (508,607) |
| Share of profit of jointly controlled entities | 97,430 | 24,682 | – | – | – | 122,112 |
| Share of profit of associates | 450,410 | 33,086 | – | 11,192 | – | 494,688 |
| Profit before income tax | | | | | | 4,171,854 |
| Income tax expense | | | | | | (807,486) |
| Profit for the year | | | | | | 3,364,368 |

Notes to the Consolidated Financial Statements

6 SEGMENT INFORMATION (continued)

For the year ended 31 December 2014

| | Production Segment RMB'000 | Distribution segment RMB'000 | Retail segment RMB'000 | Others RMB'000 | Elimination RMB'000 | Total RMB'000 |
|---|----------------------------------|------------------------------------|------------------------------|-------------------|------------------------|-------------------|
| External revenue | 9,484,527 | 78,383,963 | 4,151,061 | 379,343 | – | 92,398,894 |
| Inter-segment revenue | 1,618,907 | 2,774,495 | 67,170 | 114,900 | (4,575,472) | – |
| Segment revenue | 11,103,434 | 81,158,458 | 4,218,231 | 494,243 | (4,575,472) | 92,398,894 |
| Segment operating profit | 1,173,864 | 1,886,699 | 62,282 | (54,390) | (5,158) | 3,063,297 |
| Other income | | | | | | 205,832 |
| Other gains – net | | | | | | 357,785 |
| Gains on disposal of subsidiaries and associates | | | | | | 156,013 |
| Finance expenses – net | | | | | | (396,196) |
| Share of profit of jointly controlled entities | 82,364 | 19,841 | – | – | – | 102,205 |
| Share of profit of associates | 286,048 | 22,543 | – | 2,207 | – | 310,798 |
| Profit before income tax | | | | | | 3,799,734 |
| Income tax expense | | | | | | (807,717) |
| Profit for the year | | | | | | 2,992,017 |

Notes to the Consolidated Financial Statements

6 SEGMENT INFORMATION (continued)

Other segment items included in the consolidated financial statements for the year ended 31 December 2015 are as follows:

| | Production segment RMB'000 | Distribution segment RMB'000 | Retail segment RMB'000 | Others RMB'000 | Elimination RMB'000 | Total RMB'000 |
|---|-------------------------------|---------------------------------|---------------------------|-------------------|------------------------|------------------|
| Depreciation of property, plant and equipment and investment properties | 358,053 | 161,522 | 23,677 | 32,377 | – | 575,629 |
| Amortisation of intangible assets and land use rights | 39,343 | 116,496 | 546 | 13,815 | – | 170,200 |
| Capital expenditure | 852,436 | 475,558 | 17,364 | 180,067 | – | 1,525,425 |

Other segment items included in the consolidated financial statements for the year ended 31 December 2014 are as follows:

| | Production segment RMB'000 | Distribution segment RMB'000 | Retail segment RMB'000 | Others RMB'000 | Elimination RMB'000 | Total RMB'000 |
|---|-------------------------------|---------------------------------|---------------------------|-------------------|------------------------|------------------|
| Depreciation of property, plant and equipment and investment properties | 369,629 | 126,483 | 23,265 | 31,460 | – | 550,837 |
| Amortisation of intangible assets and land use rights | 33,813 | 88,731 | 489 | 11,548 | – | 134,581 |
| Capital expenditure | 665,239 | 364,360 | 17,152 | 109,872 | – | 1,156,623 |

Notes to the Consolidated Financial Statements

6 SEGMENT INFORMATION (continued)

The segment assets and liabilities as at 31 December 2015 are as follows:

| | Production segment RMB'000 | Distribution segment RMB'000 | Retail segment RMB'000 | Others RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|----------------------------------|------------------------------------|------------------------------|-------------------|------------------------|-------------------|
| Investment in jointly controlled entities | 299,802 | 176,686 | – | – | – | 476,488 |
| Investment in associates | 2,427,184 | 392,821 | – | 340,413 | – | 3,160,418 |
| Other assets | 16,679,509 | 50,119,812 | 1,182,900 | 25,643,954 | 316,258 | 93,942,433 |
| Elimination | | | | | | (23,235,128) |
| Total assets | | | | | | 74,344,211 |
| Segment liabilities | 5,037,616 | 37,677,181 | 775,622 | 5,883,346 | 790,151 | 50,163,916 |
| Elimination | | | | | | (9,627,745) |
| Total liabilities | | | | | | 40,536,171 |

Segment assets and liabilities are reconciled to entity assets and liabilities as follows:

| | Assets RMB'000 | Liabilities RMB'000 |
|--|-------------------|------------------------|
| Segment assets/liabilities after elimination | 74,027,953 | 39,746,020 |
| Unallocated: | | |
| Current income tax liabilities | – | 398,018 |
| Deferred tax assets/liabilities – net | 316,258 | 392,133 |
| Total | 74,344,211 | 40,536,171 |

Notes to the Consolidated Financial Statements

6 SEGMENT INFORMATION (continued)

The segment assets and liabilities as at 31 December 2014 are as follows:

| | Production segment <i>RMB'000</i> | Distribution segment <i>RMB'000</i> | Retail segment <i>RMB'000</i> | Others <i>RMB'000</i> | Unallocated <i>RMB'000</i> | Total <i>RMB'000</i> |
|--|---|---|-------------------------------------|--------------------------|-------------------------------|-------------------------|
| Investment in jointly controlled entities | 222,372 | 152,370 | – | – | – | 374,742 |
| Investment in associates | 1,888,749 | 152,900 | – | 329,222 | – | 2,370,871 |
| Other assets | 15,278,944 | 42,144,675 | 978,025 | 24,351,005 | 264,591 | 83,017,240 |
| Elimination | | | | | | (21,422,294) |
| Total assets | | | | | | 64,340,559 |
| Segment liabilities | 4,672,254 | 31,115,542 | 646,418 | 3,804,656 | 728,325 | 40,967,195 |
| Elimination | | | | | | (7,725,788) |
| Total liabilities | | | | | | 33,241,407 |

Segment assets and liabilities are reconciled to entity assets and liabilities as follows:

| | Assets <i>RMB'000</i> | Liabilities <i>RMB'000</i> |
|--|--------------------------|-------------------------------|
| Segment assets/liabilities after elimination | 64,075,968 | 32,513,082 |
| Unallocated: | | |
| Current income tax liabilities | – | 348,162 |
| Deferred tax assets/liabilities – net | 264,591 | 380,163 |
| Total | 64,340,559 | 33,241,407 |

Notes to the Consolidated Financial Statements

7 LAND USE RIGHTS

Land in the PRC is state-owned or collectively-owned and no individual land ownership right exists. The Group's interests in land use rights are all outside Hong Kong and represent prepaid operating lease payments for lands which are held on leases of between 10 to 50 years.

All the land use rights are located in the PRC and the movement of which is analysed as follows:

| | Year ended 31 December | |
|--|------------------------|-----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Opening net book amount | 1,095,630 | 944,990 |
| Additions | 59,216 | 131,789 |
| Transfer from PP&E (Note 9) | 30,047 | 26,367 |
| Acquisition of subsidiaries | 47,711 | 60,978 |
| Transfer to assets classified as held for sale (d) | (9,920) | – |
| Amortisation charge (Note 33) | (29,587) | (29,473) |
| Disposals | (6,109) | (15,123) |
| Disposal of subsidiaries | – | (23,898) |
| Closing net book amount | 1,186,988 | 1,095,630 |

(a) Amortisation of the land use rights has been charged to the consolidated income statements as follows:

| | Year ended 31 December | |
|-------------------------------------|------------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Cost of sales | 1,811 | 1,609 |
| Distribution and selling expenses | 3,486 | 3,504 |
| General and administrative expenses | 24,290 | 24,360 |
| | 29,587 | 29,473 |

(b) The net book value of land use rights pledged as collateral for the Group's borrowings (Note 25) as of the respective balance sheet dates were as follows:

| | As at 31 December | |
|--------------------------|-------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Land use rights, secured | 94,657 | 84,843 |

Notes to the Consolidated Financial Statements

7 LAND USE RIGHTS (continued)

- (c) As at 31 December 2015, the Group is still in the process of applying for land use right certificates of certain land use rights and the aggregated carrying amounts of these land use rights amounted to approximately RM7,128,000 (2014: RMB115,766,000).
- (d) The Group entered into a non-cancellable agreement with a third party on 26 June 2012 to have certain offices and plants relocated (the "Relocation"). The Relocation was estimated to be completed in 2016 by the Group. Hence, land use rights in respect of the Relocation held by the Group were reclassified and presented as "assets classified as held for sale" in the consolidated balance sheet as at 31 December 2015.

8 INVESTMENT PROPERTIES

Investment properties are primarily located in the PRC with estimated use lives with in 50 years.

The movement of investment properties is analysed as follows:

| | Year ended 31 December | |
|--|------------------------|-----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Cost | 430,067 | 430,160 |
| Accumulated depreciation | (168,002) | (155,045) |
| Net book amount | 262,065 | 275,115 |
| Opening net book amount | 275,115 | 277,004 |
| Addition | 205 | 934 |
| Acquisition of subsidiaries | – | 21,872 |
| Transfer from owner-occupied PP&E (Note 9) | 2,162 | – |
| Transfer to assets held for sale | – | (10,724) |
| Depreciation (Note 33) | (13,321) | (13,971) |
| Other deduction | (2,096) | – |
| Closing net book amount | 262,065 | 275,115 |

Notes to the Consolidated Financial Statements

8 INVESTMENT PROPERTIES (continued)

(a) As at 31 December 2015, the fair values of the investment properties were approximately RMB811,003,000 (2014: RMB736,443,000). These estimates are made by the directors with reference to market transacted prices for similar properties in the vicinity of the relevant properties. In case where market transacted prices were not available, fair values were estimated using discounted cash flow projections based on reliable estimates of future rental income or market rents for similar properties in the same location and condition, where appropriate.

(b) Lease rental income relating to the lease of investment properties has been included in the consolidated income statements as follows:

| | Year ended 31 December | |
|---------------|------------------------|----------------|
| | 2015 | 2014 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Rental income | 61,464 | 75,880 |

(c) Depreciation of investment properties has been charged to the consolidated income statements (Note 33) as follows:

| | Year ended 31 December | |
|---------------|------------------------|----------------|
| | 2015 | 2014 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Cost of sales | 13,321 | 13,971 |

Notes to the Consolidated Financial Statements

9 PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Machinery | Motor Vehicles | Furniture, fittings and equipment | Others | Construction -in-progress | Medicinal Plants | Total |
|--|-------------|-------------|----------------|-----------------------------------|-----------|---------------------------|------------------|-------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2014 | | | | | | | | |
| Cost | 3,913,376 | 2,531,160 | 331,369 | 465,887 | 737,821 | 908,492 | – | 8,888,105 |
| Accumulated depreciation | (1,420,431) | (1,407,946) | (197,633) | (360,394) | (396,309) | – | – | (3,782,713) |
| Impairment | (27,556) | (54,030) | (1,089) | (973) | (2,050) | (3,169) | – | (88,867) |
| Net book amount | 2,465,389 | 1,069,184 | 132,647 | 104,520 | 339,462 | 905,323 | – | 5,016,525 |
| Year ended 31 December 2014 | | | | | | | | |
| Opening net book amount | 2,465,389 | 1,069,184 | 132,647 | 104,520 | 339,462 | 905,323 | – | 5,016,525 |
| Acquisition of subsidiaries | 138,372 | 17,083 | 7,318 | 8,735 | 4,360 | 5,720 | – | 181,588 |
| Additions | 7,123 | 39,122 | 20,693 | 86,409 | 133,167 | 625,229 | – | 911,743 |
| Internal transfer | 301,157 | 323,252 | 5,713 | 14,968 | 96,537 | (741,627) | – | – |
| Transfer to land use rights (Note 7) | – | – | – | – | – | (26,367) | – | (26,367) |
| Transfer to intangible assets (Note 10) | – | – | – | – | – | (26,648) | – | (26,648) |
| Disposals (Note 39(ii)) | (86,514) | (52,024) | (4,955) | (3,522) | (25,088) | – | – | (172,103) |
| Depreciation charge | (151,526) | (137,010) | (40,141) | (48,976) | (159,213) | – | – | (536,866) |
| Disposal of subsidiaries | (9,498) | (7,180) | (972) | (2,013) | (76) | (109,026) | – | (128,765) |
| Provision for impairment | (1,003) | (17,624) | (305) | (1,212) | (551) | – | – | (20,695) |
| Translation difference | (401) | (130) | (46) | (16) | – | – | – | (593) |
| Closing net book amount | 2,663,099 | 1,234,673 | 119,952 | 158,893 | 388,598 | 632,604 | – | 5,197,819 |
| At 31 December 2014 | | | | | | | | |
| Cost | 4,129,612 | 2,676,506 | 322,465 | 542,946 | 836,819 | 635,773 | – | 9,144,121 |
| Accumulated depreciation | (1,440,885) | (1,380,385) | (201,785) | (381,929) | (446,896) | – | – | (3,851,880) |
| Impairment | (25,628) | (61,448) | (728) | (2,124) | (1,325) | (3,169) | – | (94,422) |
| Net book amount | 2,663,099 | 1,234,673 | 119,952 | 158,893 | 388,598 | 632,604 | – | 5,197,819 |

Notes to the Consolidated Financial Statements

9 PROPERTY, PLANT AND EQUIPMENT (continued)

| | Buildings | Machinery | Motor Vehicles | Furniture, fittings and equipment | Others | Construction -in-progress | Medicinal Plants | Total |
|--|-------------|-------------|-------------------|---|-----------|------------------------------|---------------------|-------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Year ended 31 December 2015 | | | | | | | | |
| Opening net book amount | 2,663,099 | 1,234,673 | 119,952 | 158,893 | 388,598 | 632,604 | - | 5,197,819 |
| Acquisition of subsidiaries (Note 43) | 106,112 | 17,512 | 2,172 | 4,014 | 4,783 | 684 | 390,356 | 525,633 |
| Additions | 90,397 | 206,624 | 33,642 | 55,263 | 89,501 | 900,177 | 7,781 | 1,383,385 |
| Internal transfer | 318,357 | 377,647 | 2,928 | 7,387 | 33,943 | (740,262) | - | - |
| Transfer from investment properties (Note 8) | 2,096 | - | - | - | - | - | - | 2,096 |
| Transfer to land use rights (Note 7) | - | - | - | - | - | (30,047) | - | (30,047) |
| Transfer to asset held for sale (Note 7(d)) | (30,319) | (15,957) | (10) | - | - | - | - | (46,286) |
| Disposals (Note 39(ii)) | (78,955) | (29,570) | (4,530) | (2,440) | (5,071) | - | - | (120,566) |
| Depreciation charge | (161,212) | (190,322) | (39,323) | (49,116) | (121,355) | - | (980) | (562,308) |
| Addition of provision for impairment (Note 31) | (225) | (7,112) | - | (261) | (1) | - | - | (7,599) |
| Transfer to investment properties (Note 8) | (2,162) | - | - | - | - | - | - | (2,162) |
| Transfer to Intangible Assets (Note 10) | - | - | - | - | - | (21,544) | - | (21,544) |
| Translation difference | (759) | (123) | - | (46) | - | - | - | (928) |
| Closing net book amount | 2,906,429 | 1,593,372 | 114,831 | 173,694 | 390,398 | 741,612 | 397,157 | 6,317,493 |
| At 31 December 2015 | | | | | | | | |
| Cost | 4,439,563 | 3,059,660 | 329,744 | 581,966 | 936,257 | 744,781 | 398,137 | 10,490,108 |
| Accumulated depreciation | (1,507,281) | (1,404,423) | (214,286) | (406,223) | (544,532) | - | (980) | (4,077,725) |
| Impairment | (25,853) | (61,865) | (627) | (2,049) | (1,327) | (3,169) | - | (94,890) |
| Net book amount | 2,906,429 | 1,593,372 | 114,831 | 173,694 | 390,398 | 741,612 | 397,157 | 6,317,493 |

Notes to the Consolidated Financial Statements

9 PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Depreciation expenses have been charged to the consolidated income statements as follows:

| | Year ended 31 December | |
|---|------------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Cost of sales (Note 33) | 283,218 | 260,165 |
| Distribution and selling expenses (Note 33) | 50,286 | 38,820 |
| General and administrative expenses (Note 33) | 228,804 | 237,881 |
| | 562,308 | 536,866 |

(b) The net book amount of property, plant and equipment pledged as collateral for the Group's borrowings (Note 25) as of the respective balance sheet dates were as follows:

| | As at 31 December | |
|--|-------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Property, plant and equipment, pledged | 172,175 | 172,766 |

(c) As at 31 December 2015, the Group is still in the process of applying for the property ownership certificates of certain of its buildings and the aggregated carrying amounts of these buildings amounted to approximately RMB252,513,000 (2014: RMB240,085,000).

(d) During the year ended 31 December 2015, the Group did not capitalise borrowing costs (2014: RMB3,402,000) on qualifying assets.

(e) Buildings includes the following amounts where the Group is a lessee under a finance lease:

| | As at 31 December | |
|-----------------------------------|-------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Cost – capitalised finance leases | 41,413 | – |
| Accumulated depreciation | (2,463) | – |
| Net book amount | 38,950 | – |

The Group leases the certain building under a non-cancellable finance lease agreement. The lease term is 10 years, and ownership of the asset lies within the Group.

