SPH 上海医药
SHANGHAI PHARMA

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

Annual Report 2017

* 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.**

III. **PricewaterhouseCoopers Zhong Tian LLP issued standard unqualified auditor's reports for the financial reports prepared by the Company based on the Chinese Accounting Standards for Business Enterprises. PricewaterhouseCoopers, Certified Public Accountants issued standard unqualified auditor's reports for the financial reports prepared by the Company based on the Hong Kong Financial Reporting Standards.**

IV. **Mr. Zhou Jun, 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.**

A proposed cash dividend of RMB3.80 (tax inclusive) for every ten shares based on the total share capital of the Company as at the registration date specified in the announcement regarding execution of profit distribution would be distributed to all shareholders, subject to approval at the annual general meeting of the Company for 2017.

VI. **Risk statements regarding the forward-looking statements**

✓ Applicable ☐ Not applicable

The forward-looking statements, such as future plans, development strategy contained in this 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 are 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 report.

Contents

Definitions

I. DEFINITIONS

In this 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, 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 2017 to 31 December 2017
"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$" or "HK dollars" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"AUD"	Australian dollars, the lawful currency of Australia
"NZ$"	New Zealand dollars, the lawful currency of New Zealand
"PRC" or "China"	the People's Republic of China; unless the context otherwise requires, references to the PRC or China in this report do not include Hong Kong, Macau or Taiwan
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC

"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
"FDA"	Food and Drug Administration of the United States
"CFDA"	China Food and Drug Administration (國家食品藥品監督管理總局)
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"NDRC"	National Development and Reform Commission (國家發展和改革委員會)
"Shanghai SASAC"	Shanghai State-owned Assets Supervision and Administration Commission (上海市國有資產監督管理委員會)
"MOHRSS"	Ministry of Human Resources and Social Security of the People's Republic of China (中華人民共和國人力資源和社會保障局)
"NHFPC"	the National Health and Family Planning Commission of the People's Republic of China (中華人民共和國國家衛生和計劃生育委員會)
"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)
"Humanwell Healthcare"	Humanwell Healthcare Group 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
"HISUN"	Zhejiang Hisun Pharmaceutical Co., Ltd.
"Hengrui Medicine"	Jiangsu Hengrui Medicine Co., Ltd.
"CR Sanjiu"	China Resources Sanjiu Medical & Pharmaceutical Co., Ltd.
"Livzon Group"	Livzon Pharmaceutical Group Inc.
"SPHC"	Shanghai Pharma Health Commerce Co., Ltd
"SPD"	Supply Processing Distribution
"DTP"	Direct To Patient
"MES"	Manufacturing Execution System
"LIMS"	Laboratory Information Management System
"GMP"	Good Manufacturing Practice
"GSP"	Good Supply Practice
"ICH"	the International Council for Harmonization
"ANDA"	the Abbreviated New Drug Application
"BE"	bioequivalence
"CEP"	Certificate of Suitability to Monograph of European Pharmacopoeia
"DMF"	Drug Master File

Basic Corporate Information and Major Financial Indicators

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. Zhou Jun
Authorised representatives of the Company	Mr. Cho Man, Mr. Liu Dawei

II. CONTACT PERSON AND CONTACT DETAILS

	Secretary of the board of directors, Joint Company Secretary	Securities Affairs Representative
Name	Liu Dawei	Ji Yun
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

III. BASIC INFORMATION

Uniform Social Credit Code of the Company	9131000013358488X7
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	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 of the Company, Shanghai Stock Exchange

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, Wang Renzhi
Name of 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

VII. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY FOR THE LAST THREE YEARS PREPARED UNDER THE CHINESE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

(I) Major Accounting Data

Unit: RMB

Major accounting data	2017	2016	Change compared to the corresponding period of last year (%)	2015
Operating revenue	**130,847,181,884.59**	120,764,660,339.93	8.35	105,516,587,303.26
Net profit attributable to equity holders of listed company	**3,520,645,566.99**	3,196,394,644.62	10.14	2,876,989,142.22
Net profit after deduction of non-recurring profit or loss attributable to equity holders of listed company	**2,845,661,282.15**	2,925,512,696.75	-2.73	2,530,373,020.75
Net cash flows from operating activities	**2,648,808,869.16**	1,946,666,985.00	36.07	1,349,162,853.33

	End of 2017	End of 2016	Change compared to the end of the corresponding period of last year (%)	End of 2015
Net assets attributable to equity holders of listed Company	**34,030,840,901.51**	31,622,553,105.97	7.62	29,930,309,583.79
Total assets	**94,344,475,177.12**	82,742,718,053.46	14.02	74,344,210,482.59
Total share capital at the end of the Period	**2,688,910,538.00**	2,688,910,538.00	/	2,688,910,538.00

Note: The net profit after deducting non-recurring profit or loss decreased by 2.73%, mainly due to the effect of significant decrease in the profit from equity investments. In terms of the net profit attributable to the parent company, the profit from the Company's manufacturing business was RMB1.442 billion, accounting for 40.95%, representing a year-on-year growth of 16.10%; the profit from the Company's commercial business was RMB1.612 billion, accounting for 45.78%, representing a year-on-year growth of 15.39%, while the profit from the Company's equity investments was RMB0.552 billion, accounting for 15.67%, representing a decrease of 42.13% on a year-on-year basis.

(II) Major Financial Indicators

Major financial indicators	2017	2016	Change compared to the corresponding period of last year(%)	2015
Basic earnings per share (RMB per share)	**1.3093**	1.1887	10.14	1.0699
Diluted earnings per share (RMB per share)	**1.3093**	1.1887	10.14	1.0699
Basic earnings per share after deduction of non-recurring profit or loss (RMB per share)	**1.0583**	1.0880	-2.73	0.9410
Weighted average return on net assets (%)	**10.73**	10.39	+0.34 percentage point	9.98
Weighted average return on net assets after deduction of non-recurring profit or loss (%)	**8.67**	9.51	-0.84 percentage point	8.77

Descriptions of the major accounting data and major financial indicators for the last three years of the Company at the end of the Reporting Period

☐ Applicable ✓ Not applicable

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				
	2013	2014	2015	2016	**2017**
Revenue	78,222,817	92,398,894	105,516,587	120,764,660	**130,847,179**
Profit before income tax	3,225,640	3,799,734	4,171,854	4,638,996	**5,204,808**
Income tax expenses	(628,368)	(807,717)	(807,486)	(809,284)	**(1,147,029)**
Profit for the year	2,597,272	2,992,017	3,364,368	3,829,712	**4,057,779**
Attributable to:					
Owners of the Company	2,213,579	2,591,131	2,876,989	3,196,394	**3,520,644**
Non-controlling interest	383,693	400,886	487,379	633,318	**537,135**

(II) Assets and Liabilities

Unit: RMB'000

	For the year ended 31 December				
	2013	2014	2015	2016	**2017**
Total assets	56,311,522	64,340,559	74,344,211	82,742,717	**94,344,475**
Total liabilities	27,310,542	33,241,407	40,536,172	45,908,252	**54,668,627**
Total equity	29,000,980	31,099,152	33,808,039	36,834,465	**39,675,848**
Attributable to:					
Owners of the Company	25,953,813	27,822,133	29,930,314	31,622,557	**34,030,843**
Non-controlling interests	3,047,167	3,277,019	3,877,725	5,211,908	**5,645,005**

Note: 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, 2016 and 2017 is extracted from the financial statements of the respective year prepared under the Hong Kong Financial Reporting Standards.

IX. DISCREPANCIES IN ACCOUNTING DATA UNDER THE DOMESTIC AND INTERNATIONAL ACCOUNTING STANDARDS

(I) Substantial discrepancies in the net profit and net assets attributed to equity holders of listed company disclosed in the financial reports prepared under both the International Accounting Standards and the Chinese Accounting Standards

☐ Applicable ✓ Not applicable

(II) Substantial discrepancies in the net profit and net assets attributed to equity holders of listed company disclosed in the financial reports prepared under both the Foreign Accounting Standards and the Chinese Accounting Standards

☐ Applicable ✓ Not applicable

(III) Note on discrepancies under the Domestic and International Accounting Standards:

✓ Applicable ☐ Not applicable

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 MAJOR FINANCIAL DATA OF 2017 QUARTERS PREPARED IN ACCORDANCE WITH THE CHINESE ACCOUNTING STANDARDS FOR BUSINESS 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	33,129,488,088.64	32,649,384,889.96	33,252,584,941.33	31,815,723,964.66
Net profit attributable to equity holders of listed company	999,386,794.18	925,735,569.80	763,479,244.39	832,043,958.62
Net profit after deduction of non-recurring profit or loss attributable to equity holders of listed company	938,744,427.69	832,847,608.27	684,783,646.52	389,285,599.67
Net cash flows from operating activities	376,240,280.79	883,271,846.97	586,089,004.34	803,207,737.06

Note on discrepancies between data of quarters and disclosed data of periodic report

☐ Applicable ✓ Not applicable

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 or Loss Item	Amount in 2017	Amount in 2016	Amount in 2015
Profit or loss on disposal of non-current assets	**327,746,254.47**	179,009,218.46	294,525,445.84
Government grants recognised in profit or loss for the current period excluding those closely related to the Company's normal operations and granted on an ongoing basis under the national policies according to certain fixed quota of amount or volume	**300,795,412.69**	265,193,947.36	177,273,697.29
Except for the effective hedging activities related to the Company'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	**43,488,895.28**	9,135,150.50	14,225,933.01
Reversal of provisions on receivables assessed for impairment on an individual basis	**367,724,223.97**	51,845,256.13	3,840,000.00
Other non-operating income and expenses other than the aforesaid items	**-164,160,295.01**	-24,727,260.65	8,159,758.28
Other profit or loss items that meet the definition of non-recurring profit or loss	**68,228,401.38**	/	/
Effect on minority interests	**-49,553,481.78**	-96,512,359.09	-38,980,403.50
Effect on income tax	**-219,285,126.16**	-113,062,004.84	-112,428,309.45
Total	**674,984,284.84**	270,881,947.87	346,616,121.47

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

✓ Applicable ☐ Not applicable

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	**4,060,270.54**	642,578.95	-3,417,691.59	-2,950,022.15
Available-for-sale financial assets	**212,220,442.79**	78,960,424.26	-133,260,018.53	35,294,901.45
Financial liabilities at fair value with changes recognised through profit or loss for the period	**869,871.15**	2,433,604.67	1,563,733.52	-1,576,390.20
Total	**217,150,584.48**	82,036,607.88	-135,113,976.60	30,768,489.10

An Overview of Company Businesses

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

(I) Industry Development Stage and Cyclical Characteristics of the Company during the Reporting Period

In 2017, with the stable growth of macro economy in the PRC, and continued advances were made in structural reform of supply side of medical health industry, the operation of China's medical drug market showed the characteristics of new era. In the past year, the deepening reform of "linkage among medical treatment, medical insurance and pharmacy" continued and several important policies were implemented. Especially, the reform of the review and approve system was deepened to speed up to encourage the innovation in terms of medical drug and medical equipment. Clinical trial management policies were adjusted. CFDA joined in ICH system. Policies were introduced to support the evaluation of consistency between generic drug's quality and its efficacy. The industry was sped up to be in line with international practice and upgraded. The "two-invoice system" was comprehensively implemented. Continued advances were made in public hospital reform. Hierarchical medical system evolved in new mode and new path. The control of medical insurance fees was enhanced. The catalog was updated. Reform in payment system was performed on a trial basis, aiming to drive the drug end market to develop in a more diversified and rational direction. China's pharmaceutical industry is witnessing a new competitive pattern to form step by step, leading the industry to transform towards an innovative, efficient, high-quality, and compliant direction. The pharmaceutical industry faces opportunities and challenges during its development.