Notes to the Consolidated Financial Statements

10 INTANGIBLE ASSETS

| | Goodwill RMB'000 | Business network RMB'000 | Trademarks and patent rights RMB'000 | Know-how RMB'000 | Computer software RMB'000 | Others RMB'000 | Total RMB'000 |
|--|---------------------|--------------------------------|---|---------------------|---------------------------------|-------------------|------------------|
| At 1 January 2014 | | | | | | | |
| Cost | 3,735,268 | 507,444 | 102,680 | 239,153 | 71,566 | 67,298 | 4,723,409 |
| Accumulated amortisation | – | (143,275) | (32,489) | (47,607) | (41,285) | (12,777) | (277,433) |
| Impairment | (91,974) | – | – | (76,093) | – | (17,768) | (185,835) |
| Net book amount | 3,643,294 | 364,169 | 70,191 | 115,453 | 30,281 | 36,753 | 4,260,141 |
| Year ended 31 December 2014 | | | | | | | |
| Opening net book amount | 3,643,294 | 364,169 | 70,191 | 115,453 | 30,281 | 36,753 | 4,260,141 |
| Acquisition of subsidiaries | 830,125 | 189,009 | – | 15,500 | 2,084 | 5,760 | 1,042,478 |
| Transfer from PP&E (Note 9) | – | – | – | – | 26,648 | – | 26,648 |
| Additions | – | – | 5,623 | 498 | 10,514 | 20,267 | 36,902 |
| Disposal | – | – | – | – | (248) | (501) | (749) |
| Amortisation charge (Note 33) | – | (59,579) | (9,183) | (16,377) | (11,370) | (8,599) | (105,108) |
| Closing net book amount | 4,473,419 | 493,599 | 66,631 | 115,074 | 57,909 | 53,680 | 5,260,312 |
| At 31 December 2014 | | | | | | | |
| Cost | 4,565,393 | 696,453 | 108,303 | 255,151 | 110,008 | 92,824 | 5,828,132 |
| Accumulated amortisation | – | (202,854) | (41,672) | (63,984) | (52,099) | (21,376) | (381,985) |
| Impairment | (91,974) | – | – | (76,093) | – | (17,768) | (185,835) |
| Net book amount | 4,473,419 | 493,599 | 66,631 | 115,074 | 57,909 | 53,680 | 5,260,312 |
| Year ended 31 December 2015 | | | | | | | |
| Opening net book amount | 4,473,419 | 493,599 | 66,631 | 115,074 | 57,909 | 53,680 | 5,260,312 |
| Acquisition of subsidiaries (Note 43) | 363,609 | 92,700 | 21,500 | – | 35 | 15,053 | 492,897 |
| Transfer from PP&E (Note 9) | – | – | – | – | 21,544 | – | 21,544 |
| Additions | – | – | 7,992 | 682 | 55,083 | 15,492 | 79,249 |
| Disposal | – | – | (794) | – | (56) | – | (850) |
| Impairment charge | (21,410) | – | (5,775) | – | – | – | (27,185) |
| Amortisation charge (Note 33) | – | (71,612) | (10,645) | (17,886) | (18,882) | (21,588) | (140,613) |
| Other deduction | – | – | – | – | – | (585) | (585) |
| Closing net book amount | 4,815,618 | 514,687 | 78,909 | 97,870 | 115,633 | 62,052 | 5,684,769 |
| At 31 December 2015 | | | | | | | |
| Cost | 4,929,002 | 789,153 | 135,865 | 255,833 | 186,485 | 121,565 | 6,417,903 |
| Accumulated amortisation | – | (274,466) | (51,181) | (81,870) | (70,852) | (41,745) | (520,114) |
| Impairment | (113,384) | – | (5,775) | (76,093) | – | (17,768) | (213,020) |
| Net book amount | 4,815,618 | 514,687 | 78,909 | 97,870 | 115,633 | 62,052 | 5,684,769 |

Notes to the Consolidated Financial Statements

10 INTANGIBLE ASSETS (continued)

(a) Amortisation expenses were charged to the consolidated income statement as follows:

| | Year ended 31 December | |
|-------------------------------------|------------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Cost of sales | 9,673 | 6,191 |
| Distribution and selling expenses | 91,483 | 69,113 |
| General and administrative expenses | 39,457 | 29,804 |
| | 140,613 | 105,108 |

(b) Impairment test for goodwill

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

| | As at 31 December | |
|----------------------|-------------------|-----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Production segment | 774,493 | 586,435 |
| Distribution segment | 4,138,152 | 3,962,601 |
| Others | 16,357 | 16,357 |
| | 4,929,002 | 4,565,393 |

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on certain assumptions made by management covering a five-year period (the "Period"). Cash flows beyond the Period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value-in-use calculations in 2015 are as follows:

| | Production segment | Distribution segment |
|--|--------------------|----------------------|
| Growth rate to extrapolate cash flows beyond the budget period | 2.2% | 2.2% |
| Gross margin | 27% – 85% | 6% – 7% |
| Discount rate | 17% – 22% | 14% – 17% |

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

Notes to the Consolidated Financial Statements

11 SUBSIDIARIES

In 2015 and 2014, the Company was mainly engaged in investment holding. Particulars of the Company's principal subsidiaries are set out in Note 48.

(a) Material non-controlling interests

As at 31 December 2015 and 2014, non-controlling interests presented in the consolidated balance sheets were approximately RMB3,877,725,000 and RMB3,277,019,000, respectively. Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group.

Year ended 31 December 2015

| Summarised balance sheet | Current | | Total Net current assets RMB'000 | Non-current | | Total Non- current assets RMB'000 | Carrying amount of non- controlling Net interest RMB'000 | |
|---|-------------------|------------------------|--|-------------------|------------------------|---|---|-----------|
| | Assets RMB'000 | Liabilities RMB'000 | | Assets RMB'000 | Liabilities RMB'000 | | | |
| SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries | 2,395,081 | (1,602,220) | 792,861 | 802,068 | (45,354) | 756,714 | 1,549,575 | 572,437 |
| Chiatai Qingchunbao Pharmaceutical Co., Ltd. | 1,176,852 | (201,130) | 975,722 | 157,829 | – | 157,829 | 1,133,551 | 283,388 |
| Guangzhou Z.S.Y Pharmaceutical Co., Ltd. | 2,539,332 | (2,336,233) | 203,099 | 148,065 | (5,567) | 142,498 | 345,597 | 208,047 |
| | 6,111,265 | (4,139,583) | 1,971,682 | 1,107,962 | (50,921) | 1,057,041 | 3,028,723 | 1,063,872 |

| Summarised income statement | Revenue RMB'000 | Profit before income tax RMB'000 | Profit for the year RMB'000 | Total comprehensive income RMB'000 | Total comprehensive income allocated to Non-Controlling Interests RMB'000 | Dividends to non- Controlling Interests RMB'000 |
|---|--------------------|---|-----------------------------------|---|---|---|
| | | | | | | |
| SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries | 4,934,560 | 195,428 | 159,528 | 161,022 | 64,591 | 23,898 |
| Chiatai Qingchunbao Pharmaceutical Co., Ltd. | 1,202,575 | 156,554 | 135,771 | 135,771 | 33,943 | – |
| Guangzhou Z.S.Y Pharmaceutical Co., Ltd. | 5,205,650 | 66,176 | 46,214 | 46,214 | 30,652 | 18,015 |
| | 11,342,785 | 418,158 | 341,513 | 343,007 | 129,186 | 41,913 |

Notes to the Consolidated Financial Statements

11 SUBSIDIARIES (continued)

(a) Material non-controlling interests (continued)

Year ended 31 December 2015 (continued)

| Summarised cash flows | Net cash generated from operating activities RMB'000 | Net cash used in investing activities RMB'000 | Net cash generated from/(used in) financing activities RMB'000 | Net increase/(decrease) in cash and cash equivalents RMB'000 | Cash, cash equivalents at beginning of year RMB'000 | Cash and cash equivalents at end of year RMB'000 |
|---|---|--|---|---|--|---|
| SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries | 91,252 | (111,656) | 102,349 | 82,001 | 798,124 | 880,125 |
| Chiatai Qingchunbao Pharmaceutical Co., Ltd. | 115,161 | (11,266) | (113,297) | (9,101) | 452,931 | 443,830 |
| Guangzhou Z.S.Y Pharmaceutical Co., Ltd. | 58,645 | (15,739) | 55,040 | 97,946 | 94,430 | 192,376 |
| | 265,058 | (138,661) | 44,092 | 170,846 | 1,345,485 | 1,516,331 |

Year ended 31 December 2014

| Summarised balance sheet | Current | | | Non-current | | | Net assets RMB'000 | Carrying amount of non-controlling interest RMB'000 |
|---|-------------------|------------------------|-------------------------------------|-------------------|------------------------|-------------------------------------|-----------------------|--|
| | Assets RMB'000 | Liabilities RMB'000 | Total Net current assets RMB'000 | Assets RMB'000 | Liabilities RMB'000 | Total Non-current assets RMB'000 | | |
| SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries | 2,235,000 | (1,484,586) | 750,414 | 746,554 | (54,619) | 691,935 | 1,442,349 | 531,744 |
| Chiatai Qingchunbao Pharmaceutical Co., Ltd. | 1,238,262 | (391,909) | 846,353 | 151,426 | - | 151,426 | 997,779 | 249,445 |
| Guangzhou Z.S.Y Pharmaceutical Co., Ltd. | 2,354,591 | (2,165,974) | 188,617 | 137,629 | (5,083) | 132,546 | 321,163 | 191,116 |
| | 5,827,853 | (4,042,469) | 1,785,384 | 1,035,609 | (59,702) | 975,907 | 2,761,291 | 972,305 |

Notes to the Consolidated Financial Statements

11 SUBSIDIARIES (continued)

(a) Material non-controlling interests (continued)

Year ended 31 December 2014 (continued)

| Summarised income statement | Revenue RMB'000 | Profit before income tax RMB'000 | Profit for the year RMB'000 | Total comprehensive income RMB'000 | Total comprehensive income allocated to Non- Controlling Interests RMB'000 | Dividends to Non- Controlling Interests RMB'000 |
|---|--------------------|---|-----------------------------------|---|---|---|
| SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries | 4,673,363 | 182,756 | 148,786 | 150,258 | 53,842 | 26,382 |
| Chiatai Qingchunbao Pharmaceutical Co., Ltd. | 1,127,975 | 151,044 | 130,649 | 130,649 | 32,662 | 29,276 |
| Guangzhou Z.S.Y Pharmaceutical Co., Ltd. | 4,880,386 | 70,911 | 52,050 | 52,050 | 30,473 | 18,640 |
| | 10,681,724 | 404,711 | 331,485 | 332,957 | 116,977 | 74,298 |

| Summarised cash flows | Net cash generated from operating activities RMB'000 | Net cash generated from/ (used in) investing activities RMB'000 | Net cash generated from/ (used in) financing activities RMB'000 | Net increase/ (decrease) in cash and cash equivalents RMB'000 | Cash, cash equivalents at beginning of year RMB'000 | Cash and cash equivalents at end of year RMB'000 |
|---|---|--|---|---|---|---|
| SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries | 100,253 | (167,918) | 216,661 | 148,969 | 649,155 | 798,124 |
| Chiatai Qingchunbao Pharmaceutical Co., Ltd. | 99,334 | 8,197 | (135,000) | (27,451) | 480,382 | 452,931 |
| Guangzhou Z.S.Y Pharmaceutical Co., Ltd. | 35,235 | (75,645) | (42,448) | (82,858) | 177,288 | 94,430 |
| | 234,822 | (235,366) | 39,213 | 38,660 | 1,306,825 | 1,345,485 |

The information above is the amount before inter-company eliminations.

Equity interests held by the Company in its principal subsidiaries are set out in Note 48.

Notes to the Consolidated Financial Statements

12 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

| | As at 31 December | |
|-------------------------------|-------------------|----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Share of net assets, unlisted | 478,239 | 376,391 |
| Provision for impairment | (1,751) | (1,649) |
| | 476,488 | 374,742 |
| At 1 January | 374,742 | 340,679 |
| Share of profit for the year | 122,112 | 102,205 |
| Dividends declared | (20,366) | (60,844) |
| Others | – | (7,298) |
| End of the year | 476,488 | 374,742 |

Particulars of the Group's principal jointly controlled entities are set out in Note 48.

Set out below are the summarised financial information for the Group's significant jointly controlled entities which are accounted for using the equity method:

Shanghai Hutchison Pharmacy Co., Ltd. (上海和黄药业有限公司)

| Summarised balance sheet | As at 31 December | |
|-------------------------------|-------------------|----------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Current | | |
| Total current assets | 745,325 | 469,911 |
| Total current liabilities | (653,681) | (324,807) |
| Non-current | | |
| Total non-current assets | 738,617 | 434,136 |
| Total non-current liabilities | (212,328) | (119,900) |
| Net assets | 617,933 | 459,340 |

Notes to the Consolidated Financial Statements

12 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

Shanghai Hutchison Pharmacy Co., Ltd. (上海和黃藥業有限公司) (continued)

| Summarised statement of comprehensive income | For the year ended 31 December | |
|--|--------------------------------|-----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Revenue | 1,193,584 | 1,003,684 |
| Profit before income tax expense | 237,494 | 196,735 |
| Income tax expense | (38,901) | (32,009) |
| Profit for the year | 198,593 | 164,726 |
| Total comprehensive income | 198,593 | 164,726 |
| Dividends declared by the jointly controlled entity to the Group | 20,000 | 60,000 |

| Reconciliation of summarised financial information | For the year ended 31 December | |
|--|--------------------------------|-----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Opening net assets 1 January | 459,340 | 414,614 |
| Profit for the year | 198,593 | 164,726 |
| Dividends | (40,000) | (120,000) |
| Closing net assets | 617,933 | 459,340 |
| Interest in associates @ 50% | 308,967 | 229,670 |
| Unrealised profit | (9,165) | (7,298) |
| Carrying value | 299,802 | 222,372 |

Notes to the Consolidated Financial Statements

13 INVESTMENTS IN ASSOCIATES

| | As at 31 December | |
|---|-------------------|-----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Share of net assets, listed | 168,074 | 149,499 |
| Share of net assets, unlisted | 3,068,507 | 2,297,137 |
| Provision for impairment | (76,163) | (75,765) |
| | 3,160,418 | 2,370,871 |
| Market value of listed shares (HKD) | 1,752,589 | 1,365,927 |
| At 1 January | 2,370,871 | 2,355,821 |
| Additions | 508,777 | 327,000 |
| Share of profit for the year | 494,688 | 310,798 |
| Share of other comprehensive income | 605 | – |
| Dividends declared | (208,613) | (474,713) |
| Deemed disposal of investment in associates | – | (100,677) |
| Disposals | – | (6,053) |
| Provision for impairment | (398) | – |
| Others | (5,512) | (41,305) |
| End of the year | 3,160,418 | 2,370,871 |

Particulars of the Group's principal associates are set out in Note 48.

Notes to the Consolidated Financial Statements

13 INVESTMENTS IN ASSOCIATES (continued)

Set out below are the summarised financial information for the Group's significant associates which are accounted for using the equity method:

(a) Shanghai Roche Pharmaceutical Co., Ltd. (上海羅氏製藥有限公司)

| Summarised balance sheet | As at 31 December | |
|-------------------------------|-------------------|------------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Current | | |
| Total current assets | 9,804,637 | 9,051,245 |
| Total current liabilities | (7,990,746) | (8,124,332) |
| Non-current | | |
| Total non-current assets | 2,323,398 | 2,067,218 |
| Total non-current liabilities | (1,470,000) | (1,470,000) |
| Net assets | 2,667,289 | 1,524,131 |

| Summarised statement of comprehensive income | For the year ended 31 December | |
|--|--------------------------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Revenue | 9,745,700 | 9,383,810 |
| Profit before income tax expense | 654,933 | 708,879 |
| Income tax expense | (128,806) | (175,038) |
| Profit for the year | 526,127 | 533,841 |
| Total comprehensive income | 526,127 | 533,841 |
| Dividends declared by the associate to the Group | 80,076 | 340,547 |

| Reconciliation of summarised financial information | For the year ended 31 December | |
|--|--------------------------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Opening net assets 1 January | 1,524,131 | 2,125,446 |
| Capital injection | 883,951 | – |
| Profit for the year | 526,127 | 533,841 |
| Dividends | (266,920) | (1,135,156) |
| Closing net assets | 2,667,289 | 1,524,131 |
| Interest in associates @ 30% | 800,187 | 457,239 |
| Unrealised profit | (32,833) | (26,676) |
| Carrying value | 767,354 | 430,563 |

Notes to the Consolidated Financial Statements

13 INVESTMENTS IN ASSOCIATES (continued)

(b) TECHPOOL Bio-Pharma Co., Ltd. (廣東天普生化醫藥股份有限公司)

| Summarised balance sheet | As at 31 December | |
|--|-------------------|------------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Current | | |
| Total current assets | 1,146,932 | 1,052,676 |
| Total current liabilities | (273,835) | (362,372) |
| Non-current | | |
| Total non-current assets | 1,223,814 | 1,256,130 |
| Total non-current liabilities | (44,482) | (12,355) |
| Non-controlling interest | 3,507 | 917 |
| Net assets attributable to owners | 2,055,936 | 1,934,996 |

| Summarised statement of comprehensive income | For the year ended 31 December | |
|--|--------------------------------|-----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Revenue | 1,384,669 | 1,380,482 |
| Profit before income tax expense | 257,665 | 187,708 |
| Income tax expense | (47,652) | (38,821) |
| Profit for the year | 210,013 | 148,887 |
| Total comprehensive income | 211,495 | 148,887 |
| Dividends declared by the associate to the Group | 38,004 | 45,013 |

| Reconciliation of summarised financial information | For the year ended 31 December | |
|---|--------------------------------|-----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Opening net assets 1 January | 1,934,996 | 1,894,088 |
| Profit for the year attributable to owners of the Company | 212,603 | 151,234 |
| Other comprehensive income for the year | 1,483 | – |
| Dividends | (93,146) | (110,326) |
| Closing net assets | 2,055,936 | 1,934,996 |
| Interest in associates @ 40.8% | 838,822 | 789,478 |
| Unrealised profit | (3,653) | (3,357) |
| Goodwill | 63,033 | 63,033 |
| Carrying value | 898,202 | 849,154 |

Notes to the Consolidated Financial Statements

13 INVESTMENTS IN ASSOCIATES (continued)

(c) Sino-American Shanghai Squibb Pharmaceuticals Ltd. (中美上海施貴寶製藥有限公司)

| Summarised balance sheet | As at 31 December | |
|--|-------------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Current | | |
| Total current assets | 1,461,352 | 1,387,568 |
| Total current liabilities | (1,034,161) | (1,407,310) |
| Non-current | | |
| Total non-current assets | 566,650 | 526,403 |
| Total non-current liabilities | (130,655) | (3,873) |
| Net assets attributable to owners | 863,186 | 502,788 |

| Summarised statement of comprehensive income | For the year ended 31 December | |
|--|--------------------------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Revenue | 4,344,398 | 3,741,792 |
| Profit before income tax expense | 746,305 | 167,806 |
| Income tax expense | (203,401) | (146,241) |
| Profit for the year | 542,904 | 21,565 |
| Total comprehensive income | 542,904 | 21,565 |
| Dividends declared by the associate to the Group | 49,241 | 2,126 |

| Reconciliation of summarised financial information | For the year ended 31 December | |
|--|--------------------------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Opening net assets 1 January | 502,788 | 488,311 |
| Profit for the year | 542,904 | 21,565 |
| Dividends | (164,138) | (7,088) |
| Other | (18,368) | – |
| Closing net assets | 863,186 | 502,788 |
| Interest in associates @ 30% | 258,956 | 150,836 |
| Unrealised profit | (13,793) | (10,415) |
| Carrying value | 245,163 | 140,421 |

Notes to the Consolidated Financial Statements

14 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | As at 31 December | |
|--|-------------------|----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Listed equity investment, at fair value | 162,700 | 19,805 |
| Unlisted equity investment, | | |
| – at fair value | 59,482 | 85,314 |
| – at cost | 131,550 | 142,455 |
| Provision for impairment of unlisted equity investment | (75,248) | (60,141) |
| Unlisted equity investment, net | 115,784 | 167,628 |
| | 278,484 | 187,433 |

| | As at 31 December | |
|--|-------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| At 1 January | 187,433 | 149,748 |
| Acquisition of subsidiaries | 3,849 | 6 |
| Additions | 88,052 | 8,250 |
| Fair value change recognised in equity | 29,211 | 32,208 |
| Disposals | (7,900) | (2,779) |
| Provision for impairment | (22,161) | – |
| End of the year | 278,484 | 187,433 |

The fair value of listed equity investments is based on the quoted market values as at each balance sheet date. The unlisted equity investments are measured at cost. If these equity investments do not have quoted market prices in an active market and the directors of the Company consider the fair values cannot be reliably measured as the range of reasonable fair value estimate is so significant and the probabilities of the various estimates cannot be reasonably assessed.

15 OTHER NON-CURRENT PREPAYMENTS

As at 31 December 2015 and 2014, other non-current prepayments primarily represented construction cost prepaid by the Group.

Notes to the Consolidated Financial Statements

16 OTHER LONG-TERM RECEIVABLES

| | As at 31 December | |
|---|-------------------|----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Non-current receivables: | | |
| – Long-term deposits (a) | 332,929 | 252,912 |
| Gross long-term receivables: | | |
| No later than 1 year | – | – |
| Later than 1 year and no later than 5 years | 340,459 | 263,558 |
| Later than 5 years | 36,500 | 36,500 |
| | 376,959 | 300,058 |
| Unearned future finance income on long-term receivables | (44,030) | (47,146) |
| | 332,929 | 252,912 |

(a) Long-term deposits

| | As at 31 December | |
|--|-------------------|----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Non-current portion: | | |
| Long-term deposits – gross receivables | 376,959 | 300,058 |
| Unearned finance income | (44,030) | (47,146) |
| Long-term deposits, net | 332,929 | 252,912 |

The net investment in long-term deposits may be analysed as follows:

| | As at 31 December | |
|---|-------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| No later than 1 year | – | – |
| Later than 1 year and no later than 5 years | 306,351 | 227,968 |
| Later than 5 years | 26,578 | 24,944 |
| | 332,929 | 252,912 |

Notes to the Consolidated Financial Statements

16. OTHER LONG-TERM RECEIVABLES (continued)

(a) Long-term deposits (continued)

Note:

Long-term deposits represented the guarantee deposits paid by the Group to certain customers with maturities between one year and six years. The Group accounted for such long-term deposits using effective interest method.

17. INVENTORIES

| | As at 31 December | |
|------------------|-------------------|------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Raw materials | 892,016 | 967,423 |
| Work in progress | 359,437 | 343,012 |
| Finished goods | 13,839,171 | 11,777,718 |
| | 15,090,624 | 13,088,153 |

The cost of inventories recognised as expenses and included in cost of sales are as follows:

| | For the year ended 31 December | |
|--|--------------------------------|------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Cost of sales, distribution and selling expenses and general and administrative expenses (Note 33) | 91,012,409 | 79,335,045 |

Notes to the Consolidated Financial Statements

18. TRADE AND OTHER RECEIVABLES AND OTHER CURRENT ASSETS

| | As at 31 December | |
|--|-------------------|------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Trade receivables from third parties | | |
| Accounts receivable | 24,880,827 | 20,711,859 |
| Less: allowance for impairment | (832,281) | (911,466) |
| Accounts receivable – net | 24,048,546 | 19,800,393 |
| Notes receivable | 1,132,570 | 1,466,423 |
| Trade receivables – net | 25,181,116 | 21,266,816 |
| Other receivables from third parties | 1,584,249 | 1,603,153 |
| Less: allowance for impairment | (579,259) | (780,192) |
| Other receivables – net | 1,004,990 | 822,961 |
| Amounts due from related parties (Note 44(c)) | 203,026 | 435,497 |
| Less: allowance for impairment | (11,208) | (12,119) |
| Amounts due from related parties – net | 191,818 | 423,378 |
| Prepayments (Note b) | 1,453,915 | 1,072,447 |
| Tax recoverable | 559,289 | 355,941 |
| Interest receivables | 7,460 | 9,341 |
| | 28,398,588 | 23,950,884 |

- (a) The fair values of trade and other receivables approximate their carrying amounts due to the short maturities.

Notes to the Consolidated Financial Statements

18 TRADE AND OTHER RECEIVABLES AND OTHER CURRENT ASSETS (continued)

(b) As of 31 December 2015 and 2014, prepayments are in connection with:

| | As at 31 December | |
|---------------------------------|-------------------|-----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Purchases of: | | |
| – Raw materials and merchandise | 1,416,632 | 1,012,049 |
| – Prepaid expenses and others | 37,283 | 60,398 |
| | 1,453,915 | 1,072,447 |

(c) The carrying amounts of trade and other receivables and other current assets are denominated in the following currencies:

| | As at 31 December | |
|------------------|-------------------|------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| RMB | 29,739,901 | 25,595,076 |
| HKD | 119 | 3,884 |
| USD | 67,373 | 44,062 |
| Other currencies | 13,943 | 11,639 |
| | 29,821,336 | 25,654,661 |

(d) As of 31 December 2015, trade receivables of approximately RMB1,118,695,000 (2014: RMB202,868,000) have been factored by the Group for obtaining borrowings of approximately RMB888,390,000 (2014: RMB310,581,000) (Note 25).

Notes to the Consolidated Financial Statements

18 TRADE AND OTHER RECEIVABLES AND OTHER CURRENT ASSETS (continued)

- (e) Retail sales at the Group's medicine and pharmaceutical chain stores are usually made in cash or by debit or credit cards. For medicine and pharmaceutical distribution and manufacturing businesses, a credit period primarily up to 180 days is granted to the customers. At 31 December 2015 and 2014, ageing analysis of gross trade receivables due from third parties (accounts receivable and notes receivable) based on invoice date are as follows:

| | As at 31 December | |
|-----------------------|-------------------|------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Less than 3 months | 19,662,118 | 16,642,077 |
| 3 months to 6 months | 4,249,739 | 3,634,030 |
| 6 months to 12 months | 1,303,456 | 1,075,717 |
| 1 year to 2 years | 251,565 | 155,209 |
| Over 2 years | 546,519 | 671,249 |
| | 26,013,397 | 22,178,282 |

As of 31 December 2015, trade receivables due from third parties of approximately RMB2,101,540,000 (2014: RMB1,902,175,000) were over 180 days and impaired. It was assessed that a portion or none of the receivables is expected to be recovered. The ageing analysis of these trade receivables and expected recovery are as follows:

| | As at 31 December | |
|-------------------------|--------------------|-------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| 6 months to 12 months | 1,303,456 | 1,075,717 |
| 1 year to 2 years | 251,565 | 155,209 |
| Over 2 years | 546,519 | 671,249 |
| | 2,101,540 | 1,902,175 |
| Less: Expected recovery | (1,374,755) | (1,111,087) |
| Impairment | 726,785 | 791,088 |

As of 31 December 2015, trade receivables due from third parties of approximately RMB23,911,857,000 (2014: RMB20,276,107,000) were within 180 days. The impairment of these trade receivables was approximately RMB105,496,000 (2014: RMB120,378,000).

The aging of notes receivable was normally within 6 months, which is within the credit term and no impairment provision was provided during the year.

Notes to the Consolidated Financial Statements

18 TRADE AND OTHER RECEIVABLES AND OTHER CURRENT ASSETS (continued)

- (f) Movements on the allowance for impairment of trade and other receivables, other long-term receivables from third parties and related parties are as follows:

| | For the year ended 31 December | |
|--|--------------------------------|-----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| At beginning of the year | 1,703,777 | 1,475,579 |
| Provision for impairment (Note 33) | 98,147 | 198,911 |
| Write-off against uncollectible and other deductions | (383,676) | (32,642) |
| Others | 4,500 | 61,929 |
| At the end of year | 1,422,748 | 1,703,777 |

The creation of provision for impairment of trade and other receivables have been included in 'general and administrative expenses', the reversal of impairment on current portion of long-term receivables have been included in 'other (losses)/gains – net'. Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

- (g) The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

Notes to the Consolidated Financial Statements

19 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

| | As at 31 December | |
|--------------------------------|-------------------|------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Cash at bank | 12,030,334 | 11,600,507 |
| Cash on hand | 8,667 | 7,547 |
| | 12,039,001 | 11,608,054 |
| Less: restricted cash (Note a) | (761,146) | (417,634) |
| Cash and cash equivalents | 11,277,855 | 11,190,420 |
| Denominated in: | | |
| – RMB | 11,881,597 | 11,405,459 |
| – HKD | 10,312 | 36,356 |
| – USD | 132,547 | 143,500 |
| – EUR | 1,973 | 5,719 |
| – Other currencies | 12,572 | 17,020 |
| | 12,039,001 | 11,608,054 |

- (a) As of 31 December 2015 and 2014, certain of the Group's bank deposits have been pledged for the following purposes:

| | As at 31 December | |
|----------------------------|-------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Bank deposits pledged for: | | |
| – issue of notes payable | 519,551 | 401,321 |
| – bank borrowings | 20,400 | – |
| – others | 71,195 | 16,313 |
| | 611,146 | 417,634 |

As at 31 December 2015, restricted cash included bank deposits of RMB150,000,000 with a maturity of six months.

Notes to the Consolidated Financial Statements

19 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (continued)

- (b) The above mentioned restricted bank deposits are all interest-bearing and with maturity dates of less than one year.
- (c) The conversion of the RMB denominated balances into foreign currencies and the remittance of foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.
- (d) The effective interest rates of cash at banks are as follows:

| | As at 31 December | |
|-------------------------|-------------------|-------------|
| | 2015 | 2014 |
| | % per annum | % per annum |
| Effective interest rate | 0.35%~4.00% | 0.35%~4.70% |

20 FINANCIAL INSTRUMENTS BY CATEGORY AND CREDIT QUALITY OF FINANCIAL ASSETS

(a) Financial instruments by category

| | As at 31 December | |
|---|-------------------|------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Assets per balance sheet: | | |
| Financial assets at fair value through profit or loss | 820 | 506 |
| Available-for-sale financial assets (Note 14) | 278,484 | 187,433 |
| Loans and receivables | | |
| – Accounts and notes receivables (Note 18) | 25,181,116 | 21,266,816 |
| – Amounts due from related parties (Note 44(c)) | 189,877 | 419,762 |
| – Other receivables (Note 18) | 1,591,709 | 832,302 |
| – Cash and bank balances (Note 19) | 12,039,001 | 11,608,054 |
| – Other long-term receivables | 332,929 | 252,912 |
| | 39,613,936 | 34,567,785 |
| Liabilities per balance sheet: | | |
| Other financial liabilities at amortised cost | | |
| – Accounts and notes payables (Note 24) | 23,950,977 | 19,975,472 |
| – Amounts due to related parties (Note 44(c)) | 510,566 | 492,363 |
| – Accrual and other payables | 2,528,994 | 2,038,036 |
| – Borrowings (Note 25) | 10,492,396 | 8,058,532 |
| – Other long-term payables | 61,995 | – |
| | 37,544,928 | 30,564,403 |

Notes to the Consolidated Financial Statements

20 FINANCIAL INSTRUMENTS BY CATEGORY AND CREDIT QUALITY OF FINANCIAL ASSETS (continued)

(b) Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by types of the financial assets and by reference to historical information about counter party default rates.

(i) Trade receivables

As at 31 December 2015, the Group's trade receivables due from third parties of approximately RMB23,911,857,000 (2014: RMB20,276,107,000) were within 180 days. Trade receivables that were within 6 months mainly represent those due from customers with good credit history and low default rate. Trade receivables that were either over 180 days or impaired were disclosed in Note 18.

None of the financial assets that are fully performing has been renegotiated during year ended 31 December 2015.

(ii) Cash and cash equivalents

As at 31 December 2015 and 2014, all the bank deposits are deposited in reputable financial institutions which primarily comprise reputable international banks, major financial institutions in PRC and PRC listed banks or state-owned banks.

The management considered the credit risks in respect of cash and bank deposits with financial institutions are relatively minimum as each counter party bears a high credit rating or is a large PRC listed or state-owned banks with no history of default.

21 SHARE CAPITAL

| | Number of A Shares (thousands) | Number of H Shares (thousands) | A Shares of RMB1 each RMB'000 | H Shares of RMB1 each RMB'000 | Total shares of RMB1 each RMB'000 |
|------------------------------|--------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|--|
| Issued and fully paid: | | | | | |
| At 31 December 2014 and 2015 | 1,923,016 | 765,894 | 1,923,016 | 765,894 | 2,688,910 |

Notes to the Consolidated Financial Statements

22 SHARE PREMIUM AND OTHER RESERVES

| | Share premium | Statutory reserves <i>Note (a)</i> | Available-for-sale financial Assets | Revaluation surplus | Translation difference | Others | Total |
|--|---------------|---------------------------------------|-------------------------------------|---------------------|------------------------|---------|------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2014 | 14,122,285 | 855,496 | 1,969 | 28,227 | (19,177) | 51,046 | 15,039,846 |
| Contribution from the intermediate holding companies of the Company <i>(Note (b))</i> | 120,000 | - | - | - | - | - | 120,000 |
| Appropriation to statutory reserves <i>(Note (a), 23)</i> | - | 103,148 | - | - | - | - | 103,148 |
| Available-for-sale financial assets | | | | | | | |
| – Gross | - | - | 31,050 | - | - | - | 31,050 |
| – Tax | - | - | (7,762) | - | - | - | (7,762) |
| Changes in ownership interests in subsidiaries without change of control | (133,555) | - | - | - | - | - | (133,555) |
| Currency translation difference | - | - | - | - | (1,764) | - | (1,764) |
| Others | (27,065) | - | - | - | - | - | (27,065) |
| At 31 December 2014 | 14,081,665 | 958,644 | 25,257 | 28,227 | (20,941) | 51,046 | 15,123,898 |
| Share of other comprehensive income of associates | - | - | - | - | 605 | - | 605 |
| Appropriation to statutory reserves <i>(Note (a), 23)</i> | - | 140,042 | - | - | - | - | 140,042 |
| Available-for-sale financial assets | | | | | | | |
| – Gross | - | - | 28,813 | - | - | - | 28,813 |
| – Tax | - | - | 210 | - | - | - | 210 |
| Changes in ownership interests in subsidiaries without change of control | (11,834) | - | - | - | - | - | (11,834) |
| Currency translation difference | - | - | - | - | (7,001) | - | (7,001) |
| Others | 5,686 | - | - | - | - | - | 5,686 |
| At 31 December 2015 | 14,075,517 | 1,098,686 | 54,280 | 28,227 | (27,337) | 51,046 | 15,280,419 |

Notes to the Consolidated Financial Statements

22 SHARE PREMIUM AND OTHER RESERVES (continued)

Apart from foreign currency translation difference, share of other comprehensive income of associates, and effects of changes in available-for-sales financial assets, if any, movements in owners' equity during the years mainly comprised:

- (a) In accordance with the PRC Company Law and the articles of association of the PRC companies comprising the Group (the "PRC Companies"), the PRC Companies are required to allocate 10% of their profits attributable to the respective owners of the PRC Companies as set out in their statutory financial statements, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the respective PRC Companies. The appropriation to the reserve must be made before any distribution of dividends to the respective owners of the PRC Companies. The statutory surplus reserve can be used to offset previous year's losses, if any, and part of the statutory surplus reserve can be capitalised as the share capital of the respective PRC Companies provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the respective PRC Companies.
- (b) Contribution from the intermediate holding companies of the Company primarily represented the contribution from Shanghai Pharma Group and Shanghai Shangshi according to certain arrangements entered between the Group and them.