(II) Industry Policies

1. *Medical-sanitary system reform*

During the Reporting Period, our country has continuously deepened the reform of "three-medical system" (medical treatment, medical insurance and pharmacy) linkage, gradually implemented the hierarchical diagnosis & treatment, medical treatment alliance construction and the cancellation of drug price addition and other policies, and accelerated the medical fee control, so as to further eradicate the disadvantage of covering hospital expenses with medicine revenue. In September 2017, all public hospitals completely cancelled the drug price addition and rebuilt compensation mechanism to further ease the medical burden of the masses. In the aspect of medical insurance and market access, the mode of medical insurance payment has been comprehensively deepened. In June 2017, Instruction on Further Deepening the Payment Mode of Basic Medical Insurance was issued by the State Council to comprehensively implement the diversified and combined payment mode of medical insurance, and such payment mode is guided by disease category. Eight years later, the country re-adjusts the drug directories of the basic medical insurance, employment injury insurance and maternity insurance, supplements a large number of drugs, especially, mainly supports Chinese patent medicine, Children's medicine and ethnic drugs, and furthermore, carries out medical insurance negotiation to serious diseases and innovative drugs.

The implementation of drug's zero price addition causes that public hospitals are short of fund and its commercial payment period is delayed to some extent. The expenditure of medical insurance is confronted with structural adjustment, expense management will be more targeted and refined, adjuvant drug and other unreasonable charge's increase will be further contained.

2. *Pharmaceutical industry*

(1) Pharmaceutical research and development (R&D) and registration

In June 2017, CFDA officially joined ICH symbolizing that Chinese government reform for the drug evaluation, examination & approval and China's medical industry have been recognized by global society, which is beneficial for the internationalization of Chinese pharmaceutical enterprises in the aspects of R&D and supervision, etc. In October 2017, CFDA printed and issued the Decisions on the Adjustment of Related Registration and Management of Imported Drugs to encourage the application of new drugs and satisfy clinical demands, which is beneficial for speeding up the domestic listing of overseas drugs.

In October 2017, General Office of the CPC Central Committee and General Office of the State Council issued the Opinion on Reform Deepening of Review and Approval System and Innovation Encouragement of Medicine and Medical Equipment ("Two Offices and 36 Articles" for short). As the important programmatic documents, "Two Offices and 36 Articles" takes the "innovation encouragement" as the subject with an aim to trigger the vigor for innovation and development of pharmaceutical industry and improve the quality of Chinese medical equipment and international competitiveness for better meeting the public demands.

In August 2017, CFDA printed and issued the Notice of General Office on the Implementation of Related Matters of the Pilot Work of Drugs Listing Licensee System to speed up the implementation of the pilot work of licensee system. Furthermore, the licensee's legal liability, promotion of professional scale of production and approval of licensee's multi-point commission production were emphasized.

The continuous reform of drug evaluation, examination and approval policy and the implementation of drug marketing approval licensee system have major milestone meanings to the development of pharmaceuticals industry. The R&D input of future pharmaceutical company and domestic new drug application, the quantity will increase significantly.

(2) Pharmaceutical manufacturing

During the Reporting Period, CFDA successively issued a series of important refining regulations and supporting policies on the quality and curative effect consistency evaluation of generic drugs. Make clear a variety of situations for the consistent evaluation variety and refine the supporting policies for the reference product, BE test, application materials, acceptance requirement and field checking requirement as well as the qualification recognition on clinical testing agency, etc.

In June 2017, NHFPC, CFDA, MOHRSS and other nine ministries & commissions issued the Implementation Suggestions on the Reform and Improvement of the Safeguard Mechanism of Insufficient Drugs to establish and improve the supply assurance system and mechanism of insufficient drugs, and to improve the drugs monitoring & early warning and list management system. In November 2017, NDRC issued the Guide for the Price Behavior of Insufficient Drug and Crude Drug Operators to further standardize the market price behavior of insufficient drugs and crude drugs, and to safeguard the order of market price. Under this background, the manufacturing enterprises of insufficient drugs usher in a batch of development dividends to safeguard the market supply.

In November 2017, the "associated evaluation" of raw/auxiliary material preparation was officially launched, the registration of crude drug, pharmaceutical adjuvant and drug package material cannot be accepted independently anymore to make preparation review more scientific and accurate. The purpose is to improve the integral level of crude drug, strengthen the entity responsibility of preparation enterprise to drug quality. Therefore, the concentration ratio of raw/auxiliary material industry is expected to achieve further improvement.

3. *Pharmaceutical distribution*

In January 2017, the medical reform office of the State Council co-issued the Notice of the "Implementation Suggestions (Trial)" on the Implementation of "Two-invoice system" in the Drugs Purchase of Public Medical Institution together with NHFPC and other eight national departments, to request the public medical institutions of the integrated medical-reform pilot provinces (regions and cities) and public hospital reform pilot cities to carry out the "two-invoice system" for drug purchase initiatively, and to encourage other regions to perform the "two-invoice system". Furthermore, it will be comprehensively implemented throughout the country in 2018.

The implementation of two-invoice system will speed up the reshuffle of industry to eliminate a group of middle and small-sized enterprises, further improve market concentration and to bring fierce competition for marketing terminal and variety.

Counter-measures of the policy:

During the Reporting Period, the industry upgrading and structural adjustment of the pharmaceuticals industry have been promoted by the release and implementation of a series of important policies in its fields, which makes the pharmaceuticals industry achieving a healthier development. For this point, the Company will pay close attention to the industry and policy change, strengthen policy unscrambling and analysis and make advanced allocation and strategy adjustment in due time based on own actual situation, so as to continuously improve core competitiveness via constantly strengthening innovative development, intensive management and acquisition and reorganization.

(III) Company's business model, main business and industry position

Shanghai Pharma is the large-scale pharmaceutical industry group listed in Shanghai and Hong Kong, and it is the core enterprise subordinate to the massive health industry sector of its Controlling Shareholder, namely, SIIC. Its main business covers pharmaceutical industry, distribution and retail, and Shanghai Pharma possesses unique comprehensive advantages of industry chain, capable of sharing the sustainable growth opportunity of China's health and medicine industry, and furthermore, bringing synergistic effect via resources sharing among business sectors. During the Reporting Period, the Company constantly deepens intensive development, gathers development joint forces, speeds up innovations and breakthroughs, expands business domain and international operations and strengthens capital operation to achieve the steady growth of business performance and promotion of management quality, profitability, innovative impetus, operating efficiency and industry status, so as to continuously create values for shareholders.

Pharmaceutical industry: the Company's pharmaceutical industry is ranking in the first echelon, and products are mainly focusing on the five fields of digestive system and metabolism, cardiovascular system, systemic anti-infection, psychoneural and anti-tumor aspects. The Company produces over 800 varieties of drugs and 20 dosage forms regularly throughout the year, and basically achieves the coverage of the most hospital terminals and retail terminals all over the country through the marketing mode of self-running and investment agency and dealer/agent marketing channel. The Company adheres to the focusing strategy of therapeutic field and major products to build the efficient marketing, production and research system and improve extensions merger and international development ability, so as to achieve and keep the faster development of pharmaceutical industry. With innovation and R&D as the driving factor of business sustainable development, the company is devoted to providing safe and effective therapeutic drugs for serious disease and chronic disease, insists in R&D input and continues to explore the cooperation model and development mechanism. Nowadays, it became one of the best industrial enterprises in China's pharmaceutical R&D production line.

Pharmaceutical distribution: The Company's distribution business ranked the 3rd position in scale in the PRC, adhering to the national commercial network layout. During the Reporting Period, the distribution network covered 31 provinces, municipalities and autonomous regions, among which, its holding subsidiaries directly covered 24 provinces, municipalities and autonomous regions nationwide. The Company established a close cooperation relationship with domestic and foreign major drug manufacturers through supply chain solutions such as modern logistics delivery, information support and terminal retail distribution. It distributes a variety of products, covering more than 20,000 healthcare institutions. The distribution enterprises of the Company are engaged in medicine distribution business strictly in accordance with the requirements of the national 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 party 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.

Pharmaceutical retail: The retail business sales of the Company ranked the top of the national pharmaceutical retail industry. The retail business of Shanghai Pharmaceuticals has over 1,892 chained pharmacies in 16 provinces with Shanghai Huashi Pharmacy, a subsidiary of the Company being one of the retailers with the largest number of pharmacies in East China. SPHC of the Company is committed to creating the innovative medical e-commerce model based on electronic prescription flow. The retail enterprises of the Company are engaged in medicine retail business strictly in accordance with the requirements of the national specifications to sell drugs to end consumers through pharmaceutical retail chain drug stores, operating drug stores with medical institutions and DTP pharmacy.

In the past few years, with the continuous business expansion and scale enlargement, the Company enhanced its industry position accordingly.

- Ranking 995th in top 2000 global enterprises of 2017 issued by Forbes (Chinese Edition);
- Ranking 56th in top 500 Chinese enterprises of 2017 issued by Fortune (Chinese Edition), 3rd in most admired Chinese Pharmaceutical Manufacturing Industry company;
- Ranking 15th in top 100 Shanghai enterprises of 2017, 7th in top 100 enterprises in Shanghai manufacturing industry, jointly issued by Shanghai Enterprise Confederation, Shanghai Entrepreneur Association and Shanghai Federation of Economic Organizations;
- Selected as the most potential Company in global "top 50 New Pretty" voted by Goldman Sachs Investment Portfolio Strategy Research Department;
- Selected as Top 100 Listed Company in 2017 at Summit Forum of Top 100 Listed Companies in China and was awarded with Star Enterprise in China;

- Ranking 3rd in top 10 enterprise groups in Chinese pharmaceutical industry in 2017, 2nd in top 100 industrial enterprises in comprehensive strength in Chinese chemical pharmaceutical industry, jointly issued by China Chemical & Pharmaceutical Industry Association, China Association of Pharmaceutical Commerce, China Non-prescription Medicine Association and China Development Promotion Association for Pharmaceutical Industry;

- Listed in Ministry of Industry and Information Technology of top 100 enterprises in China Pharmaceutical Industry in 2016, and was selected as the "Best Industrial Enterprise with Drug R&D Product Pipeline in China in 2017" at the 34th session of annual meeting of National Pharmaceutical Industry Information in 2017 sponsored by Pharmaceutical Industry Information Centre of PRC.

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

✓ Applicable ☐ Not applicable

Unit: RMB

Main Assets	Consolidated on 31 December 2017	Consolidated on 31 December 2016	Changes in current amount as compared to last period (%)	Explanation of material changes (over 30%)
Long-term equity investment	**4,694,168,133.68**	4,227,206,159.43	11.05	/
Fixed assets	**7,154,186,829.71**	5,252,961,272.94	36.19	During the Reporting Period, the acquisition of fixed assets increased
Under construction	**1,537,445,008.35**	1,308,125,663.10	17.53	/
Intangible assets	**2,640,503,113.62**	2,750,893,639.94	-4.01	/
Goodwill	**6,606,706,225.89**	5,847,987,408.43	12.97	/

Among which, overseas assets amounted to 3,642,145,290.31 (Unit: RMB), the proportion to the total assets is 3.86%.

Details of changes in other main assets are set out in "II (III) Analysis on Assets and Liabilities" of Chapter 4.

III. CORE COMPETITIVENESS ANALYSIS DURING THE REPORTING PERIOD

✓ Applicable ☐ Not applicable

(I) Advantages of Industrial Chains

Shanghai Pharma is a leading integrated industrial group in China's industry and commerce industry. It integrates drug manufacturing, distribution and retail. This enables the Company to have unique business model with shared and mutual benefits. Therefore, it enable the Company to be continuously driven by major links of the value chain of the medical industry. The Company is able to get together resources, centrally break through the industry development bottlenecks and continuously provide quality product, service and solution for patients, medical institutions and partners. Due to the industrial advantages of such integrated development, the Company is able to constantly create extra synergetic profits and values for its shareholders and the society and lower the risks and uncertainties of individual fields.

1. *R&D Advantages*

The Company attaches importance to R&D innovation as to both innovative drugs and generic drugs. The Company is dedicated to providing safe and effective branded drugs for curing major diseases and chronic diseases. The Company has established Shanghai Pharma central institute and sub-institute, enterprise technology center at national level, and 10 provincial and municipal enterprise technology centers, overseas R&D centers, which together form the Company's interactive and integrated R&D system. The Company insists on open R&D mode, and has established close cooperation relationships in terms of chemical innovative drugs, biological drugs and etc with various institutions, such as, Chinese Academy of Sciences, China Medical University, Shenyang Pharmaceutical University, Chinese People's Liberation Army Second Military Medical University, Sichuan University, Japan Mitsubishi Tanabe Pharma, Shanghai Fudan-zhangjiang Bio-Pharmaceutical Co., Ltd. The Company continues to construct forward-looking innovative drug R&D product chains and improved innovative drug product chains with clinical values and technological features. The Company has been consecutively shortlisted for Top 20 Best Industrial Enterprises in China's Medical R&D Product Pipeline. Its R&D ability ranks in the first echelon of China's medical enterprises.

2. *Product Advantages*

The Company has profound history. Over the years, it owns rich product resources. It produces more than 800 kinds of drugs each year regularly. It mainly produces products for cardiovascular system, digestive tract and metabolism, systemic anti-infection, central nervous system, antitumor and immunomodulator, skeletal musculature, respiratory system fields, which has formed the portfolio echelon of key products and basic and common drug products. The Company has product lines for producing a complete range of dosage forms of drugs both at home and abroad. The Company insists on comprehensive lean management. The Company has established production information management MES system and quality information management LIMS system for a lean optimization of all links of drug production and manufacture. The Company puts emphasis on improvement of its ability in technological innovation, industrialization and quality control, so as to keep its leading advantages in quality and cost and ensure that it is able to constantly and stably product drugs that comply with the intended purposes and the registration requirements. The Company seeks for international development. It has passed the quality certifications of WHO, FDA, European Union and other developed countries as to several of its crude drugs. Now, the Company has been allowed to sell its Rosuvastatin Calcium Tablets in the United States markets. The Company has also applied to USA ANDA for registration of several products.

3. *Service Advantages*

The Company has an intensive and informational modern drug circulation system, forming a network with a coverage of 24 provinces and cities, thus, forming an effective, quick, and intelligent modern supply chain service channel. Therefore, the Company has a broad customer network. Meanwhile, our integrated shared and mutually beneficial business model serves to promote our own pharmaceutical business. The Company insists on innovative drug circulation and keeps providing services for reform of public medical institutions. We have leading supply chain management, information technology and logistics technologies so as to meet the needs of the public and the medical institutions. We also keep increasing our service efficiency and improving customer experiences. The Company is in a leading position in terms of innovative business model, such as, supply chain extension service within hospitals, the third-party logistics service, direct-delivery drug service, one-stop service for imported drugs, information management of drug stocks, and clinical support service. The Company integrates its online and offline drug retail businesses, which is leading in China. By virtue of electronic prescription circulation platform, Zhuisu (追溯) Cloud service platform, and 1,892 branded offline retail chain pharmacies in 16 provinces, regions and cities across China, the Company is able to constantly provide efficient, professional and safe services for its customers.

(II) Brand advantage

Built on rich heritage and fine culture, the Company places emphasis on safety, reliability and innovation, and adheres to the main brand-driven development strategy. It owns a group of established brands with long history and rich connotation, which creates effective synergy with the main brand, "Shanghai Pharmaceuticals".

(III) Advantages of industrial and financial integration

The Company has a sound financial structure and good control of its asset to liability ratio. By virtue of A+H shares listing platform, international and domestic investment platform and all kinds of merger and acquisition (M&A) funds, the Company has a relatively optimized capital operation ability, thus, it can fully combine industrial capital with financial capital to drive the industrial development.

(IV) Talent advantage

The core values of the Company are "innovation, integrity, cooperation, tolerance and accountability". The management team of the Company and operation teams of its subsidiaries have displayed entrepreneurship, open-mindedness, strong capability to learn, professionalism, willingness to innovate and team spirit. The Company advocates a learning goose-type team culture, contributing to a team with the right structure, good match of skill-set and position, high quality, strong commitment and a perfect fit for the Company's development strategy.

Report of the Board of Directors

I. DISCUSSION AND ANALYSIS OF THE OPERATION

2017 witnessed the implementation of many industry's important reform policies. It was also an important year for advancing Shanghai Pharmaceuticals's "Three three three plus one (三三三+一)" development plan. During the Reporting Period, led by the Board of Directors, the Company focused on improvement in all aspects and cohesion of resultant development forces, advanced the implementation of major strategies, further optimized its industrial product structure, constantly enriched its innovation product pipelines, sped up its layout of its commercial network across China, conducted its international business in order and smoothly completed its annual operation goals and all priorities.

During the Reporting Period, the Company recorded an operating income of RMB130.847 billion, representing a year-on-year growth of 8.35%. Of which, its pharmaceutical manufacturing kept growing rapidly and recorded revenue of RMB14.987 billion, representing a year-on-year growth of 20.71%. While its pharmaceutical services recorded revenue of RMB115.860 billion, representing a year-on-year growth of 6.93%. Affected by the two-invoice system, the Company's business revenue growth slowed down in short term; whereas from a long run, the two-invoice system will promote the integration of the industry, improve the circulation efficiency and advance large circulation enterprises to keep growing.

The Company recorded a net profit attributable to the shareholders of the listed companies of RMB3.521 billion, representing a year-on-year growth of 10.14%. Of which, the profit contributed by operating business of its pharmaceutical manufacturing and pharmaceutical services were RMB1.442 billion and RMB1.612 billion, representing an increase of 16.10% and 15.39% on a year-on-year basis, respectively, while the profit from equity investments was RMB552 million, representing a decrease of 42.13% on a year-on-year basis.

The Company's profitability kept increasing stably. Its integrated gross profit margin increased by 0.97 percentage point on a year-on-year basis. The same indicator of its pharmaceutical manufacturing and pharmaceutical distribution respectively increased by 3.3 percentage points and 0.23 percentage point. Its operating profit margin net of the expense (two expense items) ratio increased by 0.13 percentage point on a year-on-year basis. Its pharmaceutical manufacturing and pharmaceutical distribution using the same indicator respectively increased by 0.4 percentage point and 0.14 percentage point.

The Company recorded a net operating cash inflow of RMB2.649 billion, representing a year-on-year growth of 36.07%. Of which, its pharmaceutical manufacturing and pharmaceutical services respectively recorded a net operating cash inflow of RMB2.618 billion and RMB314 million, respectively representing a year-on-year growth of 29.20% and 51.57%.

Performance driving factors and operation highlights in 2017:

Pharmaceutical manufacturing

During the Reporting Period, the Company's sales revenue from the pharmaceutical business was RMB14.987 billion, representing a year-on-year growth of 20.71%; a grow profit margin of 53.86%, representing a year-on-year growth of 3.3 percentage points, and an operating profit margin of 12.14% net of two expense items, representing a year-on-year growth of 0.4 percentage point using the same indicator.

During the Reporting Period, the Company's pharmaceutical manufacturing witnessed a major breakthrough in its operation income growth and gross profit margin growth. This was benefited from the Company's continuous improvement of its three building focus in R&D, manufacture, and marketing centers, advancement of multiple intensive development initiatives, improvement of ability of the organization in all aspects, clearly twisting the situation that its industry enterprises was small, fragmented and weak, and gradually forming of relative complete management platform with research, production and sales integrated and featured with intensive resources and efficient coordination.

The Company attached great importance to its marketing system construction, insisted on performing benchmarking management, created professional and high-quality marketing talents, pushed forward lean management of marketing channels and continued to create a first-class marketing system. By implementing strategies which focused on some fields and key products, the Company recorded a sales revenue of RMB7.979 billion from its 60 key species, representing a year-on-year growth of 14.42%. Of which, there were 37 species, each with higher or equal sales revenue growth than or to species of the same kinds (source: IQVIA market data). There were up to 28 products from with the Company generated more than 100 million of sales revenue. There were 2 products from which the Company generated year-on-year increased sales revenue. The sales revenue from key species accounted for 56.92% of the Company's manufacturing income using the same indicator, representing a year-on-year growth of 0.75 percentage point. The gross profit margin of key species was 71.28%, representing a year-on-year growth of 2.65 percentage points.

- The Marketing Department I is oriented by academic marketing and has been developed into a professional end marketing team that can compete with originator product teams. Such department is responsible for the marketing of Hydroxychloroquine Sulfate Tablets, and for analysis of its competitive products in terms of their differentiated academic marketing to establish the product's core marketing points and put emphasis on the product's core clinical value. In 2017, a sales revenue of RMB550.64 million was recorded (source: IQVIA market date, similarly hereinafter), representing a year-on-year growth of 13.36%, accounting for 80% of the market shares and exceeding the originator product. Such department digs the academic values of Duloxetine Hydrochloride Enteric-coated Tablets and Capsules in terms of curing Major Depressive Disorder so as to increase their awareness for using as specialized drugs. In 2017, a sales revenue of RMB170.86 million was recorded, representing a year-on-year growth of 23.68%, exceeding the originator products.

- The Marketing Department II is oriented by building up refined channel network, pushes forward the increased coverage of investment-inviting markets. Such department is responsible for the marketing of Methotrexate Tablets, and enhancing the management of channel inventory and sales teams, and also the information construction. In 2017, a sales revenue of RMB118.01 million was recorded, representing a year-on-year growth of 16.91%. Such department is also responsible for Sulfasalazine Enteric-coated Tablets and for refined channel management while driving its clinical applications. In 2017, a sales revenue of RMB1,006.8 billion, representing a year-on-year growth of 99.02%. In addition, such department is also responsible for increasing the end sales volume of Albuterol Inhaler. In 2017, a sales revenue of RMB119.92 million was recorded, representing a year-on-year growth of 141.63%. Meanwhile, it accounted for 50.18% of the market shares.

The Company attaches more importance to the R&D innovation while constantly optimizing the marketing system. During the Reporting Period, the input R&D expenditure reached RMB790.35 million, representing a year-on-year growth of 20.79%, accounting for 5.27% of the drug industry sales revenue. Of which, 21.14% was used for innovative drug R&D, 22.59% for generics, 35.43% for the second development of the existing products, and the remaining 20.84% for evaluation of consistency between the quality of generic drug and its curative effect. The Company mainly focused on innovative drug R&D for fields such as, antitumor, systemic anti-infection, and cardiovascular system.