23 RETAINED EARNINGS

| | <i>RMB'000</i> |
|---|-------------------|
| At 1 January 2014 | 8,225,057 |
| Profit for the year | 2,591,131 |
| Dividends of the Company (Note 38) | (699,117) |
| Appropriation to statutory reserves (Note 22) | (103,148) |
| Others | (4,598) |
| At 31 December 2014 | 10,009,325 |
| Profit for the year | 2,876,989 |
| Dividends of the Company (Note 38) | (779,784) |
| Appropriation to statutory reserves (Note 22) | (140,042) |
| Others | (5,503) |
| At 31 December 2015 | 11,960,985 |

Notes to the Consolidated Financial Statements

24 TRADE AND OTHER PAYABLES AND OTHER CURRENT LIABILITIES

| | As at 31 December | |
|--|-------------------|-------------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Accounts payable to third parties | 20,188,432 | 16,689,558 |
| Notes payable | 3,762,545 | 3,285,914 |
| Advances received from customers | 617,626 | 515,457 |
| Payables for purchase of PP&E and land use rights | 212,184 | 161,937 |
| Staff welfare and salary payables | 531,442 | 481,274 |
| Tax liabilities other than income tax | 213,966 | 198,341 |
| Amounts due to related parties (Note 44) | 510,971 | 492,680 |
| Accrued expenses | 850,720 | 724,017 |
| Deposits | 385,036 | 287,187 |
| Payables arising from acquisition of subsidiaries | 289,270 | 220,543 |
| Deferred income in respect of plant and office relocation (Note 27(c)) | 275,573 | – |
| Dividends payable | 67,492 | 77,670 |
| Others | 724,292 | 566,682 |
| | 28,629,549 | 23,701,260 |

- (a) As at 31 December 2015 and 2014, ageing analysis of the accounts payables to third parties and notes payable is as follows:

| | As at 31 December | |
|-----------------------|-------------------|-------------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Less than 3 months | 20,093,811 | 14,920,352 |
| 3 months to 6 months | 2,067,680 | 3,742,074 |
| 6 months to 12 months | 1,273,384 | 889,191 |
| 1 year to 2 years | 330,120 | 241,246 |
| Over 2 years | 185,982 | 182,609 |
| | 23,950,977 | 19,975,472 |

Notes to the Consolidated Financial Statements

24 TRADE AND OTHER PAYABLES AND OTHER CURRENT LIABILITIES (continued)

(b) The Group's trade and other payables are denominated in the following currencies:

| | As at 31 December | |
|------------------|-------------------|-------------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| RMB | 27,854,728 | 23,263,049 |
| USD | 681,283 | 329,765 |
| EUR | – | 11,452 |
| HKD | 80,927 | 79,445 |
| Other currencies | 12,611 | 17,549 |
| | 28,629,549 | 23,701,260 |

25 BORROWINGS

| | As at 31 December | |
|---|-------------------|------------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Non-current | | |
| Long-term bank borrowings | | |
| – guaranteed (Note a) | 1,430 | 2,160 |
| – secured (Note b) | 77,204 | 79,372 |
| – unsecured | 11,542 | 19,443 |
| Other borrowings | 3,233 | 4,433 |
| | 93,409 | 105,408 |
| Current | | |
| Short-term bank borrowings | | |
| – guaranteed (Note a) | 249,390 | 61,000 |
| – secured (Note b) | 1,253,740 | 676,031 |
| – unsecured | 8,885,127 | 7,193,363 |
| Other borrowings | 1,000 | 2,000 |
| | 10,389,257 | 7,932,394 |
| Current portion of long-term bank borrowings | | |
| – guaranteed (Note a) | 730 | 730 |
| – secured (Note b) | 9,000 | 15,000 |
| – unsecured | – | 5,000 |
| | 10,398,987 | 7,953,124 |
| Total borrowings | 10,492,396 | 8,058,532 |

Notes to the Consolidated Financial Statements

25 BORROWINGS (continued)

- (a) As at 31 December 2015, the bank borrowings as guaranteed by the non-controlling interests of the Group's subsidiaries amounted to approximately RMB139,000,000 (2014: RMB61,000,000).

As at 31 December 2015, the bank borrowings as jointly guaranteed by the Group's subsidiary and one of the Group's non-controlling interests amounted to approximately RMB110,390,000.

As at 31 December 2015, the bank borrowings as guaranteed by a related party amounted to approximately RMB2,160,000 (2014: RMB2,890,000) (Note 44(d)).

- (b) Analysis of the secured borrowings are as follows:

| | As at 31 December | |
|---|-------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Secured by: | | |
| – PP&E and land use rights (Notes 7, 9) | 451,554 | 459,822 |
| – Trade receivables (Note 18) | 868,490 | 310,581 |
| – Bank deposits (Note 19) | 19,900 | – |
| | 1,339,944 | 770,403 |

- (c) The carrying amounts of the Group's borrowings are denominated in the following currencies:

| | As at 31 December | |
|-----|-------------------|-----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| RMB | 10,492,396 | 7,953,070 |
| USD | – | 86,443 |
| HKD | – | 19,019 |
| | 10,492,396 | 8,058,532 |

Notes to the Consolidated Financial Statements

25 BORROWINGS (continued)

(d) The weighted average effective interest rates of borrowings are set out as follows:

| | As at 31 December | |
|-----------------|-------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Bank borrowings | | |
| – RMB | 4.52% | 5.66% |
| – USD | – | 1.88% |
| – HKD | – | 2.55% |

Interest rates of bank borrowings denominated in RMB are reset periodically according to the benchmark rates announced by the People's Bank of China.

(e) The maturities of the Group's total borrowings are set out as follows:

| | As at 31 December | |
|---------------------------------|-------------------|-----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Within 1 year | 10,398,987 | 7,953,124 |
| Between 1 and 2 years | 18,233 | 9,221 |
| Between 2 and 5 years | 63,754 | 80,691 |
| Wholly repayable within 5 years | 10,480,974 | 8,043,036 |
| Over 5 years | 11,422 | 15,496 |
| | 10,492,396 | 8,058,532 |

(f) The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates are as follows:

| | As at 31 December | |
|-------------------------|-------------------|-----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Within 6 months | 7,429,280 | 6,543,855 |
| Between 6 and 12 months | 3,063,116 | 1,514,677 |
| | 10,492,396 | 8,058,532 |

Notes to the Consolidated Financial Statements

25 BORROWINGS (continued)

- (g) The carrying amounts of short-term and current borrowings approximate their fair values, as the impact of discounting is not significant.
- (h) The carrying amounts of non-current borrowings approximate their fair values, as the interest rates of the non-current borrowings are close to the market rates. The fair values of non-current borrowings are estimated based on discounted cash flow using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at each balance sheet dates.

26 DEFERRED INCOME TAX

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

The analysis of deferred tax assets and deferred tax liabilities is as follows:

| | As at 31 December | |
|---|-------------------|-----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Deferred income tax assets | | |
| – To be recovered after more than 12 months | 18,399 | 4,762 |
| – To be recovered within 12 months | 297,859 | 259,829 |
| | 316,258 | 264,591 |
| Deferred income tax liabilities | | |
| – To be recovered after more than 12 months | 357,374 | 349,514 |
| – To be recovered within 12 months | 34,759 | 30,649 |
| | 392,133 | 380,163 |
| Deferred income tax liabilities – net | (75,875) | (115,572) |

Notes to the Consolidated Financial Statements

26 DEFERRED INCOME TAX (continued)

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

| | As at 31 December | |
|--|-------------------|-----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| At 1 January | (115,572) | (89,006) |
| Recognised in the consolidated income statements (Note 36) | 74,423 | 36,467 |
| Acquisition of subsidiaries | (34,837) | (54,981) |
| Recognised in equity | 111 | (8,052) |
| Deferred income tax liabilities – net | (75,875) | (115,572) |

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

Deferred income tax assets

| | Provision for Termination | | Accruals | Others | Total |
|--|---------------------------|---------------------|----------|---------|---------|
| | impairment of assets | Benefit obligations | | | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2014 | 110,029 | 7,797 | 37,710 | 44,270 | 199,806 |
| Acquisition of subsidiaries | 21,105 | – | – | – | 21,105 |
| Recognised in the consolidated income statements | 39,997 | (249) | 5,944 | (2,012) | 43,680 |
| At 31 December 2014 | 171,131 | 7,548 | 43,654 | 42,258 | 264,591 |
| Acquisition of subsidiaries | 1,674 | – | – | – | 1,674 |
| Recognised in the consolidated income statements | 32,985 | (1,145) | (3,372) | 21,525 | 49,993 |
| At 31 December 2015 | 205,790 | 6,403 | 40,282 | 63,783 | 316,258 |

Notes to the Consolidated Financial Statements

26 DEFERRED INCOME TAX (continued)

Deferred income tax liabilities

| | Fair value of intangible assets RMB'000 | Deemed disposal RMB'000 | Fair value gains from available-for-sale financial assets RMB'000 | Others RMB'000 | Total RMB'000 |
|--|--|----------------------------|--|-------------------|------------------|
| At 1 January 2014 | 143,338 | 135,281 | 3,253 | 6,940 | 288,812 |
| Acquisition of subsidiaries | 76,086 | – | – | – | 76,086 |
| Recognised in the consolidated income statements | (18,814) | 23,091 | – | 2,936 | 7,213 |
| Recognised in equity | – | – | 8,052 | – | 8,052 |
| At 31 December 2014 | 200,610 | 158,372 | 11,305 | 9,876 | 380,163 |
| Acquisition of subsidiaries | 36,511 | – | – | – | 36,511 |
| Recognised in the consolidated income statements | (26,840) | (3,485) | – | 5,895 | (24,430) |
| Recognised in equity | – | – | (111) | – | (111) |
| At 31 December 2015 | 210,281 | 154,887 | 11,194 | 15,771 | 392,133 |

Deferred income tax assets are recognised for tax losses carry forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

The Group did not recognise deferred income tax assets of approximately RMB183,188,000 (2014: RMB134,419,000) in respect of tax losses amounting to approximately RMB732,754,000 (2014: RMB537,676,000) that can be carried forward against future taxable income. Tax losses amounting to approximately RMB24,736,000, RMB42,432,000, RMB86,394,000, RMB319,719,000 and RMB259,472,000 will expire in 2016, 2017, 2018, 2019 and 2020, respectively.

Notes to the Consolidated Financial Statements

27 OTHER NON-CURRENT LIABILITIES

| | As at 31 December | |
|---|-------------------|----------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Medical reserve funds (Note a) | 91,270 | 82,098 |
| Project research and development funds (Note b) | 165,060 | 193,687 |
| Office and plant relocation funds (Note c) | 202,806 | 360,577 |
| Others | 38,786 | 46,456 |
| | 497,922 | 682,818 |

- (a) During the years ended 31 December 2015 and 2014, certain medical reserve funds were received by the Group from the PRC government for it to purchase medical products (including medicines) required to respond to major disasters, epidemics and other emergencies.

The Group will sell pharmaceutical products to specific customers at certain mutually agreed price when there is any major disaster, epidemic and other emergency. Such transactions will be priced at cost and relevant trade receivables from specific customers will be offset with the balance of the fund upon approval from the relevant PRC government authorities. The funds used to offset trade receivables during the years ended 31 December 2015 and 2014 were not significant. The medical reserve funds are required to be utilised for the aforementioned use and for no other purposes.

In addition, in accordance with notices from Central Ministry of Finance, such balance is not repayable within one year.

- (b) Certain of the Group's subsidiaries and the Company received funds from local governments as compensation for expenses arising from research expenses on certain special projects. Upon completion of the research, such funds, after offsetting against actual expenses arising during the course of research, will be recognised as other income. As at each balance sheet date, the management expect that such project will not be completed within one year and therefore, the balance is recorded as other non-current liabilities.
- (c) Certain of the Group's subsidiaries received funds from local governments or other organisations as compensation for losses arising from office or plant relocation upon the request from the local government. Such funds can be used to offset the losses of relocation and compensate the disposal of land, plant and equipment. Upon completion of the office or plant relocation, such funds, after offsetting against actual losses and being used to compensate the disposal of land, plant and equipment arising from office relocation, will be recognised as other gains, net. Such funds are treated as advance received in respect of office and plant relocation. As at each respective balance sheet date, the management expect that such office or plant relocation will not be completed within one year and therefore, the balance is recorded as other non-current liabilities.

Notes to the Consolidated Financial Statements

28 OTHER LONG-TERM PAYABLES

| | As at 31 December | |
|--|-------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Finance lease payables | 36,064 | – |
| Long-term payables for land use rights | 30,700 | – |
| | 66,764 | – |
| Less: Long-term payables due within 1 year | (4,769) | – |
| | 61,995 | – |

29 TERMINATION BENEFIT OBLIGATIONS

| | As at 31 December | |
|---------------------|-------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Termination benefit | 64,159 | 70,472 |

The Group had made offers to certain employees for encouraging them to accept voluntary redundancy before their normal retirement date (the “Early Retired Employees”).

The Group recognises a liability for the present value of the obligations relating to the termination benefits payable to these Early Retired Employees.

The liability related to the benefit obligations for the Early Retired Employees existing at the respective balance sheet dates are calculated by the management using future cash flow discounting method.

Movements of the net liability recognised in the consolidated financial statements are as follows:

| | Year ended 31 December | |
|----------------------|------------------------|----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| At beginning of year | 70,472 | 39,077 |
| Addition | 29,376 | 55,024 |
| Interest expenses | 3,552 | 266 |
| Benefits paid | (39,241) | (23,895) |
| At end of year | 64,159 | 70,472 |

Notes to the Consolidated Financial Statements

30 OTHER INCOME

| | Year ended 31 December | |
|--|------------------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Government grants (Note a) | 195,319 | 198,416 |
| Dividend income from available-for-sale financial assets | 9,626 | 7,416 |
| | 204,945 | 205,832 |

- (a) Government grants mainly represented subsidy income received from various government organisations to support the operation of the Group.

31 OTHER GAINS – NET

| | Year ended 31 December | |
|--|------------------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Gain of financial assets at fair value through profit or loss, net | 315 | 166 |
| Gain on disposals of PP&E | 267,514 | 22,561 |
| Gain on disposals of available-for-sale financial assets | 4,791 | 4,431 |
| Gain on disposals of intangible assets | 19,575 | – |
| (Loss)/Gain on disposals of land use rights | (5,952) | 200,921 |
| Provision for impairment of property, plant and equipment | (7,599) | – |
| Provision for impairment of available-for-sale financial assets | (22,161) | – |
| Provision for impairment of intangible assets | (27,185) | – |
| Compensation from an associate's parent company (Note (a)) | 30,798 | 106,957 |
| Foreign exchange losses | (24,904) | (11,035) |
| Relocation gain (Note 27 (c)) | 18,228 | 7,267 |
| Guaranteed return in an associate (Note (b)) | – | 47,009 |
| Others – net | (31,516) | (20,492) |
| | 221,904 | 357,785 |

Note:

- (a) In 2015, the Group received compensation of approximately RMB30,798,000 (2014: RMB106,957,000) from the parent company of an associate in respect of change of business of this associate.
- (b) Pursuant to an agreement entered into between the Group and other shareholders of an associate, the Group is guaranteed by the other shareholder a fixed return from this associate if the share of profit of this associate is below certain amount. The guaranteed return for prior years is paid by the other shareholder of this associate.