The Company continued to take its R&D strategies in both innovative drugs and generics. In terms of generic R&D, consistence evaluation is the core, which is pushed forward specially. As to the innovative drug R&D, the Company sped up its R&D model innovation and optimization. It actively advanced cooperation across China and also sped up overseas layout. In 2017, the Company combined with the development strategies of large species, closely followed the international R&D hotspots, and built up cooperation relationship with many institutions such as National Clinical Center of Ruijin Hospital. Meanwhile, Shanghai Pharmaceuticals Microbiology Institute & Municipal Probiotics Innovation Center was officially licensed and established. This led the R&D and manufacture fields of microecological innovative drugs to step on a new height. To respond to the current reforms in national review and approve system, the Company started the construction of US R&D centers, pushed forward innovation cooperation, and applied for registration of the generics and new dosage forms in China and foreign countries. The Company optimized the operation mechanisms of its R&D management centers and internal coordination, and fully mobilized its R&D system to be active in innovation. Thus, it achieved milestone results in the R&D of several new drugs. The Company was also shortlisted for Top 20 Best Industrial Enterprises in China's Medical R&D Product Line.

- The Company has obtained 8 approvals in total for clinical trials for - MCC-DM1 Antibody-Drug Conjugates – Recombinant anti Her2 humanized monoclonal antibody for Injection (intended for second-line treatment for HER2 positive advanced breast cancer), Hydroxyl Triptolide (intended for treatment for chronic abnormal immune activation of AIDS), Recombinant anti HER2 humanized monoclonal antibody Composition for Injection (intended for first-line treatment for Her2 positive advanced breast cancer and preoperative adjuvant therapy), chlorodipine butyrate and chlorodipine butyrate emulsion, Perindopril Tert-Butylamine, and etc. SPH3127 has completed Phase 1 clinical trail and entered into Phase II clinical trail. Clinical application of SPH3348 raw material agent preparation has been accepted. The Company also has applied for 6 approvals for producing Parecoxib Sodium and Crestor Calcium. The Company has obtain 4 approvals for producing Trypsin for Injection. By virtue of these, the Company has constructed step by step the forward-looking innovative drug R&D production chain and improved innovative drug product chain with clinical values and technology features, thus, further enriching the Company's product lines;

- The Company actively pushed forward international certification and registration of preparations and crude drugs so as to expand overseas markets. The Company has been allowed to sell Crestor Calcium in the United States preparation markets. As to Eslicarbazepine Acetate, the Company's application for USA ANDA has been accepted and strives for first generic. Pregabalin has obtained European CEP certification. As to Lenalidomide and Sofosbuvir, the Company has submitted USA DMF;

- During the Reporting Period, the Company has established consistence evaluation office, gathering advantageous resources to fully push forward the evaluation of consistence of the generic's quality and its curative effect. The Company has conducted such evaluation work for 70 species (97 approvals) in total, of which, 21 species (26 approvals) are outside 289 catalog. As to Fluoxitine Hydrochloride Capsules and Captopril Tablets, their such evaluation work has been completed and applied to CFDA. Nearly 1/3 products have entered into clinical research stage. The Company has established strategic clinical research cooperation alliances with several third-grade class-A hospitals. 22 clinical support projects have been implemented;

- As of the end of 2017, the Company has had 895 invention patent applications in cumulative total, of which, 399 were granted patents, of which, 125 were utility models and has had 365 effective invention patents in total.

During the Reporting Period, the Company has established its manufacture management center. Under this center, it has established four department and one platform. This helped it to achieve professional management as to production, quality, technology, engineering equipment and supply chains, gradually improve the existing situations featured with fragmented internal production layout, low product intensity, and uneven production capacity of each production base, improve production and manufacture capacity, and create an advanced manufacture system featured with "quality first, intelligent manufacture, optimized structure, and green development".

The Company has fully pushed forward its strategic layout of the whole industry chain of traditional Chinese medicine, built up planting bases in many provinces and cities, such as, Liaoning, Shandong, Shanghai, Hunan, Yunnan, Sichuan, Ningxia, and achieved standardized, normalized, scientific and quality-traceable medicinal material planting. The Company actively performed layout in the field of traditional Chinese medical formula particle and has completed the research on 150 standard decoctions and 70 formula particles. The Company insisted on its service model "famous doctors + good medicine", sped up its layout in the field of TCM outpatient clinics. It has set up its second Lei's TCM outpatient clinic – Lei's Hanguang TCM Outpatient Clinic. The Company cooperated with INOVA HEALTH SYSTEM and joined hands with Shanghai University of Traditional Chinese Medicine to together promote TCM to develop internationally.

The Company continued its Lean and Six Sigma management work and the constant improvement of such work. Its lean management covered all aspects, such as, R&D, production, quality, sales, storage, transport, credit period, inventory, e-commerce. This provided a systematic support for the Company's strategy implementation, operation and management. The quantity and quality of the Company's completed projects hit a new high. The Company has completed 116 lean and six sigma projects in total. It is expected that such projects will bring RMB35.10 million annual income. Benefited from lean and six sigma management, 6S and TPM system construction has been further improved and lean talent echelon construction has been matured gradually.

Pharmaceutical distribution

During the Reporting Period, the sales revenue from pharmaceutical distribution business was RMB116.150 billion, representing a year-on-year growth of 6.93%; a gross profit margin of 6.12%, representing a year-on-year growth of 0.23 percentage point and an operating profit margin of 2.61% net of two expense items, representing a year-on-year growth of 0.14 percentage point.

During the Reporting Period, the Company actively seized the industry opportunities to lead the industry to integration and upgrades and improving the network layout across China. The Company acquired 100% shares of Cardinal Health (L) Co., Ltd. at US$576 million in cash, thus, indirectly acquiring all Chinese business entities Cardinal Health (L) Co., Ltd. have established in Hong Kong and mainland China. In addition, the Company also acquired 51% shares of Sichuan Shenyu Pharmaceutical Co., Ltd. (now known as "SPH Sichuan Pharmaceutical Co., Ltd.") at RMB297 million and 99% of shares of Xuzhou Pharmaceutical Co., Ltd at RMB579 million. The implementation of the above key equity investment projects has widened and deepened the Company's Pharmaceutical distribution network coverage across China, including Sichuan, Chongqing, Guizhou and Tianjian, and increased the number of provinces covered to 24 from 20. This consolidates the Company's leading position in subdivision fields such as imported drug agency, medical equipment agency, the third party profession logistics services, and etc.

During the Reporting Period, the Company has actively conformed to the national two-invoice system policies to further optimize its business structure based on improved network coverage to increase its net sales business ratio. As of the end of the Reporting Period, the Company's hospital net sales ratio increased to 62.35% from 60.79% at the end of last year.

During the Reporting Period, the Company improved its logistics standards to further improve its modern drug logistics network. The Company has established Shanghai, Beijing and many other national logistics centers, based on which, the Company advanced the construction of its rational logistics. In order to maintain its profitability of distribution business, the Company continued to optimize its product structure, pushed forward Lean and Six Sigma management methodology to enhance its control over expense, and further expanded its hospital supply chain innovation services. The Company has had 226 trusted hospital pharmacies in total, of which 97 are new.

Pharmaceutical retail

During the Reporting Period, the Company's sales revenue from the pharmaceutical retail business was RMB5.640 billion, representing a year-on-year growth of 9.44%; a gross profit margin of 16.36%, representing a year-on-year growth of 0.84 percentage point, and an operating profit margin of 1.58% net of two expense items, representing a year-on-year growth of 0.13 percentage point.

As of the end of the Reporting Period, the Company has had 1,892 branded chain retail pharmacies, of which 1,247 are direct-sale stores. The Company has opened 54 pharmacies with medical institutions in total, of which, 14 are new. Meanwhile, the Company actively participated in Shanghai community's comprehensively reformed prescription extension projects to help the development of hierarchical medical system. At present, Shanghai 146 community hospitals and health service centers in Shanghai have been covered.

The Company regards SPHC as an "Internet+" business platform for the development of new retail of prescription drugs. During the Reporting Period, the Company has entered into strategic cooperation agreements with Tencent, preliminarily forming a closed loop of new retail value chain of prescription drugs from access to, management, implementation, distribution and value-added service of prescription. During the Reporting Period, there were 214 medical institutions at all levels joining the electronic prescription circulation end, and more than 2 million pieces of electronic prescriptions were handled. The DTP stores of Cardinal Health China joined the prescription distribution end. This has further established the Company's position in China's largest new drug and miracle drug DTP service network with more than 70 DTP stores in total. At value-added service of prescription end, the Company tried to provide innovative medical payment solutions for individuals. Therefore, it joined hands with AstraZeneca to launch Tagrisso® financial installment payment program, aiming to relief the short-term cash pressure of the family of the patients. The Company also cooperated with Bristol-Myers Squibb to launch China's first "payment based on curative effect" project, which is an innovative medical insurance project.

Capital Operation

The Company focuses on its long-term and sustainable development, rationally controls its capital structure, coordinates efforts to arrange its investment and financing acts, and strongly supports its needs for strategical development. Since 2012, the Company has continued to distribute in cash dividends to its shareholders in 5 consecutive years as return. The annual average of such cash dividends were 30% higher than the net profit attributable to the shareholders of listed companies. In January 2018, the Company completed the placement of 153,178,784 new H Shares, with HK$3.117 billion raised in net amount, which would be used for expansion of industry manufacture and distribution businesses and replenish operation funds, so as to drive the leap-forward development of various business sectors with capital.

II. MAIN OPERATION DURING THE REPORTING PERIOD

For the details, please see the above section headed "DISCUSSION AND ANALYSIS OF THE OPERATION".

(I) Analysis of principal business

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

Unit: RMB

Item	Amount for the Reporting Period	Amount for the same period of last year	Change (%)	Reasons for changes
Operating Income	130,847,181,884.59	120,764,660,339.93	8.35	Increase of sales revenue during the Reporting Period
Operating costs	114,122,683,234.72	106,530,890,618.77	7.13	Increase of sales during the Reporting Period
Sales costs	7,411,261,758.67	6,067,497,152.02	22.15	Increase of sales during the Reporting Period
Management costs	4,123,861,911.57	3,567,949,663.95	15.58	Increase of management costs resulting from the increase in the scale of operation during the Reporting Period
Finance costs	676,662,264.62	586,736,493.95	15.33	Increase of interest expense during the Reporting Period
Losses from impaired assets	81,194,791.69	446,342,756.25	-81.81	Recovering accounts receivable reserved for bad debts in the previous period during the Reporting Period
Losses from changes in fair value	-4,904,383.68	-78,771.00	-6,126.13	Increase of fair value of trade financial liabilities during the Reporting Period
Gains on assets disposal	120,923,112.11	179,009,218.46	-32.45	Decrease of gains from disposal of fixed assets during the Reporting Period
Other income	180,470,007.04		/	Government grants reclassified into other revenue during the Reporting Period
Non-operating income	165,857,786.45	405,391,881.47	-59.09	Government grants reclassified into other revenue during the Reporting Period
Income tax expense	1,147,028,682.61	809,283,863.24	41.73	Increase of tax payable by enterprises during the Reporting Period
Net cash flow generated from operating activities	2,648,808,869.16	1,946,666,985.00	36.07	Increase in collection of loans during the Reporting Period
Net cash flow generated from investing activities	-2,355,038,147.80	-2,889,540,523.88	18.50	Decrease of receipt of cash paid by subsidiaries during the Reporting Period
Net cash flow generated from financing activities	2,314,677,734.13	647,402,905.17	257.53	Increase of receipt of bank borrowing during the Reporting Period
R&D expenses	836,062,600.00	670,550,000.00	24.68	Increase of the R&D investment during the Reporting Period

2. *Income and Cost Analysis*

✓ Applicable ☐ Not applicable

For the details, see the below table

(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 year-on-year (%)	Increase/ decrease in operating cost year-on-year (%)	Increase/ decrease in gross profit margin year-on-year (%)
Manufacturing	14,987,008,613.27	6,722,698,804.19	55.14	20.71	14.91	+2.27 percentage points
Distribution	116,149,848,431.89	108,867,632,432.39	6.27	6.93	6.66	+0.24 percentage point
Retail	5,639,695,176.25	4,698,568,533.07	16.69	9.44	8.34	+0.85 percentage point
Others	77,100,030.46	26,148,890.67	66.08	31.65	52.48	-4.63 percentage points
Offsetting	-6,507,518,274.79	-6,424,438,934.14				

Principal business by region						
By region	Operating income	Operating cost	Gross profit margin (%)	Increase/ decrease in operating income year-on-year (%)	Increase/ decrease in operating cost year-on-year (%)	Increase/ decrease in gross profit margin year-on-year (%)
Domestic	128,431,871,740.00	112,625,756,354.78	12.31	7.42	6.47	+0.78 percentage point
Overseas	1,914,262,237.08	1,264,853,371.40	33.92	162.74	132.55	+8.58 percentage points

Principal business by industry, product and region

✓ Applicable ☐ Not applicable

Note:

① Details for description of principal business by industry, product and region, see below "Basic Information of the Company's Principal Manufacturing Business according to Therapeutic Areas".

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

(2). Analysis table of production and sales volume

✓ Applicable ☐ Not applicable

Main products	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 (10,000 vials, 20ml/vial)	3,859	3,918	412	-1.08	4.53	–22.74
Hydroxychloroquine sulfate tablets (10,000 pieces, 0.1g/piece)	38,931	36,249	3,960	29.75	19.51	207.95
Live combined Bifidobacterium (10,000 pieces)	73,447	70,832	13,217	52.44	39.42	0.32
Sodium tanshinone IIA silate injection (10,000 vials, 2ml/vial)	11,610	11,500	227	6.98	4.55	-29.72
Cefotiam hydrochloride for injection (10,000 vials, 0.5g/vial)	3,233	3,374	964	-26.32	–7.86	–14.13

Description on Production and Sales Volume

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; the specification of cefotiam hydrochloride for injection is converted into 0.5g;

② Hydroxychloroquine sulfate tablets: inventory volume was lower in 2016 and sales volume is estimated to increase significantly in 2018 due to factors such as workshop renovation, thus to increase reserves accordingly.

③ Live combined Bifidobacterium: the expansion strategy in the product market was successful, and the market demand increased rapidly, thus need to increase production to meet demand.

(3). Table of Analysis of Cost

Unit: RMB0'000

By industry							
By industry	Cost composition	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 of the Reporting Period compared to that of the corresponding period of last year (%)	Description
Industrial	Raw materials, ancillary materials and packaging materials	481,772.19	71.66	415,824.52	71.08	15.86	/
	Utilities and power expenses	25,235.59	3.75	23,774.49	4.06	6.15	/
	Depreciation charges	35,776.77	5.32	29,315.13	5.01	22.04	/
	Salaries	62,492.43	9.30	55,743.93	9.53	12.11	/
	Other manufacturing cost	66,992.90	9.97	60,403.72	10.32	10.91	/
	Total industrial cost	672,269.88	100.00	585,061.79	100.00	14.91	/
Commercial and others	Cost	11,383,905.81	100.00	10,663,459.45	100.00	6.76	/
Offsetting total cost		-643,907.37	/	-595,432.18	/	8.14	/
Total operating cost		11,412,268.32	100.00	10,653,089.06	100.00	7.13	/

Other description on cost analysis

☐ Applicable ✓ Not applicable

(4). Major Customers and Major suppliers

✓ Applicable ☐ Not applicable

The aggregate sales to the five largest customers was RMB6,152.85 million, accounting for 4.70% of the total sales for the year; the sales to the related parties among the sales to the five largest customers was RMB2,121.35 million, accounting for 1.62% of the total sales for the year.

The aggregate purchase from the five largest suppliers was RMB9,402.42 million, accounting for 8.24% of the total purchase for the year; the purchase from the related parties among the purchase from the five largest suppliers was RMB2,797.57 million, accounting for 2.45% of the total purchase for the year.

Other instructions

None of the directors, close associates of directors, or any shareholders (to the knowledge of the Board, those who have more than 5% of the shares issued by the listed issuers) have interests in the suppliers or customers disclosed above.

3. *Expenses*

✓ Applicable ☐ Not applicable

See "(I) Analysis of principal business – analysis on changes in relevant items of statement of profit and statement of cash flow" of this report for reasons of changes by more than 30% in financial data such as sales expenses, management expenses, financial expenses, income taxes, etc. during the Reporting Period.

4. *R&D investment*

Table of R&D investment

✓ Applicable ☐ Not applicable

Unit: RMB0'000

Expensed R&D investment for the current period	79,034.93
Capitalized R&D investment for the current period	4,571.33
Total investment in R&D	83,606.26
Percentage of the total amount of R&D investment in operation income (%)	5.58
Number of R&D personnel of the Company	866
Percentage of the number of R&D personnel in the total number of personnel of the Company (%)	2.1
Percentage of capitalized R&D investment (%)	5.47

Note: Percentage of R&D investment represents that in industrial operating income.

Explanation

✓ Applicable ☐ Not applicable

The number of R&D personnel and the proportion of it were relatively stable. The proportion of R&D investment increased compared with last year.

5. *Cash Flow*

✓ Applicable ☐ Not applicable

The net amount of cash flow generated by Shanghai Pharmaceuticals from its operating activities is RMB2,649 million during the Reporting Period, representing an increase of 36.07% 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-2,355 million; and the net amount of cash from generated from financing activities is RMB2,315 million. The net cash flow from operating activities accounted for 65.28% of net profit, representing a increase of 14.45 percentage points over the same period of last year; thus there is no significant difference.

6. *Explanations on Significant Changes in Profit Resulting from Non-principal Activities*

☐ Applicable ✓ Not applicable

(II) Analysis on Assets and Liabilities

✓ Applicable ☐ Not applicable

1. *Assets and Liabilities*

Unit: RMB

Items	Current 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 (%)	Description
Financial assets at fair value with changes recognized through current profit or loss	642,578.95	0.001	4,060,270.54	0.005	-84.17	Disposal of financial assets held for trading during the Reporting Period
Notes receivable	1,107,996,606.64	1.17	1,586,533,454.66	1.92	-30.16	Decrease in bank acceptance bills during the Reporting Period
Interest receivables	97,560,709.29	0.10	2,606,115.48	0.003	3,643.53	Increase in dividends due from associates during the Reporting Period
Other Receivables	1,438,356,688.81	1.52	949,121,530.40	1.15	51.55	Increase in retention monies receivable and deposit during the Reporting Period
Available-for-sale financial assets	109,081,061.95	0.12	269,366,340.75	0.33	-59.50	Disposal of available-for-sale financial assets during the Reporting Period
Long-term receivables	581,478,958.13	0.62	425,362,273.51	0.51	36.70	Increase in long-term deposits receivable during the Reporting Period
Fixed assets	7,154,186,829.71	7.58	5,252,961,272.94	6.35	36.19	Increase in purchase of fixed assets during the Reporting Period
Development expenditure	61,932,199.83	0.07	16,218,892.97	0.02	281.85	Increase in capitalized R&D investment during the Reporting Period

Items	Current 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 (%)	Description
Short-term borrowings	13,745,925,305.56	14.57	9,627,798,513.11	11.64	42.77	Increase in bank borrowings during the Reporting Period
Financial liabilities at fair value with changes recognised through current profit or loss	2,433,604.67	0.003	869,871.15	0.001	179.77	Increase in fair value of financial liabilities held for trading during the Reporting Period
Advances	1,032,469,501.56	1.09	737,864,087.00	0.89	39.93	Increase in advances during the Reporting Period
Taxes payable	1,141,395,775.36	1.21	642,458,444.88	0.78	77.66	Increase in corporate income tax payable during the Reporting Period
Interest payable	128,215,818.36	0.14	94,637,405.49	0.11	35.48	Increase in interests payables on borrowings during the Reporting Period
Other payables	5,476,041,745.63	5.80	3,303,531,891.80	3.99	65.76	Increase in accrued expenses during the Reporting Period
Non-current liability due within one year	57,573,051.38	0.06	18,930,860.37	0.02	204.12	Increase in long-term borrowings due within one year during the Reporting Period
Accrued liabilities	83,082,805.23	0.09	6,635,831.30	0.01	1,152.03	Expected increase in expenditure on contingent matters during the Reporting Period

2. *Major assets restriction at the end of the Reporting Period*

✓ Applicable ☐ Not applicable

On 31 December 2017, the Company's housing and buildings and machinery equipment with the book value of RMB316,363,010.97 (original cost: RMB477,590,716.56), and 12,072,432.06 square meters of land use right (original cost of RMB110,295,425.86 and book value of RMB90,167,140.80) were set as collateral for short-term borrowings of RMB537,700,000.00, long-term borrowings of RMB31,980,464.94 and long-term borrowings due within one year of RMB2,975,699.00.

On 31 December 2017, accounts receivable of RMB237,037,558.89 was pledged to the bank as a guarantee for short-term borrowing of RMB203,150,000.00, and accounts receivables of RMB165,515,400.00 was pledged to the bank as a guarantee for long-term borrowing of RMB115,162,551.00 and long-term borrowing of RMB42,076,234.00 due within one year. As at 31 December 2017, the balance of the Group's restricted monetary funds was RMB1,272,665,786.61, which was mainly the margin deposit for security for applying to the bank for issuing bank acceptance bills and letters of credit.

(III) Industrial Operational Information Analysis

✓ Applicable ☐ Not applicable

Please refer to Section III Business Overview for details.

Pharmaceutical Manufacturing Industrial Operational Information Analysis

1. Basic information about the major drugs (products)

(1). Basic information of the industry

✓ Applicable ☐ Not applicable

Please refer to Section 3 An Overview of Company Businesses for details.

(2). Basic information about the major drugs (products)

✓ Applicable ☐ Not applicable

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

✓ Applicable ☐ Not applicable

For more details, please read the following table.

② Basic information about the major drugs (products) by the therapeutic area

✓ Applicable ☐ Not applicable

Main therapeutic area	Drug (product) name	By sub-sectors	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	Registered classification of drug (products)	Whether it belongs to the new drugs (products) launched during the Reporting Period
Cardiovascular system Disease	Shenmai injection	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
Antineoplastic drug and immunomodulator	Hydroxychloroquine Sulfate Tablets	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
Digestive and metabolic disease	Live combined bifidobacterium	Biopharmaceutica	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	2000.9.28-2020.9.28	Class 1 of biological products	No
Cardiovascular system disease	Sodium tanshinone IIA silate injection	Chemical drug preparation	Adjuvant therapy of Coronary heart disease, stenocardia and myocardial infarction	No	Yes	2010.9.30-2030.9.30	-	No
Systemic anti-infective medicine	Cefotiam hydrochloride for injection	Chemical drug preparation	It was mainly used for infection caused by staphylococcus, streptococcus (except enterococus), pneumococcus, hemophilus influenzae, Escherichia Coli, Klebsiella, intestinal bacteria, citrobacter, Proteus mirabilis, Proteus vulgaris, Proteus rettgeri, Morganella etc sensitive to the product	No	Yes	2014.8.28-2034.8.28	Chemical drug	No

Note: There were no Provisions for Drug Registration when the production of Sodium tanshinone IIA silate injection was declared, so it does not have a registration classification.