Notes to the Consolidated Financial Statements

32 GAINS ON DISPOSAL OF SUBSIDIARIES AND ASSOCIATES

| | Year ended 31 December | |
|---|------------------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Gain on deemed disposal of investments in an associate (Note) | – | 106,304 |
| Disposal of subsidiaries and associates | 5,652 | 49,709 |
| | 5,652 | 156,013 |

Note:

On 30 June 2014, the Group acquired the additional 50% equity interest in Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd. at a consideration of RMB256,830,000 (Xinhai Fengyuan) (the "Acquisition"). Before the Acquisition, Xinhai Fengyuan was an associate of the Group and accounted for using the equity method accounting. Because of the obtaining control over Xinhai Fengyuan, the Group began to consolidate it from the date of the Acquisition. Consequently, in recording such transaction, the Group recognised (a) deemed disposal of the 50% equity interest held in Xinhai Fengyuan at their fair value of RMB206,981,000 at the acquisition date; (b) deemed acquisition of 100% equity interest in Xinhai Fengyuan at a consideration of RMB463,811,000; and (c) deemed disposal gain of RMB106,304,000 in the income statement. Impact of the transaction is analysed as below:

| | Year ended 31 December 2014 RMB'000 |
|---|--|
| Fair value of the 50% equity investment previously held in Xinhai Fengyuan | 206,981 |
| Less: Carrying amount of net assets of Xinhai Fengyuan as an associate at the acquisition date | (100,677) |
| Gain on disposal of Xinhai Fengyuan | 106,304 |

Notes to the Consolidated Financial Statements

33 EXPENSES BY NATURE

| | Year ended 31 December | |
|---|------------------------|-------------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Raw materials, merchandise and consumables used | 93,017,795 | 80,697,334 |
| Changes in inventories of finished goods and work in progress | (2,005,386) | (1,362,289) |
| Employee benefit expenses (Note 34) | 4,205,484 | 3,885,662 |
| Travelling and meeting expenses | 1,091,319 | 1,149,589 |
| Promotion and advertising costs | 1,277,596 | 1,137,925 |
| Depreciation of PP&E (Note 9) | 562,308 | 536,866 |
| Transportation costs | 402,172 | 369,441 |
| Real estate tax, stamp duties and other taxes | 345,219 | 301,743 |
| Operating lease rentals | 350,208 | 300,304 |
| Energy and utilities | 223,795 | 200,787 |
| Office expenditures | 197,001 | 219,418 |
| Write-down of inventories to net realisable value | 195,120 | 60,172 |
| Repair and maintenance fee | 188,335 | 181,509 |
| Amortisation of intangible assets (Note 10) | 140,613 | 105,108 |
| Provision for impairment of trade and other receivables, net (Note 18) | 98,147 | 198,911 |
| Amortisation of land use rights (Note 7) | 29,587 | 29,473 |
| Auditor's remuneration | | |
| – Audit services | 20,125 | 19,704 |
| Depreciation of investment properties (Note 8) | 13,321 | 13,971 |
| Others | 1,532,668 | 1,289,969 |
| Total cost of sales, distribution and selling expenses and general and administrative expenses | 101,885,427 | 89,335,597 |

Notes to the Consolidated Financial Statements

34 EMPLOYEE BENEFIT EXPENSES

| | Year ended 31 December | |
|---|------------------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Wages and salaries | 3,006,526 | 2,790,814 |
| Contributions to pension plans (Note (a)) | 451,194 | 405,687 |
| Housing fund, medical insurance and other social insurance (Note (b)) | 479,189 | 439,920 |
| Others | 268,575 | 249,241 |
| Total including directors' emoluments | 4,205,484 | 3,885,662 |

- (a) As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its employees in the PRC. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 14% to 22% of such relevant income, subject to certain ceiling and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.
- (b) Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on approximately 0.3% to 15% of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period.

Notes to the Consolidated Financial Statements

34 EMPLOYEE BENEFIT EXPENSES (continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year include one (2014: one) director whose emoluments during the year have been included in Note 47. The emoluments payable to the five highest individuals during the year are as follows:

| | Year ended 31 December | |
|--|------------------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Salaries and fee | 5,155 | 5,085 |
| Bonuses | 9,628 | 8,934 |
| Employer's contribution to pension scheme and others | 269 | 342 |
| | 15,052 | 14,361 |

The emoluments fell within the following bands:

| | Year ended 31 December | |
|-----------------------------|------------------------|----------------|
| | 2015 Number | 2014 Number |
| Emolument bands (in HKD) | | |
| HKD2,000,001 – HKD2,500,000 | 2 | 2 |
| HKD2,500,001 – HKD3,000,000 | 1 | 1 |
| HKD3,000,001 – HKD3,500,000 | – | – |
| HKD3,500,001 – HKD4,000,000 | – | – |
| HKD4,000,001 – HKD4,500,000 | 1 | 1 |
| HKD4,500,001 – HKD5,000,000 | – | – |
| HKD5,000,001 – HKD6,000,000 | – | – |
| HKD6,000,001 – HKD7,000,000 | 1 | 1 |

- (d) In 2015 and 2014, no emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office and there is no director waived or agreed to waive any of their emoluments.

Notes to the Consolidated Financial Statements

35 FINANCE INCOME AND COSTS

| | Year ended 31 December | |
|---|------------------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Interest income on bank deposits | 137,617 | 206,069 |
| Others | 996 | 967 |
| Total finance income | 138,613 | 207,036 |
| Interest expenses on borrowings | (491,708) | (409,973) |
| Interest expenses on notes and receivables discounted | (121,563) | (178,355) |
| Other costs | (33,949) | (18,306) |
| Finance expenses | (647,220) | (606,634) |
| Less: Amount capitalised on qualifying assets (Note 9(d)) | – | 3,402 |
| Total Finance expenses | (647,220) | (603,232) |
| Net finance expenses | (508,607) | (396,196) |

36 TAXATION

(a) Income tax expense

The amounts of income tax expenses charged to the consolidated income statements represent:

| | Year ended 31 December | |
|-------------------------------|------------------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Current income tax | 881,909 | 844,184 |
| Deferred income tax (Note 26) | (74,423) | (36,467) |
| | 807,486 | 807,717 |

Notes to the Consolidated Financial Statements

36 TAXATION (continued)

(a) Income tax expense (continued)

- (i) Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profit for the year. In 2015, the assessable income of the Group's subsidiaries in Hong Kong was insignificant.
- (ii) Under the Law of the PRC on Corporate Income Tax (the "CIT Law") and implementation Regulations of the CIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008. The income tax rate of 25% is applicable to all of the Group's PRC subsidiaries for the year ended 31 December 2015, except for certain subsidiaries that enjoy tax exemption or a preferential income tax rate as approved by relevant tax authorities.

Details of the preferential CIT policies and significant subsidiaries who enjoy these policies are listed as follows:

- Shanghai SPH New Asiatic Pharmaceutical Co., Ltd., Shanghai Sine Wanxiang Pharmaceutical Co., Ltd., Shanghai Zhonghua Pharmaceutical Co., Ltd., Shanghai Ziyuan Pharmaceutical Co., Ltd., SPH Qingdao Growful Pharmaceutical Co., Ltd., Xiamen Traditional Chinese Medicine Co., Ltd., Shanghai Harvest Pharmaceutical Co., Ltd., Hangzhou HuQingYuTang Pharmaceutical Co., Ltd., Liaoning SPH Herbapex Pharmaceutical (group) Co., Ltd., Chiatai Qingchunbao Pharmaceuticals Co., Ltd., Shanghai LeiYunShang Pharmaceutical Co., Ltd., Shanghai HuaYu Pharmaceutical Co., Ltd., Shanghai SPH No.1 Biochemical and Pharmaceutical Co., Ltd., Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd., SPH Changzhou Pharmaceutical Factory Co., Ltd., Shanghai Zhongxi Pharmaceutical Machinery Co., Ltd., SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd., Shanghai Jinhe Bio-tech Co., Ltd., SPH Kony (Changzhou) Co., Ltd., Zhonghua Nantong Pharmaceutical Co., Ltd. and Shanghai Xingling SCI.&Tech. Pharmaceutical Co., Ltd. were approved by relevant local tax authorities as the High-technological Enterprise, and enjoyed a preferential CIT rate of 15% for 2014 and 2015.

Notes to the Consolidated Financial Statements

36 TAXATION (continued)

(a) Income tax expense (continued)

- (iii) The tax on the Group's profit before income tax differs from the theoretical amount that could arise using the statutory CIT rates of 25% applicable to the years as follows:

| | Year ended 31 December | |
|---|------------------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Profit before income tax | 4,171,854 | 3,799,734 |
| Tax calculated at the domestic CIT rate applicable | 1,042,964 | 949,934 |
| Income not subject to taxation | (163,102) | (129,095) |
| Cost not deductible for taxation purposes | 44,403 | 123,459 |
| Preferential tax rate of certain subsidiaries | (166,109) | (131,386) |
| Utilisation of tax losses for which no deferred income tax asset was recognised | (15,538) | (85,542) |
| Tax losses for which no deferred income tax asset was recognised | 64,868 | 80,347 |
| Income tax expenses | 807,486 | 807,717 |
| Effective tax rate | 19.4% | 21.3% |

The tax charge relating to component of other comprehensive income is as follows:

| | Year ended 31 December | | | | | |
|---------------------------------------|------------------------|-----------------------|----------------------|-----------------------|-----------------------|----------------------|
| | 2015 | | | 2014 | | |
| | Before tax RMB'000 | Tax charge RMB'000 | After tax RMB'000 | Before tax RMB'000 | Tax charge RMB'000 | After tax RMB'000 |
| Available-for-sale financial assets | 29,211 | 111 | 29,322 | 32,208 | (8,052) | 24,156 |
| Currency translation differences, net | (12,670) | – | (12,670) | (2,892) | – | (2,892) |
| Others | 605 | – | 605 | – | – | – |
| | 17,146 | 111 | 17,257 | 29,316 | (8,052) | 21,264 |
| Current tax | | – | | | – | |
| Deferred tax (Note 26) | | 111 | | | (8,052) | |
| | | 111 | | | (8,052) | |

Notes to the Consolidated Financial Statements

36 TAXATION (continued)

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

Certain of the Group's revenues are subject to BT at the rate of 5% of the amount of revenue. In addition, the Group is subject to city construction tax ("CCT") and educational surcharge ("ES") based on 1%, 5% or 7% and 1% to 5% of the amount of BT payable.

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

Certain of the Group's revenues (including sales revenue) are subject to output VAT generally calculated at 6%, 13% or 17% of the selling prices pursuant to different circumstances. Input credit relating to input VAT paid on purchases can be used to offset the output VAT. The Group is also subject to CCT and ES based on 1% to 7% and 1% to 5% of the net VAT payable.

37 EARNINGS PER SHARE

For years ended 31 December 2015 and 2014, basic earnings per share are based on the profit attributable to equity holders of the Company and the weighted average number of ordinary shares in issue during the year.

| | Year ended 31 December | |
|--|------------------------|-----------|
| | 2015 | 2014 |
| Profit attributable to equity holders of the Company (RMB'000) | 2,876,989 | 2,591,131 |
| Number of ordinary shares (thousands) | 2,688,910 | 2,688,910 |
| Basic earnings per share (RMB) | 1.07 | 0.96 |

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

38 DIVIDENDS

The dividends paid in 2015 and 2014 were approximately RMB779,784,000 (RMB0.29 per share) and RMB699,117,000 (RMB0.26 per share) respectively. A dividend in respect of the year ended 31 December 2015 of RMB0.33 per share, amounting to a total dividend of RMB887,340,000, is proposed by the directors of the Company and subject to the shareholders' approval at the annual general meeting. These financial statements do not reflect this dividend payable.

| | Year ended 31 December | |
|--|------------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Proposed final dividend of RMB0.33 (2014: RMB0.29) per share | 887,340 | 779,784 |

Notes to the Consolidated Financial Statements

39 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(i) Cash generated from operations

| | Year ended 31 December | |
|--|------------------------|-------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Profit before income tax | 4,171,854 | 3,799,734 |
| Adjustments for: | | |
| – Share of profit from associates | (494,688) | (310,798) |
| – Share of profit from jointly controlled entities | (122,112) | (102,205) |
| – Fixed return on equity interest in an associate | – | (47,009) |
| – Depreciation of PP&E and investment properties | 575,629 | 550,837 |
| – Amortisation of land use rights and intangible assets | 170,200 | 134,581 |
| – Financial assets at fair value through profit or loss | (315) | (166) |
| – Gain on disposals of | | |
| – PP&E | (267,514) | (22,561) |
| – land use rights and intangible assets | (13,623) | (200,921) |
| – investment in subsidiaries and associates | (5,652) | (156,013) |
| – available-for-sale financial assets | (4,791) | (4,431) |
| – Provisions for impairment of | | |
| – trade and other receivables | 98,147 | 198,911 |
| – inventories | 195,120 | 60,172 |
| – PP&E | 7,599 | 20,695 |
| – intangible assets | 27,185 | – |
| – investment in available-for-sale financial assets | 22,161 | – |
| – Dividend income on available-for-sale financial assets | (9,626) | (7,416) |
| – Financial cost – net | 425,865 | 377,890 |
| – Foreign exchange gain and loss – net | (10,750) | (2,764) |
| – Gain on relocation | (18,228) | (7,267) |
| – Compensation from an associate's parent company | (30,798) | (106,957) |
| – Other losses/(gains)– others, net | 48,941 | (6,137) |
| | 4,764,604 | 4,168,175 |
| Changes in working capital: | | |
| – Inventories | (1,943,668) | (1,582,833) |
| – Trade and other receivables and other current assets | (3,962,131) | (3,881,219) |
| – Trade and other payables and other current liabilities | 3,395,380 | 3,209,810 |
| – Restricted cash | (193,512) | (84,516) |
| Cash generated from operations | 2,060,673 | 1,829,417 |

Notes to the Consolidated Financial Statements

39 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(ii) In the cash flow statements, proceeds from disposals of PP&E and investment property comprise:

| | Year ended 31 December | |
|---|------------------------|-----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Net book amount (Note 9) | 120,566 | 172,103 |
| Gain on disposal (Note 31) | 267,514 | 22,561 |
| | 388,080 | 194,664 |
| Advance from disposal of PP&E and investment properties | 145,815 | 28,115 |
| Receivables in respect of disposal of PP&E and investment property | (151,533) | (13,395) |
| Cash receipt in prior year in respect of disposal of PP&E in current year | (28,115) | (145,557) |
| Receipt of proceeds from disposal of PP&E and investment properties in prior year | 13,395 | 88,172 |
| Proceeds from disposal | 367,642 | 151,999 |

(iii) In the cash flow statements, proceeds from disposals of land use rights and intangible assets (excluding goodwill) comprise:

| | Year ended 31 December | |
|---|------------------------|-----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Net book amount | 6,959 | 15,872 |
| Gain on disposal (Note 31) | 13,623 | 200,921 |
| | 20,582 | 216,793 |
| Cash receipt in prior year in respect of land use right and intangible assets | – | (216,793) |
| Proceeds from disposal | 20,582 | – |

Notes to the Consolidated Financial Statements

39 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(iv) In the cash flow statements, proceeds from disposals of available-for-sale financial assets comprise:

| | Year ended 31 December | |
|----------------------------|------------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Net book amount (Note 14) | 7,900 | 2,779 |
| Gain on disposal (Note 31) | 4,791 | 4,431 |
| | 12,691 | 7,210 |

(v) In the cash flow statements, proceeds from disposals of subsidiaries and associates:

| | Year ended 31 December | |
|---|------------------------|-----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Net book amount | 7,384 | 20,327 |
| Gain on disposal | 5,652 | 156,013 |
| Less: gain on deemed disposal | – | (106,304) |
| | 13,036 | 70,036 |
| Cash receipt in respect of disposal of associates in prior year | 20,491 | 36,342 |
| Cash and cash equivalents in subsidiaries disposed | (3,524) | (22,521) |
| Receivables in respect of disposal of subsidiaries | – | (20,491) |
| Offset other current liabilities | (1,807) | – |
| | 28,196 | 63,366 |

Notes to the Consolidated Financial Statements

40 CONTINGENCIES AND GUARANTEES

(a) As of 31 December 2015, the Group has no significant pending legal claims.

(b) Outstanding loan guarantees

| | As at 31 December | |
|---|-------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Outstanding loan guarantees provided to third parties | 20,000 | – |
| Outstanding loan guarantees provided to related parties | 16,107 | 21,835 |
| | 36,107 | 21,835 |

In 2015, the Group acquired 54.9% equity interest in Hangzhou Kailun Pharmaceuticals Co., Ltd. (“Hangzhou Kailun”) (the “Acquisition”) (Note 43(ii)). Before the Acquisition, Hangzhou Kailun has entered into several agreements with certain banks to provide loan guarantees to a third party with a limitation of RMB23,000,000. As at 31 December 2015, outstanding loan guarantees of RMB20,000,000 was provided by Hangzhou Kailun to certain third parties (the “Guarantee”), and will be expired in 2016. After the Guarantee’s expiration, Hangzhou Kailun will not provide any guarantees to third parties.

As of 31 December 2015, outstanding loan guarantees of approximately RMB16,107,000 (2014: RMB21,835,000) are provided by the Group to certain related parties of the Group (Note 44(d)).

The directors of the Company consider that these related parties and third party have sufficient finance to settle their obligations and thus has not made any provision for the outstanding balance of the guarantees.

Notes to the Consolidated Financial Statements

41 COMMITMENTS

(a) Capital commitments

(i) Constructions

Capital expenditure contracted for at the end of year but not yet incurred is as follows:

| | As at 31 December | |
|------|-------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| PP&E | 493,652 | 433,803 |

(ii) Acquisition of equity interests

Pursuant to the agreement entered into between the Group and shareholders of Jiangsu Hongkang Pharmaceutical Co., Ltd. ("Hongkang") on 15 December 2015, the Group will acquire 51% equity interest of Hongkang at a consideration of approximate RMB57,120,000. As at 31 December 2015, the Group had paid a cash consideration of RMB39,984,000 in respect of the acquisition of Hongkang. As at 31 December 2015, the above-mentioned transaction was not completed.