③ Information about Important Medicinal Materials Used for the Preparation of Main Traditional Chinese Medicines (Products)

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 was stable, without influence basically.
		Radix Ophiopogonis (from Zhejiang)	Zhejiang radix ophiopogonis bases were established jointly, so the supply source was stable.	Base 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 clematidis, safflower increased; The price of radix aconiti lateralis preparata, 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	Outsourcing	Price was stable, without influence basically.
Digestive and metabolic disease	Weifuchun tablets	Rabdosia amethystoides (Benth.) Hara, citrus aurantium, red ginseng	With stable supply sources	Rabdosia amethystoides (Benth.) Hara and citrus aurantium purchased under contracts, and red ginseng by bidding.	The price of Rabdosia amethystoides (Benth.) Hara was comparable basically; the price of red ginseng and citrus Aurantium slightly increased, slightly affecting purchase of the Company for the year.
Digestive and metabolic disease	Babaodan	Musk, bezoar, antelope horn, artificial musk, vitro cultivation calculus bovis	Musk and antelope horn are sufficient. Bezoar is currently in short supply.	Marketing purchase	Bezoar is currently in short supply, so the price rise. Others are in stock, without effect at this stage.

(3). Information about Inclusion, newly-listing and exclusion of Major drugs (Products) in or from National Essential Drugs List and Directory of Insured Drugs During the Reporting Period

✓ Applicable ☐ Not applicable

		Directory of insured drugs	
Major drugs (products)	**National essential drugs list**	**National level**	**Provincial level**
Shenmai Injection	Included	Included	Included
Hydroxychloroquine Sulfate Tablets	Excluded	Included	Included
Live Combined Bifidobacterium	Capsule included, powder excluded	Included	Included
Sodium Tanshinone IIA Silate Injection	Excluded	Included	Included
Cefotiam Hydrochloride for Injection	Excluded	Included	Included

(4). Information about Well-known or Famous Trademarks of the Company

✓ Applicable ☐ Not applicable

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

Corresponding trademark	**Major drug name**	**Operating income (RMB0'000)**	**Operating margin (RMB0'000)**
	Hydroxychloroquine sulfate tablets	55,064	36,984
培菲康®	Live Combined Bifidobacterium	47,510	35,349
诺新康®	Sodium Tanshinone IIA Silate injection	41,180	29,463
	Cefotiam Hydrochloride for injection	41,770	29,593

2. R&D for Company's drugs (products)

(1). Overall R&D

✓ Applicable ☐ Not applicable

For details, see "Performance driving factors and operation highlights in 2017" above.

(2). R&D investment

① R&D investment in major drugs (products)

✓ Applicable ☐ Not applicable

Unit: RMB0'000

Drug (products)	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 operating costs (%)	The year-on-year percentage of the current amount (%)	Explanation
Shenmai Injection	209.37	209.37	0	0.26	1.43	5.42	Secondary development
Hydroxychloroquine Sulfate Tablets	227.15	95.83	131.32	0.41	1.26	3.18	Secondary development
Live Combined Bifidobacterium	466.70	466.70	0	0.98	3.84	29.90	Secondary development
Sodium Tanshinone IIA Silate Injection	120.24	120.24	0	0.29	1.03	-24.70	Secondary development
Cefotiam Hydrochloride for Injection	231.68	231.68	0	0.55	1.90	8.47	Secondary development

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

② Comparison in the same industry

✓ Applicable ☐ Not applicable

Unit: RMB0'000

Comparable companies in the same industry	R&D investment amount	Percentage of R&D investment in the operating income (%)	Percentage of R&D investment in net assets (%)
Humanwell Healthcare	50,215	4.07	5.00
HPGC	18,369	1.30	2.34
Fosun Pharma	110,612	7.56	4.98
NCPC	15,991	1.98	3.01
GYBYS	33,037	1.65	1.87
Average amount of R&D investment in the same industry			45,644.56
Amount of R&D investment of the Company during the Reporting Period			83,606.26
Percentage of R&D investment in the operation income of the Company during the Reporting Period (%)			5.58
Percentage of R&D investment in net assets of the Company during the Reporting Period (%)			4.28

Note: i The data of the above 5 comparable companies were from 2016 annual report of the respective company; the average amount of R&D investment in the same industry was the arithmetic average of the above 5 comparable companies in 2016;

ii Percentage of R&D investment of the above represents the percentage in industrial operation income and industrial net assets.

③ 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). Major R&D projects and key R&D projects to be carried out in the new year

✓ Applicable ☐ Not applicable

Unit: RMB0'000

R&D project	Basic information of drug (product)	Phase of R&D (Registration)	Progress status	Cumulative R&D investment	Number of declared manufacturers	Number of approved domestic generic manufacturers	Work in 2018
Deuteporfin	Class 1 of chemical drugs, indications: Tumors	Clinical phase II	Clinical phase II	5,657.65	0	0	Continue clinical phase II studies
SPH3127	Class 1 of chemical drugs, indications: Hypertension	Clinical phase I	Clinical phase I	9,287.16	0	0	Completed Clinical phase I studies; start Clinical phase II studies
SPH1188	Class 1 of chemical drugs, indications: Non-small-cell lung cancer	Clinical phase I	Clinical phase I	3,190.60	0	0	Fully carry out clinical phase I studies
TNFa receptor Fc fusion protein	Class 7 of biological drugs, indications: Rheumatoid arthritis	Clinical phase I	Clinical phase I	6,826.55	0	0	Continue clinical phase I studies
Recombinant anti CD20 humanized monoclonal antibody injection	Class 2 of biological drugs, indications: CD20 positive non-Hodgkin's lymphoma	Approval for clinical trail	Prepared for clinical phase I	10,108.38	0	0	Start clinical phase I studies
Lei Teng Shu	Class 1.1 of chemical drugs, indications: Rheumatoid arthritis	Clinical phase I	Completed clinical phase I studies, Started clinical phase II/III declaration	3,449.46	0	0	Declare clinical phase II/III
Injectable recombinant anti-HER2 humanized monoclonal antibody composition	Class 1 of biological drugs, indications: Her2-positive breast cancer	Approval for clinical trail	Prepared for clinical phase I	9,410.11	0	0	Start clinical phase I studies

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.

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 benign development of the Company and continuously enhanced the core competitiveness of the Company.

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 clinical phase (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).

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

For details of accounting policy for related R&D, please refer to the Note (II) to the financial statements prepared in accordance with Chinese Accounting Standards for Business Enterprises, and Note 3 to the financial statements prepared under Hong Kong Financial Reporting Standards.

(4). Significant government R&D subsidy obtained

In 2017, it obtained 5 funds including, National Key R&D Plan Major Project, National Material New Drug Project, Shanghai NDRC Strategic Emerging Industry Project, Zhangjiang National Independent Innovation Demonstration Zone Project Development Fund of Shanghai and technology support programs and Industry-University-Research-Medicine Collaboration programs of Shanghai Municipal Science and Technology Commission with a total of RMB176.12 million, major grants for R&D projects used are as follows:

Unit: RMB0'000

No.	Major project name	Amount of subsidy	Receivables in 2017	Receiving date	Used amount	Residual amount
1	Monitor and control key technology, application and research on regulatory regulations in the production of oral solid pharmaceutical preparations	1,163	590	2017.9	530.2	59.8
2	Quality and Efficacy Consistency Evaluation for generic drugs of Shanghai Pharmaceuticals	6,250	0	/	/	/
3	Clinical revaluation research after listing of osteoporosis drug astragalus capsule	200	160	2017.12	0	160
4	Quality and Efficacy Consistency Evaluation for generic drugs	7,999	4,443.2	2017.12	3,569.2	874
5	The R&D and Industrialisation of New Anti-infective Drugs	2,000	1,350	2017.9	2,000	0
Total		17,612	6,543.2	/	6,099.4	1,093.8

See the Note(III) to Financial Statements prepared in accordance with the Chinese Accounting Standards for Business Enterprises and the Note 37 to Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards for details of tax preference.

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

✓ Applicable ☐ Not applicable

① Information about 14 drugs (including different varieties and specifications) submitted to the supervision department for approval:

During the Reporting Period, a total of 14 drugs (including different varieties and specifications, see below) of the Company were submitted to the supervision department for approval, including 6 clinical trial approval document, 6 manufacturing approval documents and 2 consistency evaluations.

No.	Drugs (products) submitted to the state drug supervision department for approval	Examination and approval matters	Approval No.	Indications	Classification of registration
1	SPH3348	Clinical trial application	CXHL1700225 Hu	Lung cancer, liver cancer, gastric cancer	Class 1 of chemicals drug
2			CXHL1700226 Hu		
3			CXHL1700227 Hu		
4	Recombinant anti HER2 humanized monoclonal antibody –MCC-DM1 coupling reagent for injection		CXSL1700072 Hu	Locally advanced HER2 positive or metastatic breast cancer	Class 2 of biological drugs for treatment
5	Hydroxy tripterygium glycol tablets		CXHL1700108 Hu	Started AIDS chronic abnormal immunity	Class 1 of chemicals drug
6			CXHL1700109 Hu		
7	Parecoxib Sodium	Manufacturing application	CYHS1700708 Su	Treatment of moderate or severe postoperative acute pain	Class 3 of chemicals drug
8			CYHS1700709 Su		Class 4 of chemicals drug
9	Rosuvastatin Calcium Tablets		CYHS1700103 Su	For the primary hypercholesterolemia that could not been effectively controlled through dietary control and other non-drug treatments	Class 4 of chemicals drug
10			CYHS1700104 Su		
11			CYHS1700105 Su		
12			CYHS1700106 Su		
13	Fluoxetine Hydrochloride Capsules	Consistency evaluation	CYHB1850001 Guo	For depressive episode, obsessive-compulsive disorder, bulimia nervosa, can be used as a supplement to psychotherapy to reduce bulimia and catharsis	Chemicals drug
14	Captopril Tablets		CYHB1750026 Guo	Treating hypertension and certain types of congestive heart-failure	Chemicals drug

② Information about 9 drug (product) that obtained clinical or manufacturing approval:

During the Reporting Period, the Company obtained 5 clinic trial approvals (1 new drugs and 4 generic drugs) and 4 approval for drug production.

No.	Drugs (products) that obtained the clinical approval	Approval No.	Indications	Classification of registration
1	Cleviprex	CXHL1401219 Chuan	Anti-hypertension	Class 3.1 of original chemical drugs
2		CXHL1502456 Chuan		
3		CXHL1502457 Chuan		
4	Injectable recombinant anti-HER2 humanized monoclonal antibody composition	CXSL1600070	Her2-positive breast cancer	Biological drugs for treatment
5	Perindopril Tert-Butylamine Tablets	CYHB1602361	Anti-hypertension	Class 6 of original chemical drugs

No.	Drugs (products) that obtained the manufacturing approval	Approval No.	Indications	Classification of registration
1	Trypsin for injection	Guo Yao Zhun Zi H31022016	Mainly applies to clear blood clot, fester, necrotic tissue and inflammatory exudate, and necrotizing trauma, ulcer, hematoma, abscess, inflammation and other adjuvant therapy.	Chemical drugs (agreed to resume production)
2		Guo Yao Zhun Zi H31022017		
3		Guo Yao Zhun Zi H31022018		
4		Guo Yao Zhun Zi H31022019		

③ Information on international certification of drugs (products)

During the Reporting Period, the application for Eslicarbazepine Acetate Tablet as the first ANDA in America was accepted, Pregabalin was accredited by European CEP certification, and Lenalidomide and Sofosbuvir passed the U.S. DMF certification.