Pursuant to the agreement entered into between the Group and shareholders of Jiangxi Shangrao Pharmaceutical Co., Ltd. ("Shangrao") on 11 November 2015, the Group will acquire 50% equity interest of Shangrao at a consideration of approximately RMB39,000,000. As at 31 December 2015, the Group had paid a cash consideration of RMB27,300,000 in respect of the acquisition of Shangrao. As at 31 December 2015, the above-mentioned transaction was not completed.

(b) Operating lease commitments

(i) The Group as the lessee:

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

| | As at 31 December | |
|--|-------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| No later than 1 year | 247,897 | 218,680 |
| Later than 1 year and no later than 2 years | 164,416 | 151,828 |
| Later than 2 years and no later than 5 years | 258,579 | 168,235 |
| Later than 5 years | 75,413 | 133,790 |
| | 746,305 | 672,533 |

Notes to the Consolidated Financial Statements

41 COMMITMENTS (continued)

(b) Operating lease commitments (continued)

(ii) *The Group as the lessor:*

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

| | As at 31 December | |
|--|-------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| No later than 1 year | 31,404 | 37,399 |
| Later than 1 year and no later than 2 years | 28,579 | 30,959 |
| Later than 2 years and no later than 5 years | 56,361 | 56,704 |
| Later than 5 years | 72,515 | 51,695 |
| | 188,859 | 176,757 |

(c) Other commitment

On 23 February 2011, the Company has entered into agreement (the "Agreement") with Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (Fudan Zhangjiang). Pursuant to the Agreement, the Company would pay approximately RMB180,000,000 to Fudan Zhangjiang to conduct research and development on certain medicine project. Up to 31 December 2015, the Company has already paid Fudan Zhangjiang research and development cost of approximately RMB135,748,000. As at 31 December 2015, the total amount of the research and development cost contracted but not yet incurred by the Group was up to approximately RMB44,252,000 according to the Agreement.

Notes to the Consolidated Financial Statements

42 SIGNIFICANT TRANSACTIONS WITH NON-CONTROLLING INTERESTS

(a) Significant acquisition of additional interests in the subsidiaries

(i) *Transaction with non-controlling interests of SPH Zhongxie Pharmaceutical Co., Ltd. ("Zhongxie")*

In 2015, the Group acquired additional 21.56% equity interests of Zhongxie at a purchase consideration of approximately RMB120,000,000 (the "Acquisition"). The carrying amount of the non-controlling interests in Zhongxie of the Acquisition was approximately RMB52,546,000. The Group recognised a decrease in non-controlling interests of approximately RMB52,546,000 and a decrease in equity attributable to owners of the Company of approximately RMB67,454,000. The effect of changes in the ownership interests of Zhongxie on the equity attributable to owners of the Company during the year is summarised as follows:

| | 2015 RMB'000 |
|---|------------------|
| Carrying amount of non-controlling interests acquired | 52,546 |
| Consideration paid to non-controlling interests | (120,000) |
| Excess of consideration paid recognised within equity | (67,454) |

(ii) *Transaction with non-controlling interests of SPH Kony (Changzhou) Co., Ltd. ("Kony")*

In 2015, the Group acquired additional 20% equity interests of Kony at a purchase consideration of approximately RMB75,203,000 (the "Acquisition"). The carrying amount of the non-controlling interests in Kony of the Acquisition was approximately RMB40,399,000. The Group recognised a decrease in non-controlling interests of approximately RMB40,399,000 and a decrease in equity attributable to owners of the Company of approximately RMB34,804,000. Subsequent to the Acquisition, the Group acquired 100% equity interest of Kony. The effect of changes in the ownership interests of Kony on the equity attributable to owners of the Company during the year is summarised as follows:

| | 2015 RMB'000 |
|---|-----------------|
| Carrying amount of non-controlling interests acquired | 40,399 |
| Consideration paid to non-controlling interests | (75,203) |
| Excess of consideration paid recognised within equity | (34,804) |

Notes to the Consolidated Financial Statements

42 SIGNIFICANT TRANSACTIONS WITH NON-CONTROLLING INTERESTS (continued)

(a) Significant acquisition of additional interests in the subsidiaries (continued)

(iii) Capital injection in Shanghai Pharma Health Commerce Co., Ltd ("Health Commerce")

In 2015, the Group together with Jindong E-commerce (Trade) Beijing Co., Ltd. and Beijing Harmony Growth Investing Center (LP) contributed additional share capital of RMB1,112,125,000 into Health Commerce, out of which RMB900,000,000 was contributed by the Group by a wholly-owned subsidiary and RMB212,125,000 was contributed by other shareholders by cash (the "Capital Injection"). Upon the completion of the Capital Injection, the equity interest of Health Commerce held by the Group increased from 70.00% to 80.02%. The effect of changes in ownership interests of Health Commerce on the equity attributable to owners of the Company during the year is summarised as follows:

| | 2015 RMB'000 |
|---|-----------------|
| Share of the net assets of Health Commerce after the Capital Injection | 481,441 |
| Less: Net assets of the wholly-owned subsidiary as at the date of capital injection | (294,827) |
| Share of the net assets of Health Commerce before the Capital Injection | (66,289) |
| Total | (361,116) |
| Effect of changes recognised in equity | 120,325 |

(b) Effects of transactions with non-controlling interests on the equity attributable to owners of the Company for the year ended 31 December 2015.

| | 2015 RMB'000 |
|--|-----------------|
| Changes in equity attributable to owners of the company arising from: | |
| – Acquisition of additional interests in subsidiaries | (132,159) |
| – Capital injection in a subsidiary | 120,325 |
| Net effect for transactions with non-controlling interests on equity attributable to owners of the Company | (11,834) |

Notes to the Consolidated Financial Statements

43 BUSINESS COMBINATION

Significant business combinations not under common control

- (i) In January 2015, the Group acquired 51% equity interests in Star Fountain Global Ltd. ("Star Fountain"), from an independent third party, on which the Group effectively obtained the right of control and consolidated it into the consolidated financial statements.

As a result of the acquisition, the Group is expected to increase its presence in these markets. It also expects to reduce costs through economics of scale. The goodwill of RMB188,058,000 arising from the acquisition attributable to the acquired synergies and economies of scale expected from combining the operations of the Group and the above entity and its subsidiaries. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration paid for the acquisition of approximately RMB229,500,000. The following table summarizes the consideration, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

| Consideration | Star Fountain RMB'000 |
|---|--------------------------|
| Cash | 179,500 |
| Other payables | 50,000 |
| Total consideration | 229,500 |
| Recognised amounts of identifiable assets acquired and liabilities assumed | |
| Cash and cash equivalents | 1,314 |
| PP&E | 61,730 |
| Intangible assets – business network | 38,263 |
| Intangible assets – trademarks | 21,500 |
| Intangible assets – others | 15,040 |
| Inventories | 15,523 |
| Trade and other receivables and other current assets | 22,520 |
| Deferred income tax liabilities | (21,771) |
| Other long-term payables | (39,679) |
| Trade and other payables and other current assets | (33,126) |
| Current income tax liabilities | (55) |
| Total identifiable net assets | 81,259 |
| Non-controlling interests | (39,817) |
| Goodwill | 188,058 |
| | 229,500 |

Notes to the Consolidated Financial Statements

43 BUSINESS COMBINATION (continued)

Significant business combinations not under common control (continued)

(i) (continued)

The following table summarized the cash outflows from the Acquisition for the year ended 31 December 2015:

| | <i>RMB'000</i> |
|---|----------------|
| Total cash consideration | 229,500 |
| Less: cash and cash equivalents in the subsidiaries acquired | (1,314) |
| consideration payable in respect of acquisition of the subsidiaries | (50,000) |
| Cash outflows from the acquisitions | 178,186 |

The revenue and profit for the year included in the consolidated income statement since the acquisition date contributed by the abovementioned entities was approximately RMB127,494,000 and RMB24,356,000, respectively. Had the acquisitions occurred on 1 January 2015, the Group's revenue and profit for the year would have been no significant change as the acquisition was completed in Jan 2016.

Notes to the Consolidated Financial Statements

43 BUSINESS COMBINATION (continued)

Significant business combinations not under common control (continued)

- (ii) In March 2015, the Group acquired 54.9% equity interests in Hangzhou Kailun from an independent third party, on which the Group effectively obtained the right of control and consolidated it into the consolidated financial statements.

As a result of the acquisition, the Group is expected to increase its presence in these markets. It also expects to reduce costs through economics of scale. The goodwill of RMB77,913,000 arising from the acquisition attributable to the acquired synergies and economies of scale expected from combining the operations of the Group and the above entity and its subsidiaries. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration paid for the acquisition of approximately RMB162,725,000 the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

| Consideration | Hangzhou Kailun <i>RMB'000</i> |
|---|-----------------------------------|
| Cash | 123,522 |
| Other payables | 39,203 |
| Total consideration | 162,725 |
| Recognised amounts of identifiable assets acquired and liabilities assumed | |
| Restricted cash | 20,400 |
| Cash and cash equivalents | 87,514 |
| PP&E | 52,043 |
| Available-for-sale financial assets | 3,849 |
| Land use rights | 16,293 |
| Intangible assets – business network | 10,097 |
| Deferred income tax assets | 1,003 |
| Inventories | 116,889 |
| Trade and other receivables and other current assets | 486,669 |
| Deferred income tax liabilities | (2,082) |
| Other non-current liabilities | (742) |
| Trade and other payables and other current liabilities | (401,317) |
| Current income tax liabilities | (12,032) |
| Borrowings | (224,100) |
| Total identifiable net assets | 154,484 |
| Non-controlling interests | (69,672) |
| Goodwill | 77,913 |
| | 162,725 |

Notes to the Consolidated Financial Statements

43 BUSINESS COMBINATION (continued)

Significant business combinations not under common control (continued)

The following table summarized the cash outflows from the above Acquisition for the year ended 31 December 2015:

| | <i>RMB'000</i> |
|---|----------------|
| Total cash consideration | 162,725 |
| Less: cash and cash equivalents in the subsidiary acquired | (87,514) |
| consideration payable in respect of acquisition of the subsidiary | (39,203) |
| Cash outflows from the acquisitions | 36,008 |

The revenue and profit for the year included in the consolidated income statement since the acquisition date contributed by the abovementioned entities was approximately RMB1,034,100,000 and RMB6,943,000, respectively. Had the acquisitions occurred on 1 January 2015, the Group's revenue and profit for the year would have been increased by approximately RMB351,281,000 and RMB771,000 respectively.

Notes to the Consolidated Financial Statements

43 BUSINESS COMBINATION (continued)

Significant business combinations not under common control (continued)

- (iii) In March 2015, the Group acquired 70.0% equity interests in SPH Keyuan Xinhai Jilin Pharmaceutical Co.,Ltd. ("Keyuan Jilin") from an independent third party, on which the Group effectively obtained the right of control and consolidated it into the consolidated financial statements.

As a result of the acquisition, the Group is expected to increase its presence in these markets. It also expects to reduce costs through economics of scale. The goodwill of RMB60,369,000 arising from the acquisition attributable to the acquired synergies and economies of scale expected from combining the operations of the Group and the above entity and its subsidiaries. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration paid for the acquisition of approximately RMB119,000,000 the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

| Consideration | Keyuan Jilin <i>RMB'000</i> |
|---|--------------------------------|
| Cash | 96,300 |
| Other payables | 22,700 |
| Total consideration | 119,000 |
| Recognised amounts of identifiable assets acquired and liabilities assumed | |
| Cash and cash equivalents | 3,464 |
| PP&E | 134 |
| Intangible assets – business network | 39,980 |
| Intangible assets – computer software | 31 |
| Inventories | 58,586 |
| Trade and other receivables and other current assets | 175,282 |
| Deferred income tax liabilities | (9,995) |
| Trade and other payables and other current liabilities | (183,720) |
| Current income tax liabilities | (3) |
| Total identifiable net assets | 83,759 |
| Non-controlling interests | (25,128) |
| Goodwill | 60,369 |
| | 119,000 |

Notes to the Consolidated Financial Statements

43 BUSINESS COMBINATION (continued)

Significant business combinations not under common control (continued)

The following table summarized the cash outflows from the above Acquisition for the year ended 31 December 2015:

| | <i>RMB'000</i> |
|---|----------------|
| Total cash consideration | 119,000 |
| Less: cash and cash equivalents in the subsidiary acquired | (3,464) |
| consideration payable in respect of acquisition of the subsidiary | (22,700) |
| Cash outflows from the acquisitions | 92,836 |

The revenue and profit for the year included in the consolidated income statement since the acquisition date contributed by the abovementioned entities was approximately RMB604,743,000 and RMB13,393,000, respectively. Had the acquisitions occurred on 1 January 2015, the Group's revenue and profit for the year would have been increased by approximately RMB117,090,000 and RMB3,762,000 respectively.

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS

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

The Company is controlled by Shanghai Pharma Group and Shanghai Industrial Group, the immediate holding company and ultimate holding company, both of which are government-related enterprise established in the PRC. The PRC government indirectly controls Shanghai Industrial Group. In accordance with HKAS 24 (Revised), "Related Party Disclosures", issued by the HKICPA, government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include Shanghai Industrial Group and its subsidiaries (other than the Group), other government related entities and their subsidiaries, other entities and corporations in which the Group is able to exercise significant influence and key management personnel of the Company and as well as their close family members. The Group's significant transactions and balances with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government mainly include sales or purchases of assets, goods and services, bank deposits and bank borrowings and related trade and other receivables, trade and other payables, borrowings, pledged bank deposits, cash and cash equivalents. The directors of the Company believe that the meaningful information of related party transactions has been adequately disclosed in the consolidated financial statements.

Notes to the Consolidated Financial Statements

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

| Name of related party | Nature of relationship |
|---|-------------------------------------|
| Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司) | Immediate holding company |
| Shanghai Asia Pioneer Pharmaceutical Co., Ltd. (上海新先鋒藥業有限公司) | Controlled by Shanghai Pharma Group |
| Shanghai Indu-Land Property Co., Ltd. (上海英達萊物業有限公司) | Controlled by Shanghai Pharma Group |
| Shanghai HuaJiu Material Supply and Marketing Co., Ltd. (上海華久物資供銷有限公司) | Controlled by Shanghai Pharma Group |
| Shanghai Hutchison Pharmaceutical Co., Ltd. (上海和黃藥業有限公司) | Jointly controlled entity |
| Jiangxi Nanhua Medicines Co., Ltd. (江西南華醫藥有限公司) | Jointly controlled entity |
| Shanghai Jianer Pharmacy Co., Ltd. (上海健爾藥房有限公司) | Jointly controlled entity |
| Shanghai Bracco Sine Pharmaceutical Corp., Ltd. (上海信誼博萊科藥業有限公司) | Associate |
| Shanghai Sine Promod Pharmaceutical Corp., Ltd. (上海信誼百路達藥業有限公司) | Associate |
| Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (上海復旦張江生物醫藥股份有限公司) | Associate |
| Shanghai Deyi Pharmaceutical Co., Ltd. (上海得一醫藥有限公司) | Associate |
| Shanghai Ivyuan Pharmacy Co., Ltd. (上海綠苑藥房有限公司) | Associate |
| Shanghai Roche Pharmaceutical Co., Ltd. (上海羅氏製藥有限公司) | Associate |
| Shanghai Luoda Pharmaceutical Co., Ltd. (上海羅達醫藥有限公司) | Associate |
| Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. (上海雷允上北區藥業股份有限公司) | Associate |
| Sino-American Shanghai Squibb Pharmaceuticals Ltd. (中美上海施貴寶製藥有限公司) | Associate |
| TECHPOOL Bio-Pharma Co., Ltd. (廣東天普生化醫藥股份有限公司) | Associate |
| Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd. (杭州胡慶餘堂國藥號有限公司) | Associate |

Notes to the Consolidated Financial Statements

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

| Name of related party | Nature of relationship |
|--|--------------------------------|
| Hangzhou Huqingyutang Medicinal Planting Co., Ltd. (杭州胡慶餘堂藥材種植有限公司) | Associate |
| Huanren Manchu Municipality Grain Packaging Co., Ltd. (桓仁滿族自治縣格瑞恩包裝有限公司) | Associate |
| Chongqing Medicines Shanghai Pharma Sales Co., Ltd. (重慶醫藥上海藥品銷售有限公司) | Associate |
| Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd. (上海千山遠東製藥機械有限公司) | Associate |
| Shanghai Huaren Pharmaceutical Co., Ltd. (上海華仁醫藥有限公司) | Associate |
| Shanghai Industrial Group Finance Co., Ltd. (上海上實集團財務有限公司) | Associate |
| Jilin Yatai Huashi Pharmaceutical Co. Ltd. (吉林亞泰華氏醫藥有限公司) | Associate |
| Liaoning International Pharmaceutical Trading Co., Ltd. (遼寧省醫藥對外貿易有限公司) | Associate |
| Beijing Xinhai Fengyuan Biomedical Development Co., Ltd. (北京信海豐園生物醫藥科技發展有限公司) | Former associate |
| Beijing Xin Hai Kang Pharmaceutical Co., Ltd. (北京信海康醫藥有限公司) | Subsidiary of former associate |
| Henan Kangxin Pharmaceutical Co., Ltd. (河南省康信醫藥有限公司) | Subsidiary of former associate |

Notes to the Consolidated Financial Statements

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

In addition to those disclosed elsewhere in the financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, excluding other government-related enterprises, during the year and balances arising from related party transactions.

(a) Significant transactions with related parties except for other government-related enterprises

In 2015 and 2014, the Group had the following significant transactions entered into in the ordinary course of business between the Group and its related parties.

| | Year end 31 December | |
|--|----------------------|----------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Sales of goods and render of services | | |
| Jiangxi Nanhua Medicines Co., Ltd. | 817,802 | 519,534 |
| Shanghai Luoda Pharmaceutical Co., Ltd. | 84,817 | 74,132 |
| Shanghai Hutchison Pharmaceutical Co., Ltd. | 72,139 | 69,758 |
| Shanghai Deyi Pharmaceutical Co., Ltd. | 60,376 | 54,254 |
| Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. | 56,688 | 53,934 |
| Shanghai Ivyuan Pharmacy Co., Ltd. | 34,759 | 33,948 |
| Liaoning International Pharmaceutical Trading Co., Ltd. | 24,367 | – |
| Chongqing Medicines Shanghai Pharma Sales Co., Ltd. | 11,760 | 11,995 |
| Shanghai Huaren Pharmaceutical Co., Ltd. | 7,738 | 9,363 |
| Shanghai Roche Pharmaceutical Co., Ltd. | 6,143 | 1,472 |
| Shanghai Sine Promod Pharmaceutical Corp., Ltd. | 5,444 | 1,589 |
| Jilin Yatai Huashi Pharmaceutical Co. Ltd. | 2,931 | 1,552 |
| Sino-American Shanghai Squibb Pharmaceuticals Ltd. | 2,706 | 8,533 |
| Shanghai Jianer Pharmacy Co., Ltd. | 2,093 | 613 |
| Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd. | 1,082 | 3,572 |
| Beijing Xinhai Fengyuan Biomedical Development Co.,Ltd. | – | 27,729 |
| Henan Kangxin Pharmaceutical Co., Ltd. | – | 59,273 |
| Beijing Xin Hai Kang Pharmaceutical Co., Ltd. | – | 5,809 |
| Others | 6,153 | 1,173 |
| | 1,196,998 | 938,233 |

Notes to the Consolidated Financial Statements

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(a) Significant transactions with related parties except for other government-related enterprises (continued)

| | Year end 31 December | |
|--|----------------------|----------------|
| | 2015 | 2014 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Purchase of goods and services | | |
| Shanghai Roche Pharmaceutical Co., Ltd. | 2,237,660 | 2,247,115 |
| Sino-American Shanghai Squibb Pharmaceuticals Ltd. | 792,535 | 712,971 |
| Shanghai Hutchison Pharmaceutical Co., Ltd. | 161,238 | 158,779 |
| TECHPOOL Bio-Pharma Co., Ltd. | 108,683 | 133,331 |
| Shanghai Luoda Pharmaceutical Co., Ltd. | 56,177 | 63,327 |
| Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. | 44,433 | 64,763 |
| Shanghai Bracco Sine Pharmaceutical Corp., Ltd. | 39,933 | 42,915 |
| Shanghai Huaren Pharmaceutical Co., Ltd. | 35,865 | 2,563 |
| Shanghai Deyi Pharmaceutical Co., Ltd. | 20,111 | 21,093 |
| Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. | 12,303 | 17,575 |
| Hangzhou Huqingyutang Medicinal Planting Co., Ltd. | 5,384 | 4,606 |
| Shanghai Sine Promod Pharmaceutical Corp., Ltd. | 4,385 | 2,334 |
| Huanren Manchu Municipality Grain Packaging Co., Ltd. | 2,814 | 3,489 |
| Beijing Xinhai Fengyuan Biomedical Development Co., Ltd. | – | 24,217 |
| Shanghai Huajiu Material supply and marketing Co., Ltd. | – | 5,684 |
| Others | 4,734 | 4,497 |
| | 3,526,255 | 3,509,259 |

| | Year ended 31 December | |
|---|------------------------|----------------|
| | 2015 | 2014 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Rental income | | |
| Shanghai Bracco Sine Pharmaceutical Corp., Ltd. | 10,114 | 10,114 |
| Shanghai Hutchison Pharmaceutical Co., Ltd. | 2,874 | 2,874 |
| | 12,988 | 12,988 |

Notes to the Consolidated Financial Statements

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(a) Significant transactions with related parties except for other government-related enterprises (continued)

| | Year ended 31 December | |
|--|------------------------|----------------|
| | 2015 | 2014 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Rental expense | | |
| Shanghai Pharma Group | 24,905 | 24,999 |
| Shanghai Asia Pioneer Pharmaceutical Co., Ltd. | 16,347 | 16,452 |
| Shanghai Indu-Land Property Co., Ltd. | 5,457 | 5,075 |
| Beijing Xinhai Fengyuan Biomedical Development Co., Ltd. | – | 2,181 |
| | 46,709 | 48,707 |

| | Year ended 31 December | |
|--|------------------------|----------------|
| | 2015 | 2014 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| R&D expenditure | | |
| Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. | 15,612 | 29,893 |

On 23 February 2011, the Company has entered into certain agreements (the “Agreements”) with Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (Fudan Zhangjiang), pursuant to which the Company would pay approximately RMB180,000,000 to Fudan Zhangjiang to conduct research and development on certain medicine project. In 2015, the Company has paid Fudan Zhangjiang research and development cost of approximately RMB15,612,000. Up to 31 December 2015, the Group has cumulatively paid approximately RMB135,748,000 to Fudan Zhangjiang with respect to the Agreements.

Notes to the Consolidated Financial Statements

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(a) Significant transactions with related parties except for other government-related enterprises (continued)

| | Year ended 31 December | |
|--|------------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Interest income | | |
| Shanghai Industrial Group Finance Co., Ltd. | 996 | – |
| Beijing XinHai Fengyuan Biomedical Development Co., Ltd. | – | 967 |
| | 996 | 967 |
| Interest expense | | |
| Shanghai Industrial Group Finance Co., Ltd. | 32,282 | 5,992 |

| | Year ended 31 December | |
|---|------------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Net Increase of the deposit balance | | |
| Shanghai Industrial Group Finance Co., Ltd. | 755,595 | 220,024 |
| Loan received from related parties | | |
| Shanghai Industrial Group Finance Co., Ltd. | 1,217,200 | 400,000 |
| Loan repayment to related parties | | |
| Shanghai Industrial Group Finance Co., Ltd. | 400,000 | – |
| Discount of bank acceptance notes | | |
| Shanghai Industrial Group Finance Co., Ltd. | 154,079 | – |

Notes to the Consolidated Financial Statements

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(a) Significant transactions with related parties except for other government-related enterprises (continued)

| | Year ended 31 December | |
|--|------------------------|----------------|
| | 2015 | 2014 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Loan to related parties | | |
| Shanghai Huaren Pharmaceutical Co., Ltd. | 5,000 | – |
| Repayment received from related parties | | |
| Shanghai Huaren Pharmaceutical Co., Ltd. | 5,000 | – |

(b) Key management compensation

| | Year ended 31 December | |
|---------------------|------------------------|----------------|
| | 2015 | 2014 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Salaries | 5,064 | 4,628 |
| Bonuses | 5,224 | 4,620 |
| Pensions and others | 542 | 558 |
| | 10,830 | 9,806 |

(c) Significant balances with related parties except for other government-related enterprises

Amount due from related parties:

| | As at 31 December | |
|----------------------|-------------------|----------------|
| | 2015 | 2014 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade receivables | 171,673 | 146,860 |
| Other receivables | 16,876 | 10,291 |
| Prepayments | 1,941 | 3,616 |
| Dividends receivable | 12,536 | 274,730 |
| | 203,026 | 435,497 |

Notes to the Consolidated Financial Statements

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(c) Significant balances with related parties except for other government-related enterprises (continued)

| | As at 31 December | |
|--|-------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Trade receivables due from | | |
| Jiangxi Nanhua Medicines Co., Ltd. | 89,526 | 76,056 |
| Shanghai Luoda Pharmaceutical Co., Ltd. | 19,313 | 16,784 |
| Liaoning International Pharmaceutical Trading Co., Ltd. | 15,293 | – |
| Shanghai Hutchison Pharmaceutical Co., Ltd. | 8,373 | 15,150 |
| Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. | 9,932 | 11,396 |
| Shanghai Deyi Pharmaceutical Co., Ltd. | 12,875 | 10,762 |
| Chongqing Medicines Shanghai Pharma Sales Co., Ltd. | 2,639 | 5,823 |
| Shanghai Ivyuan Pharmacy Co., Ltd. | 4,777 | 4,374 |
| Shanghai Huaren Pharmaceutical Co., Ltd. | 1,918 | 1,621 |
| Sino-American Shanghai Squibb Pharmaceuticals Ltd. | 674 | 1,076 |
| Others | 6,353 | 3,818 |
| | 171,673 | 146,860 |
| Less: Provision for impairment | (5,248) | (5,997) |
| | 166,425 | 140,863 |

Notes to the Consolidated Financial Statements

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(c) Significant balances with related parties except for other government-related enterprises (continued)

| | As at 31 December | |
|--|-------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Other receivables due from | | |
| Shanghai Roche Pharmaceutical Co., Ltd. | 6,509 | – |
| Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd. | 1,988 | 1,638 |
| Shanghai Huaren Pharmaceutical Co., Ltd. | 1,500 | 1,500 |
| Others | 6,879 | 7,153 |
| | 16,876 | 10,291 |
| Less: Provision for impairment | (5,960) | (6,122) |
| | 10,916 | 4,169 |

Other receivables are non-trade receivables and mainly represent loan to or assets sold to related parties and will be settled upon demand of the Group.

Ageing analysis of the trade and other receivables due from related parties are as follows:

| | As at 31 December | |
|-----------------------|-------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Less than 3 months | 153,510 | 134,041 |
| 3 months to 6 months | 20,750 | 4,642 |
| 6 months to 12 months | 2,150 | 5,327 |
| 1 year to 2 years | – | 1,132 |
| Over 2 years | 12,139 | 12,009 |
| | 188,549 | 157,151 |

Notes to the Consolidated Financial Statements

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(c) Significant balances with related parties except for other government-related enterprises (continued)

| | As at 31 December | |
|--|-------------------|--------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Prepayments due from | | |
| Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. | 1,651 | – |
| Shanghai Bracco Sine Pharmaceutical Corp., Ltd. | – | 3,302 |
| Others | 290 | 314 |
| | 1,941 | 3,616 |

| | As at 31 December | |
|--|-------------------|----------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Dividends receivable | | |
| Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd. | 5,309 | – |
| Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. | 3,689 | 3,689 |
| Shanghai Sine Promod Pharmaceutical Corp., Ltd. | 2,262 | 65 |
| Shanghai Luoda Pharmaceutical Co., Ltd. | 1,256 | 1,256 |
| Shanghai Roche Pharmaceutical Co., Ltd. | – | 269,700 |
| Others | 20 | 20 |
| | 12,536 | 274,730 |

Amount due to related parties:

| | As at 31 December | |
|-------------------|-------------------|----------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Trade Payables | 485,888 | 460,413 |
| Other Payables | 15,237 | 23,255 |
| Advances | 406 | 317 |
| Dividends Payable | 8,079 | 8,079 |
| Interests Payable | 1,361 | 616 |
| | 510,971 | 492,680 |

Notes to the Consolidated Financial Statements

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(c) Significant balances with related parties except for other government-related enterprises (continued)

| | As at 31 December | |
|--|-------------------|----------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Trade payables due to | | |
| Shanghai Roche Pharmaceutical Co., Ltd. | 343,390 | 295,143 |
| Sino-American Shanghai Squibb Pharmaceuticals Ltd. | 55,625 | 62,822 |
| TECHPOOL Bio-Pharma Co., Ltd. | 43,864 | 56,350 |
| Shanghai Hutchison Pharmaceutical Co., Ltd. | 9,022 | 13,431 |
| Shanghai Luoda Pharmaceutical Co., Ltd. | 7,302 | 1,831 |
| Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. | 6,669 | 12,535 |
| Shanghai Huaren Pharmaceutical Co.,Ltd | 6,424 | 334 |
| Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. | – | 6,854 |
| Shanghai Deyi Pharmaceutical Co., Ltd. | 5,123 | 3,553 |
| Shanghai Sine Promod Pharmaceutical Corp., Ltd. | 3,455 | 480 |
| Shanghai Bracco Sine Pharmaceutical Corp., Ltd. | 1,821 | 2,929 |
| Others | 3,193 | 4,151 |
| | 485,888 | 460,413 |

| | As at 31 December | |
|--|-------------------|---------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Other payables due to | | |
| Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd. | 2,135 | 10,225 |
| Shanghai Sine Promod Pharmaceutical Corp., Ltd. | 9,066 | 9,096 |
| Shanghai Pharma Group | 2,043 | 3,623 |
| Hangzhou Huqingyutang Medicinal Planting Co.,Ltd. | 1,683 | – |
| Shanghai Bracco Sine Pharmaceutical Corp., Ltd. | 287 | 287 |
| Others | 23 | 24 |
| | 15,237 | 23,255 |

Other payables are all non-trade payables mainly and represent rental expenses due to related parties and will be settled upon demand of these related parties.

Notes to the Consolidated Financial Statements

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(c) Significant balances with related parties except for other government-related enterprises (continued)

Ageing analysis of the trade and other payables due to related parties are as follows:

| | As at 31 December | |
|-----------------------|-------------------|----------------|
| | 2015 | 2014 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Less than 3 months | 466,275 | 471,056 |
| 3 months to 6 months | 20,529 | 715 |
| 6 months to 12 months | 1,293 | 1,049 |
| 1 year to 2 years | 2,773 | 56 |
| Over 2 years | 10,255 | 10,792 |
| | 501,125 | 483,668 |

| | As at 31 December | |
|--|-------------------|----------------|
| | 2015 | 2014 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Advances due to | | |
| Jilin Yatai Huashi Pharmaceutical Co. Ltd. | 287 | – |
| Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd. | – | 259 |
| Others | 119 | 58 |
| | 406 | 317 |

| | As at 31 December | |
|--|-------------------|----------------|
| | 2015 | 2014 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Dividends payable | | |
| Shanghai Pharma Group | 8,000 | 8,000 |
| Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. | 79 | 79 |
| | 8,079 | 8,079 |

Notes to the Consolidated Financial Statements

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(c) Significant balances with related parties except for other government-related enterprises (continued)

| | As at 31 December | |
|--|-------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Interests payable | | |
| Shanghai Industrial Group Finance Co., Ltd | 1,361 | 616 |

Cash at bank and borrowings due from/to related parties:

| | As at 31 December | |
|--|-------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Current borrowings | | |
| Shanghai Industrial Group Finance Co., Ltd | 1,217,200 | 400,000 |
| Cash at bank | | |
| Shanghai Industrial Group Finance Co., Ltd | 975,619 | 220,024 |

(d) Significant guarantees with related parties except for other government-related enterprises

| | As at 31 December | |
|--|-------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Outstanding loan guarantees provided by the Group to | | |
| Chongqing Medicines Shanghai Pharma Sales Co., Ltd. | 1,107 | 12,835 |
| Shanghai Luoda Pharmaceutical Co., Ltd. | 15,000 | 9,000 |
| | 16,107 | 21,835 |

Notes to the Consolidated Financial Statements

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(d) Significant guarantees with related parties except for other government-related enterprises (continued)

| | As at 31 December | |
|---|-------------------|---------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Outstanding loan guarantees given to the Group by | | |
| Shanghai Industrial Group Finance Co., Ltd | 65,800 | – |
| Shanghai Pharma Group | 2,160 | 2,890 |
| | 67,960 | 2,890 |

45 SUBSEQUENT EVENTS

On 8 January 2016, the Company entered into the Limited Partnership Agreement Regarding the Establishment of Shanghai Healthcare Industry Equity Investment Fund Partnership (Limited Partnership) (《關於設立上海健康醫療產業股權投資基金合夥企業(有限合夥)之有限合夥協議》) (the “Limited Partnership Agreement”), and subscribed and invested an amount of RMB250,000,000 for the establishment of Shanghai Healthcare Industry Equity Investment Fund Partnership (Limited Partnership) (the “Healthcare Fund” or the “Fund”).

According to Zhengjian Xuke No. [2015] 2895, as approved by China Securities Regulatory Commission, the Company has been authorised on issuance of corporate bonds with an aggregate principal amount of no more than RMB6,000,000,000 to qualified investors. On 28 January 2016, the Company has completed the issuance of the first tranche of the corporate bonds, with an aggregate amount of RMB2,000,000,000 at a rate of 2.98% per annum.

Pursuant to board resolution of the Company on 18 March 2016, the board of directors of the Company proposed a final dividend for the year ended 31 December 2015 (Note 38).