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

☐ Applicable ✓ Not applicable

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

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, and to improve the ability to predict and analyze the possible problems in the future, reduce the project risk from the management level and improve the success rate of the projects.

3. Production and sales of the Company's drugs (products)

(1). Basic Information about the Company's Manufacturing Businesses by Therapeutic Area

✓ Applicable ☐ Not applicable

Unit: RMB0'000

Therapeutic area	Operating income	Operating cost	Gross profit margin (%)	Increase/ decrease in operating income year-on-year (%)	Increase/ decrease in operating cost year-on-year (%)	Increase/ decrease in gross profit margin year-on-year (%)	Gross profit margin of the products in the same industry and field
Cardiovascular System	309,286	104,105	66.34	8.26	-4.95	4.68	20.46%
Digestive and Metabolism	179,363	72,652	59.49	24.20	5.13	7.35	39.09%
Systemic Anti-infection	139,503	69,142	50.44	15.80	-9.02	13.52	33.62%
Neurological System	81,604	22,060	72.97	13.08	3.57	2.48	32.59%
Antineoplastic drug and immunomodulator	77,105	37,670	51.14	9.20	0.56	4.19	58.50%
Musculoskeletal System	92,623	21,331	76.97	15.08	49.28	-5.28	/
Respiratory system	68,753	21,538	68.67	18.31	15.44	0.78	/
Others	550,464	323,771	41.18	34.39	35.63	-0.54	/
Total	1,498,701	672,270	55.14	20.71	14.91	2.27	/

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

Explanation

✓ Applicable ☐ Not applicable

① For the drugs on cardiovascular system in the same industry or filed, its gross profit margin data were sourced from the gross profit margin data recorded in 2016 annual report of HISUN.

② The data of gross profit rate of the same product field in the same industry of the digestive tract and metabolism, systemic anti-infective, anti-tumor and immunomodulatory agents come from the gross profit rate of "digestive system" "anti-infective" and "anti-tumor" products in the 2017 Annual Report of Harbin Pharmaceutical Group.

③ 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 "nervous, circulatory system drugs" products in the 2016 Annual Report of NCPC.

④ 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 comparable companies which have published in annual reports.

(2). Main Sales Model Analysis of the Company

✓ Applicable ☐ Not applicable

During the Reporting Period, the Company's manufacturing sales network covered 31 provinces, regions and direct-controlled municipalities in China and the clients include various medical institutions, 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.

(3). Bid-winning information in pharmaceuticals Purchase by centralized bidding

✓ Applicable ☐ Not applicable

Major Drugs (Products) Name	Bid-winning Price Range (RMB)	Actual Purchase Quantity in Total of Medical Institutions
Shenmai Injection	12.98-13.07 (5ml)	0.001 million ampoules
	12.78-17.00 (10ml)	1.546 million ampoules
	24.56-31.50 (20ml)	7.023 million ampoules
	54.18-74.80 (50ml)	4.042 million ampoules
	114-141.63 (100ml)	1.216 million ampoules
Hydroxychloroquine Sulfate Tablets	1.67-2.34 (Tablet, 0.1g)	250.516 million pills
Live Combined Bifidobacterium	0.84-1.05 (Capsules, 0.21g)	294.690 million pieces
	2.54-3.25 (Powder,1g)	27.569 million bags
Sodium tanshinone IIA silate injection	15.60-17.65 (2ml:10mg)	59.591 million ampoules
Cefotiam Hydrochloride for injection	15.01-16.09 (0.25g)	3.567 million bottles
	25.50-29.00 (0.5g)	8.512 million bottles
	43.37-46.44 (1g)	5.877 million bottles
	73.50-78.96 (2g)	0.080 million bottles

Notes: The data source of the actual purchase quantity in total of medical institutions is from IQVIA.

Explanation

✓ Applicable ☐ Not applicable

In 2017, the bid-winning price of some drugs, to some extent, dropped, but the sales volume of some products increased; therefore, the overall impact is controllable.

(4). 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	69,315.36	16.49
Marking Promotion and Advertising Costs	163,716.46	38.94
Travels and Conferences Costs	108,975.83	25.92
Transportation Costs	18,054.86	4.29
Rental Costs	5,208.51	1.24
Office Costs	9,479.09	2.25
Amortization of Intangible Assets	1,278.02	0.30
Depreciation of Fixed Assets	151.91	0.04
Others	44,254.56	10.53
Total	420,434.60	100.00

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 (%)
GYBYS	382,358.95	19.08
Fosun Pharma	370,405.64	25.32
Hengrui Medicine	435,162.07	39.23
CR Sanjiu	327,953.01	36.51
Livzon Group	307,037.09	40.13
Average Sales Costs in the Same Industry		364,583.35
Total Sales Costs of the Company During the Reporting Period		420,434.60
Percentage of Sales Costs Accounting for Operating Income During the Reporting Period (%)		28.05

Note: i The data of the above five comparable companies is derived from their respective 2016 annual reports; The average sales costs of the same industries are the arithmetic average of the five comparable companies in 2016;

ii The above "Total Sales Costs of the Company during the Reporting Period" means "Total Industrial Sales Costs of the Company during the Reporting Period"; "Percentage of Sales Costs Accounting for Operating Income During the Reporting Period" means "Percentage of Industrial Sales Costs Accounting for Industrial Operating Income During the Reporting Period".

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 RMB4,204.3460 million, accounting for 28.05% of the industrial operating income, increased by 2.22 percentage points 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 reasons for deviation. There are the specified 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.

4. Other Information

☐ Applicable ✓ Not applicable

(IV) Analysis on Investment Conditions

1. *Overall Analysis on External Equity Investments*

✓ Applicable ☐ Not applicable

Unit: RMB0'000

Amount of Investments during the Reporting Period	299,950.16
Increase or Decrease in Amount of Investments	-20,161.90
Amount of Investment in the Same Period of Prior Year	320,112.06
Percentage of Increase or Decrease in Amount of Investments (%)	-6.30

(1) Significant Equity Investments

✓ Applicable ☐ Not applicable

Acquiree	Time of acquisition	Purchasing cost (RMB0'000)	Principal 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 (RMB0'000)	Net profit of acquiree from acquisition date to the year end (RMB0'000)	Whether involved in litigation
Shanghai Pharmaceuticals Holding Xu Zhou Co., Ltd.	1 February 2017	57,948.00	Sales of drugs	99.55%	Acquisition from third parties	Own fund	Third parties	1 February 2017	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.	180,970.26	3,691.96	No
SPH Sichuan Pharmaceutical Co., Ltd (上藥控股四川有限公司)	31 July 2017	29,706.00	Sales of drugs	51.00%	Acquisition from third parties	Own fund	Third parties	31 July 2017		25,032.37	975.78	No

(2) Significant Non-equity Investments

☐ Applicable ✓ Not applicable

(3) Financial Assets Measured at Fair Value

✓ Applicable ☐ Not applicable

Unit: 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 the Reporting Period
600618	Shanghai Chlor-Alkali Chemical	186,500.00	0.00	-176,920.47	/	/	Own fund	Sold out
600377	JIANGSHU EXPRESSWAY	1,000,000.00	0.00	9,187,140.12	/	/	Own fund	Sold out
600329	ZHONGXIN PHARMACEUTICALS	91,473.00	0.00	995,654.40	/	/	Debt Expiation	Sold out
000931	ZHONGGUANCUN DEVELOPMENT GROUP	99,300.00	172,872.00		-40,572.00	-40,572.00	Own fund	No
600675	CHINA ENTERPRISE	390,000.00	4,880,057.20		-149,550.14	-149,550.14	Own fund	No
601328	BANK OF COMMUNICATIONS	4,720,101.05	3,561,223.86	155,696.02	252,325.04	252,325.04	Own fund	No
000048	Shenzhen Kondarl	134,547.00	0.00	3,850,381.73	/	/	Merger	Sold out
000166	Shenwan Hongyuan Securities	1,250,000.00	0.00	12,962,915.17	/	/	Transformation	Sold out
601881	China Galaxy Securities	50,000,000.00	0.00	69,300,000.00	/	/	Transformation	Turned out due to dispose of the subsidiary
00455(HK)	Tianda Holdings	87,851,852.85	70,346,271.20	1,348,875.09	-31,752,418.34	-31,752,418.34	Own fund	No
	Forward foreign exchange contracts		642,578.95	-2,773,101.68		-2,773,101.68		Purchased
Total		145,723,773.90	79,603,003.21	94,850,640.38	-31,690,215.44	-34,463,317.12	/	

(V) Sales of Major Assets and Equities

✓ Applicable ☐ Not applicable

Name of subsidiary	Consideration for disposal (RMB'000)	Percentage of disposal	Method of disposal	Timing of losing control	Basis for determination of timing of losing control	Difference between consideration for disposal and net assets of the subject subsidiary attributable to the Company under consolidated financial statements (RMB'000)	Percentage to the total profit	Implement status
Shanghai Huashi Asset Management Co., Ltd.	21,810.06	100%	Sales	27 December 2017	Losing control of financial and operation policy of the target enterprise	5,741.92	1.10%	Completed
Chifeng Aijian Real Estate Development Limited (赤峰艾建房地產開發有限公司)	10,900.78	100%	Sales	4 December 2017		8,432.28	1.62%	Completed

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

✓ Applicable ☐ Not applicable

Unit: RMB100 million

Company Name	Business Nature	Shareholding Percentage	Registered Capital	Size of Assets	Owners' Equity	Business Income	Net Profit
Shanghai Pharma Co., Ltd	Sales of drugs	100%	50.00	417.57	98.63	815.55	13.25
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Sales of drugs	100%	13.00	193.69	44.28	292.70	6.79
SPH Sine Pharmaceutical Factory Co., Ltd.	Production and sales of drugs	100%	11.92	38.16	20.47	35.74	2.67
SPH No. 1 Biochemical & Pharmaceutical Co., Ltd.	Production and sales of drugs	100%	2.25	23.37	16.49	13.13	2.98
SPH New Asia Pharmaceutical Co., Ltd.	Production and sales of drugs	96.90%	10.52	17.81	11.44	19.97	0.34
Shanghai TCM Co., Ltd.	Production and sales of drugs	100%	8.08	46.47	20.45	50.52	3.34
SPH Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Production and sales of drugs	75%	1.29	16.29	13.83	12.77	1.84
SPH Changzhou Pharmaceutical Co., Ltd.	Production and sales of drugs	75.89%	0.79	37.18	18.03	57.62	1.96
SPH Zhongxi Sunve Pharmaceutical Co., Ltd.	Production and sales of drugs	100%	5.46	26.45	21.95	9.08	3.39

Company Name	Business Nature	Shareholding Percentage	Registered Capital	Size of Assets	Owners' Equity	Business Income	Net Profit
SPH Qingdao Guofeng Pharmaceutical Co., Ltd.	Production and sales of drugs	67.52%	0.93	9.87	5.88	10.74	0.53
Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Production and sales of drugs	51.01%	1.35	6.38	4.72	4.25	0.23
Xiamen TCM Factory Co., Ltd.	Production and sales of drugs	61.00%	0.84	3.76	2.74	3.64	0.32
Liaoning Herbpex Pharmaceutical (Group) Co., Ltd.	Production and sales of drugs	55.00%	0.51	7.27	4.00	5.52	0.30
Shanghai Zhonghua Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	0.94	3.92	2.77	2.83	0.86
SPH Materials Supply and Sales Co., Ltd.	Wholesale of Chemicals and APIs	100.00%	1.01	2.30	1.72	1.80	0.33
Shanghai Medical Instruments Co., Ltd.	Production and sales of medical devices	100.00%	1.27	5.76	3.97	2.64	0.23
SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd.	Production and sales of drugs	90.25%	1.41	4.58	3.36	2.44	0.52
Shanghai Pharma Sales Co., Ltd.	Sales of drugs	100.00%	0.50	6.28	1.56	7.23	0.39
Zeus Investment Limited	Production and sales of health products	59.61%	AUD3.19	21.19	16.12	9.74	0.07

(VII) The structural entity controlled by the Company

☐ Applicable ✓ Not applicable

III. DISCUSSIONS AND ANALYSIS OF THE COMPANY ON FUTURE DEVELOPMENT

(I) Industry competitive landscape and development trends

✓ Applicable ☐ Not applicable

Looking forward in 2018, with the promotion of side-supply innovation, China's macro-economic development will transfer from rapid growth to high quality development, from gross expansion to structural optimization. With the implementation of "Healthy China 2030", the rapid development of life sciences and the trend of political reform of various industries, the overall operation of China's pharmaceutical industry expected to be steady in 2018. Meanwhile, in more competitive international environment and with accelerated transformation and upgrades of market structure and demand, innovation, compliance, quality, secure and environmental protection set a higher demand on operation efficiency. Driven by technology and capital, industry will accelerate the survival of the fittest environment and concentration will be further enhanced.