Notes to the Consolidated Financial Statements

46 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Company Balance Sheet

| | Note | As at 31 December | |
|--|----------|-------------------|------------|
| | | 2015 | 2014 |
| | | RMB'000 | RMB'000 |
| Assets | | | |
| Non-current assets | | | |
| Land use rights | | 27,201 | 27,936 |
| Property, plant and equipment | | 91,917 | 143,976 |
| Intangible assets | | 21,687 | 10,351 |
| Investments in subsidiaries | | 16,527,472 | 16,304,469 |
| Investments in associates | | 954,913 | 713,927 |
| Available-for-sale financial assets | | 24,574 | 32,528 |
| | | 17,647,764 | 17,233,187 |
| Current assets | | | |
| Trade and other receivables and other current assets | | 4,348,734 | 4,554,283 |
| Cash and cash equivalents | | 4,278,043 | 2,495,428 |
| | | 8,626,777 | 7,049,711 |
| Assets held for sale | | – | 10,724 |
| | | 8,626,777 | 7,060,435 |
| Total assets | | 26,274,541 | 24,293,622 |
| Equity and liabilities | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | | 2,688,910 | 2,688,910 |
| Share premium | Note (a) | 16,406,754 | 16,406,754 |
| Other reserves | Note (a) | 755,054 | 604,357 |
| Retained earnings | Note (a) | 1,245,886 | 967,674 |
| Total equity | | 21,096,604 | 20,667,695 |

Notes to the Consolidated Financial Statements

46 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (continued)

Company Balance Sheet (continued)

| | Note | As at 31 December | |
|--|------|-------------------|------------|
| | | 2015 | 2014 |
| | | RMB'000 | RMB'000 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Deferred income tax liabilities | | 11,604 | 8,052 |
| Other non-current liabilities | | 49,834 | 57,465 |
| | | 61,438 | 65,517 |
| Current liabilities | | | |
| Trade and other payables and other current liabilities | | 3,773,849 | 3,200,410 |
| Current income tax liabilities | | 42,650 | – |
| Borrowings | | 1,300,000 | 360,000 |
| | | 5,116,499 | 3,560,410 |
| Total liabilities | | 5,177,937 | 3,625,927 |
| Total equity and liabilities | | 26,274,541 | 24,293,622 |

The balance sheet of the Company was approved by the Board of Directors on 18 March 2016 and were signed on its behalf.

Lou Dingbo
Name of Director

Cho Man
Name of Director

Notes to the Consolidated Financial Statements

46 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (continued)

(a) Share premium, other reserves and retained earnings

| | Share premium | Statutory reserves | Available-for-sale financial Assets | Others | Retained earnings |
|---|---------------|--------------------|-------------------------------------|---------|-------------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2014 | 16,363,491 | 474,281 | 3,932 | 17,579 | 792,339 |
| Comprehensive income | | | | | |
| Profit for the year | - | - | - | - | 977,600 |
| Other comprehensive income | | | | | |
| Contribution from the intermediate holding companies of the Company | 120,000 | - | - | - | - |
| Appropriation to statutory reserves | - | 103,148 | - | - | (103,148) |
| Available-for-sale financial assets | | | | | |
| - Gross | - | - | 7,222 | - | - |
| - Tax | - | - | (1,805) | - | - |
| Dividends | - | - | - | - | (699,117) |
| Others | (76,737) | - | - | - | - |
| At 31 December 2014 | 16,406,754 | 577,429 | 9,349 | 17,579 | 967,674 |
| Comprehensive income | | | | | |
| Profit for the year | | | | | 1,198,038 |
| Other comprehensive income | | | | | |
| Appropriation to statutory reserves | - | 140,042 | - | - | (140,042) |
| Available-for-sale financial assets | | | | | |
| - Gross | - | - | 14,207 | - | - |
| - Tax | - | - | (3,552) | - | - |
| Dividends | - | - | - | - | (779,784) |
| At 31 December 2015 | 16,406,754 | 717,471 | 20,004 | 17,579 | 1,245,886 |

Notes to the Consolidated Financial Statements

47 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors, supervisors and chief executives' emoluments

The remuneration of every director, supervisor and the chief executive officer ("CEO") of the Company for the year ended 31 December 2015 is set out below:

| Name | Salaries | Bonuses | Pensions | Total |
|----------------------------|-----------------|----------------|-----------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Directors | | | | |
| Mr. Lou Dingbo | – | – | – | – |
| Mr. Cho Man (also the CEO) | 900 | 1,112 | – | 2,012 |
| Mr. Hu Fengxiang | – | – | – | – |
| Mr. Zhou Jie | – | – | – | – |
| Mr. Jiang Ming | – | – | – | – |
| Mr. Chen Naiwei | 230 | – | – | 230 |
| Mr. Wan Kam To | 250 | – | – | 250 |
| Mr. Tse Cho Che | 230 | – | – | 230 |
| Mr. Li Zhenfu | 200 | – | – | 200 |
| Supervisors | | | | |
| Mr. He Chuan | – | – | – | – |
| Mr. Xin Keng | – | – | – | – |
| Mrs. Chen Xin | – | – | – | – |
| | 1,810 | 1,112 | – | 2,922 |

Notes to the Consolidated Financial Statements

47 BENEFITS AND INTERESTS OF DIRECTORS (continued)

(a) Directors, supervisors and chief executives' emoluments (continued)

The remuneration of every director, supervisor and the chief executive officer ("CEO") of the Company for the year ended 31 December 2014 is set out below:

| Name | Salaries RMB'000 | Bonuses RMB'000 | Pensions RMB'000 | Total RMB'000 |
|----------------------------|---------------------|--------------------|---------------------|------------------|
| Directors | | | | |
| Mr. Lou Dingbo | – | – | – | – |
| Mr. Cho Man (also the CEO) | 906 | 676 | – | 1,582 |
| Mr. Hu Fengxiang | – | – | – | – |
| Mr. Zhou Jie | – | – | – | – |
| Mr. Jiang Ming | – | – | – | – |
| Mr. Chen Naiwei | 230 | – | – | 230 |
| Mr. Wan Kam To | 250 | – | – | 250 |
| Mr. Tse Cho Che | 230 | – | – | 230 |
| Mr. Li Zhenfu | 200 | – | – | 200 |
| Supervisors | | | | |
| Mr. He Chuan (a) | – | – | – | – |
| Mr. Zhang Zhenbei (b) | – | – | – | – |
| Mr. Xin Keng | – | – | – | – |
| Mrs. Chen Xin | – | – | – | – |
| | 1,816 | 676 | – | 2,492 |

(a) Appointed on 16 December 2014.

(b) Retired on 16 December 2014.

Note:

In addition to the directors' emoluments as disclosed above, certain directors of the Company received emoluments (the "Emoluments") from Shanghai Pharma Group or Shanghai Industrial Group, the immediate holding company and ultimate parent company respectively. No apportionment has been made as the directors consider that it is impractical to apportion the emoluments between their services rendered to the Group and their services rendered to the immediate holding company and ultimate parent company.

Notes to the Consolidated Financial Statements

48 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

As at 31 December 2015, the Company has direct and indirect interests in the following subsidiaries:

Principal subsidiaries

| Company Name | Country and date of incorporation | Issued and paid up capital/ registered capital <i>RMB'000</i> | Share | Share | Principal activities and place of operations |
|---|-----------------------------------|--|---|---|---|
| | | | percentage held by the Company <i>Direct %</i> | percentage held by the Company <i>Indirect %</i> | |
| Shanghai Pharmaceutical Distribution Co., Ltd. (上海醫藥分銷控股有限公司) | PRC, 26 April 2010 | 3,393,128 | 100 | – | Distribution of pharmaceutical products in the PRC |
| Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd. (上海上藥信誼藥廠有限公司) | PRC, 23 October 1993 | 1,191,611 | 100 | – | Pharmaceutical products manufacture and trading in the PRC |
| Shanghai SPH No.1 Biochemical and Pharmaceutical Co., Ltd. (上海上藥第一生化藥業有限公司) | PRC, 30 July 1994 | 225,000 | 100 | – | Medicine and medical equipment manufacture and trading in the PRC |
| Shanghai Traditional Chinese Medicine Co., Ltd. (上海市藥材有限公司) | PRC, 28 April 1992 | 589,470 | 100 | – | Manufacture and distribution of Chinese medicine and property rental in the PRC |
| Chiatai Qingchunbao Pharmaceutical Co., Ltd. (正大青春寶藥業有限公司) | PRC, 6 November 1992 | 128,500 | 20 | 55 | Medicine manufacture and trading in the PRC |
| SPH Changzhou Pharmaceutical Co., Ltd. (上藥集團常州藥業股份有限公司) | PRC, 1 November 1993 | 78,790 | 57.36 | 18.53 | Medicine Distribution in the PRC |
| Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd. (上海中西三維藥業有限公司) | PRC, 3 November 1995 | 545,800 | 65.13 | 34.87 | Medicines development and manufacture in the PRC |

Notes to the Consolidated Financial Statements

48 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

Principal subsidiaries (continued)

| Company Name | Country and date of incorporation | Issued and paid up capital/registered capital | Share percentage held by the Company | Share percentage held by the Company | Principal activities and place of operations |
|--|-----------------------------------|---|--------------------------------------|--------------------------------------|---|
| | | RMB'000 | Direct % | Indirect % | |
| SPH Qingdao Growful Pharmaceutical Co., Ltd. (上海醫藥集團青島國風藥業股份有限公司) | PRC, 30 June 1994 | 93,000 | 67.52 | – | Traditional Chinese medicine manufacture and trading in the PRC |
| Shanghai Zhonghua Pharmaceutical Co., Ltd. (上海中華藥業有限公司) | PRC, 10 Mar 2009 | 93,642 | 100 | – | Medicine manufacture and trading in the PRC |
| Xiamen Traditional Chinese Medicine Co., Ltd. (廈門中藥廠有限公司) | PRC, 11 September 2002 | 84,030 | – | 61 | Medicine manufacture and trading in the PRC |
| Hangzhou Huqingyutang Pharmaceutical Co., Ltd. (杭州胡慶餘堂藥業有限公司) | PRC, 1 January 1999 | 53,160 | – | 51.01 | Medicine manufacture and trading in the PRC |
| Liaoning SPH Herbapex Pharmaceutical (Group) Co., Ltd. (遼寧上藥好護士藥業(集團)有限公司) | PRC, 12 December 1999 | 51,000 | – | 55 | Medicine manufacture and trading in the PRC |
| Shanghai Medical Instruments Co., Ltd. (上海醫療器械股份有限公司) | PRC, 10 September 1998 | 127,000 | 99.21 | 0.79 | Medical instruments manufacture and trading in the PRC |
| Shanghai Pharmaceutical Material Supply and Marketing Co., Ltd. (上海醫藥物資供銷有限公司) | PRC, 12 May 1982 | 71,390 | 100 | – | Distribution of pharmaceutical products in the PRC |
| Shanghai SPH New Asiatic Pharmaceutical Co., Ltd. (上海上藥新亞藥業有限公司) | PRC, 11 August 1993 | 1,052,429 | 96.9 | – | Medicine manufacture and trading in the PRC |

Notes to the Consolidated Financial Statements

48 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

Principal subsidiaries (continued)

| Company Name | Country and date of incorporation | Issued and paid up capital/ registered capital <i>RMB'000</i> | Share | Share | Principal activities and place of operations |
|---|--------------------------------------|---|---|---|--|
| | | | percentage held by the Company <i>Direct %</i> | percentage held by the Company <i>Indirect %</i> | |
| SIIC Medical Science and Technology (Group) Limited (上海實業醫藥科技(集團)有限公司) | Cayman Islands, 17 September 1999 | HKD6,904,834,385 | 100 | – | Investment holding practices in the PRC |
| Ningbo Pharmaceutical Co., Ltd. (寧波醫藥股份有限公司) | PRC, 5 July 1994 | 250,000 | – | 63.61 | Distribution of pharmaceutical products in the PRC |
| Shanghai Suzuken Chinese Medicine Co., Ltd. (上海鈴謙滬中醫藥有限公司) (Note) | PRC, 10 November 1999 | 84,460 | – | 50 | Distribution of pharmaceutical products in the PRC |

Note: The Company's directors and the Group's management are of the view that the Group has the power to govern the financial and operating policies of the subsidiary although its equity interests in it were not greater than 50%, after considering the facts that the majority of the executive directors of these subsidiaries were representatives of the Group.

Notes to the Consolidated Financial Statements

48 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

Principal subsidiaries (continued)

| Company Name | Country and date of incorporation | Issued and paid up capital/ registered capital | Share percentage held by the Company | Share percentage held by the Company | Principal activities and place of operations |
|--|-----------------------------------|--|--------------------------------------|--------------------------------------|--|
| | | RMB'000 | Direct % | Indirect % | |
| Shanghai Wai Gao Qiao Pharmaceutical Business and Distribution Center (上海外高橋醫藥分銷中心有限公司) | PRC, 9 August 2001 | 20,000 | – | 65 | Distribution of pharmaceutical products in the PRC |
| Shanghai Sifu Pharmaceutical Co., Ltd. (上海思富醫藥有限公司) | PRC, 27 May 1994 | 60,000 | – | 60 | Distribution of pharmaceutical products in the PRC |
| Shanghai Leiyunshang Pharmaceutical Co., Ltd. (上海雷允上藥業有限公司) | PRC, 21 May 1998 | 335,070 | – | 97.58 | Pharmaceutical products manufacture and trading in the PRC |
| Changzhou Pharmaceutical Factory Co., Ltd. (常州製藥廠有限公司) | PRC, 14 December 2001 | 108,000 | – | 77.78 | Medicine manufacture in the PRC |
| Shanghai Pharmaceutical Qingdao Huashi Growful Pharmaceutical Co., Ltd. (青島上藥國風醫藥有限責任公司) | PRC, 27 September 2003 | 76,667 | – | 100 | Distribution of pharmaceutical products in the PRC |
| SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司) | PRC, 14 June 1993 | 1,300,000 | – | 100 | Distribution of pharmaceutical products in the PRC |
| Beijing Xinhai Keyuan Pharmacy Co., Ltd (北京科園信海醫藥經營有限公司) | PRC, 8 March 1999 | 333,070 | – | 100 | Pharmaceutical products trading in the PRC |
| Keyuan Xinhai (Beijing) Medical Products Trade Co., Ltd (科園信海(北京)醫療用品貿易有限公司) | PRC, 4 January 2009 | 30,000 | – | 100 | Pharmaceutical products trading in the PRC |
| Guang Zhou Z.S.Y Pharmaceutical Co., Ltd. (廣州中山醫藥有限公司) | PRC, 8 January 1998 | 76,880 | – | 51 | Pharmaceutical products trading in the PRC |

Notes to the Consolidated Financial Statements

48 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

Principal subsidiaries (continued)

| Company Name | Country and date of incorporation | Issued and | Share | Share | Principal activities and place of operations |
|---|-----------------------------------|---|---|---|--|
| | | paid up capital/ registered capital <i>RMB'000</i> | percentage held by the Company <i>Direct %</i> | percentage held by the Company <i>Indirect %</i> | |
| Taizhou Pharmaceutical Co., Ltd. (台州上藥醫藥有限公司) | PRC, 31 December 2010 | 65,000 | – | 60 | Pharmaceutical products trading in the PRC |
| Beijing Aixin Weiye Medicine Co., Ltd. (北京上藥愛心偉業醫藥有限公司) | PRC, 29 November 2010 | 100,000 | – | 52.24 | Pharmaceutical products trading in the PRC |
| SPH Shanhe Wuxi Pharmaceutical Co., Ltd. (上藥山禾無錫醫藥股份有限公司) | PRC, 1 July 2011 | 62,720 | – | 80 | Pharmaceutical products trading in the PRC |
| SPH Kony (Changzhou) Co., Ltd. (上藥康麗(常州)有限公司) | PRC, 3 January 2000 | 14,946 | 100 | – | Pharmaceutical products manufacture and trading in the PRC |
| SPH Zhongxie Pharmaceutical Co., Ltd. (上海醫藥眾協藥業有限公司) | PRC, 11 January 2011 | 82,000 | – | 100 | Pharmaceutical products trading in the PRC |
| SPH Dong Ying (Jiangsu) Pharmaceutical Co., Ltd. (上藥東英(江蘇)藥業有限公司) | PRC, 1 January 1975 | 141,322 | – | 100 | Pharmaceutical products manufacture and trading in the PRC |
| Shandong Shanghai Pharmaceutical Co., Ltd. (山東上藥醫藥有限公司) | PRC, 18 April 2014 | 20,000 | – | 75 | Distribution of pharmaceutical products in the PRC |
| Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd. (北京信海豐園生物醫藥科技發展有限公司) | PRC, 9 November 1998 | 50,000 | – | 100 | Distribution of pharmaceutical products in the PRC |

Notes to the Consolidated Financial Statements

48 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

Principal jointly controlled entities and associates

As at 31 December 2015, the Company has direct and indirect interests in the following principal jointly controlled entity and associates:

| Company Name | Country and date of incorporation | Issued and | Share | Share | Principal activities and place of operations |
|--|-----------------------------------|---|---|---|---|
| | | paid up capital/ registered capital <i>RMB'000</i> | percentage held by the Company <i>Direct %</i> | percentage held by the Company <i>Indirect %</i> | |
| Shanghai Hutchison Pharmaceutical Co., Ltd. (上海和黃藥業有限公司) | PRC, 30 April 2001 | 229,000 | – | 50 | Pharmaceutical products manufacture and trading in the PRC |
| Shanghai Roche Pharmaceutical Co., Ltd. (上海羅氏製藥有限公司) | PRC, 6 May 1994 | USD134,697 | – | 30 | Pharmaceutical products manufacture and trading in the PRC |
| TECHPOOL Bio-Pharma Co., Ltd. (廣東天普生化醫藥股份有限公司) | PRC, 25 March 1993 | 100,000 | 39.28 | 1.52 | Development, manufacture and distribution of chemical medicine in the PRC |
| Sino-American Shanghai Squibb Pharmaceuticals Ltd. (中美上海施貴寶製藥有限公司) | PRC, 30 June 2009 | USD18,440 | 30 | – | Development, manufacture and distribution of chemical medicine in the PRC |

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