(II) Development Strategy of the Company

✓ Applicable ☐ Not applicable

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

In the new development period, the Company will actively grasp the national strategic opportunities, follow the development trend of the industry, and grasp the development opportunities. Besides, the Company will strengthen intensive development, innovation development, international development and combination with production, to maintain the leading position in the pharmaceutical industry in China and strive to enter into the top 500 enterprises in the world. The Company will strike hard to become a integrated groups with international competitiveness.

(III) Operating Plan

✓ Applicable ☐ Not applicable

In 2018, the new three-year strategic development planning of the Company will be accomplished. With the working policy of "Complying with industrial reform, accelerating transformation development and ensuring leading industrial position" adhere, under the leadership of board of directors and management team all staff will overcome difficulties, spare no pains to realize operation target and double-digit growth of sales and good operation quality.

For pharmaceutical industry, in the areas of chemical medicine and biological medicine, 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 innovative chain based on the integration of generic drugs and innovative drugs and set up a service platform of bio-pharmaceutical innovation. The Company will also grasp the development opportunities of consistency evaluation of generic drugs and injection, improve ancillary equipment of the pharmaceutical engineering, actively promote innovation of preparations, especially promote the international development of high-end generic drugs and improved drugs.

The Company emphasizes therapy field and key species, strengthens domestic and foreign mergers and acquisitions for expansion, continues to build a first-rate marketing system and establish an advanced manufacturing system. The Company will improve the competitive capacity in cardiovascular, rheumatism and immunity, nervous, alimentary canals and anti-tumor areas. With respect to the traditional Chinese medicine, the Company will strength the innovation and secondary development of traditional Chinese medicine, and excavate and develop classical Chinese medicines by grasping the historical development opportunity and based on our quality resources. Further, the Company will actively develop modern herbal medicine and traditional Chinese medicine modern Logistics, forming of traditional Chinese medicine industrial chain with quality traceability system.

For Pharmaceutical Services, the Company has currently established an innovative service platform of leading national medicine and medical device circulation, the network covering 24 provinces, municipalities and autonomous regions. In the future, with the further reformation of national health care and health insurance system, the Company will upgrade resource allocation through innovative circulation methods. The Company will also strive to become an intensive, high-end, and distinctive modern health manufacturer with modern information technology optimization business model such as cloud computing and big data.

(IV) Potential Risk Factors

✓ Applicable ☐ Not applicable

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 gradual implementation of Consistency of Quality and Efficacy Evaluation for Generic Drugs, continuous reform on assessment and approval for pharmaceutical products, gradual and full implementation of two-invoice system, continuous press on tender price reduction, full implementation of zero mark-up of drug and medical charge control, significant effect has been brought to the development of the pharmaceutical industry, bringing risks of industry competitive landscape to the Company;

2. The comprehensive implementation of the two-invoice system had an impact on the sales to distributors, and tender price reduction and zero mark-up of drug resulted in unoptimistic return period of business.

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;

7. Impairment test for goodwill is based on the forecast of future cash flow and contains the management's relevant assumptions and professional judgments. Goodwill is exposed to certain risks of impairment.

Counter-measures:

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) Explanations on Facts not Disclosed in accordance with the Standards and Reasons such as Inapplicability of Standards or Special Reasons including State Secrets and Business Secrets

☐ Applicable ✓ Not applicable

IV. OTHERS (DISCLOSED PURSUANT TO THE REQUIREMENTS OF THE HONG KONG LISTING RULES)

Chapter 5, Chapter 6 and Chapter 8 in this Report also form part of the Report of the Board of Directors

1. *Capital structure*

The asset-liability ratio (total liabilities/total assets) of Shanghai Pharmaceuticals was 57.95% as at 31 December 2017, representing an increase of 2.47 percentage points on a year-on-year basis. The interest coverage ratio (EBIT/Interest Expenses) was 6.94 times (2016: 8.19 times). The gearing ratio of the Company (net amount of debts divided by total capital) was 29.69%.

During the Reporting Period, Shanghai Pharmaceuticals has a good liquidity and financial resources. The balance of bank loans and bonds payable as at 31 December 2017 were RMB14.751 billion and RMB1.999 billion respectively, of which the balance of loans in New Zealand Dollar amounted to RMB280 million, the balance of loans and bonds payable at a fixed ratio amounted to RMB12.596 billion. The net amount of accounts receivable and notes receivable at 31 December 2017 was RMB32.485 billion, representing an increase of 12.49% on a year-on-year basis. The increased receivable is mainly due to business expansion and the expanded range of consolidation. As at 31 December 2017, the balance of accounts payable and notes payable was RMB27.295 billion, representing an increase of 5.04% on a year-on-year basis.

The Group's objective on capital management is to safeguard the Group's ability to continue as a going concern and provide returns for shareholders and benefits for other stakeholders, and also to maintain an optimal capital structure to lower capital cost. In order to maintain or adjust capital structure, the Group may adjust dividends amount payable to shareholders, return capital to shareholders, issue new share or dispose assets to reduce debts.

2. *Exchange Rate Fluctuation Risk and Any Hedging*

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

3. *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 Pharma Co., Ltd.	Chongqing Medicines Shanghai Sales Co., Ltd.	2,073.15	21 December 2017	21 March 2018
Shanghai Pharma Co., Ltd.	Chongqing Medicines Shanghai Sales Co., Ltd.	1,124.72	24 October 2017	24 April 2018
Shanghai Pharma Co., Ltd.	Chongqing Medicines Shanghai Sales Co., Ltd.	1,213.45	21 December 2017	21 June 2018
Shanghai Pharma Co., Ltd.	Chongqing Medicines Shanghai Sales Co., Ltd.	1,051.56	24 October 2017	24 January 2018

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

4. *Material Interest of Directors, Supervisors and Controlling Shareholders in Transactions, Arrangements or 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 personal interest, whether directly or indirectly, in any transaction, arrangement or contract of significance of the Company (including its subsidiaries).

5. *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 2017, the Company has not entered into any equity-linked agreement.

6. *Permitted Indemnity Provisions Approved for Directors and Supervisors*

The Company has appropriate insurance arrangement for proceedings against Directors, Supervisors and senor management due to corporate activities in accordance with code provision A.1.8 of the Corporate Governance Code. As of the end of Reporting Period, the insurance provision remain effective.

7. *Interest of Directors and Supervisors in Competing Business*

As of 31 December 2017, 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.

8. *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. None of directors or supervisors entered into the service contract with the Company which was not terminable by the Company within one year without payment of compensation other than statutory compensation.

9. *Relationship with Employees, Customers, Suppliers and other Stakeholders*

The Group believes that different stakeholders (including employees, customers and suppliers) are the key to the success of the Group. The Group is committed to the realization of corporate sustainable development through maintaining contact and cooperation and fostering stable relationship with the stakeholders. During the Reporting Period, total purchases from previous top five supplier of the Group was less than 10%, and total turnover from previous top five customers was less than 5%.

10. *Environmental Policies and Performance*

See the 2017 Social Accountability Report of Shanghai Pharmaceutical Group Co., Ltd. disclosed by the Company for details.

11. *Charity and other Donations*

See the 2017 Social Accountability Report of Shanghai Pharmaceutical Group Co., Ltd. disclosed by the Company for details.

Significant Events

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

✓ Applicable ☐ Not applicable

1. During the Reporting Period, the Company amended "Article 245, profit distribution policy" in the Articles of Association under relevant regulations of dividend distribution, such as Regulatory Guidance No. 3 of Listed Companies – Cash Dividend Distribution of Listed Companies and the Guidelines on Cash Dividend Distribution of Listed Companies, clearly outline the method of profit distribution, formulation of profit distribution plan, decision-making and adjustment procedures, conditions and proportion of cash dividend and specific conditions for distribution of dividend in shares. The amendment to profit distribution policy was approved at the 11th meeting of the sixth session of the Board of Directors held on 30 October 2017 by the Company. The procedures of approval are legal, effective and fully considering the legitimate interest of minority investors, which all directors (including independent non-executive directors) had agreed with, subject to the submission to 2017 annual general meeting for approval.

2. According to the resolution as resolved at the 14th meeting of the sixth session of the board of directors of Shanghai Pharmaceuticals, the 2017 annual profit distribution plan of the Company is to distribute to all shareholders a cash dividend of RMB3.80 (tax inclusive) for every 10 Shares on the basis of the total share capital as at the registration date specified in the announcement regarding execution of profit distribution proposal, subject to approval by the annual general meeting of the Company for 2017. The profit distribution plan complied with the Articles of Association and approval procedures of the Company, fully protected the legal interests of minority investors. The independent non-executive directors of the Company have provided their view in this regard. Cash dividend of H shares expected to be paid before 30 August 2018.

3. In accordance with the PRC Company Law, the Company can 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 those reserves). Calculated on the aforesaid basis, the Company's reserve fund available for distribution as at 31 December 2017 was RMB1,325,652,000 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 2017 are set out in the Note 11 to the financial statements prepared under Accounting Standard for Business Enterprises of China and Note 46 to the financial statements prepared under the Hong Kong Financial Reporting Standards.

4. Taxation (disclosed pursuant to the requirements of the Hong Kong Listing Rules)

In accordance with the Law on Corporate Income Tax of the People's Republic of China and its implementation regulations which came into effect on 1 January 2008, and the regulations of the Notice of the State Administration of Taxation on the Issues concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H-share Holders Which Are Overseas Non-resident Enterprises" (Guo Shui Han [2008] No. 897) issued by the State Administration of Taxation on 6 November 2008, the Company is required to withhold corporate income tax at the rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the H shares share register of members of the Company when distributing dividends to them. Any shares of the Company registered in the name of the non-individual registered shareholder, including HKSCC Nominees Limited, other nominees, trustees, as well as other organizations or groups, shall be treated as shares being held by a non-resident enterprise shareholder. As such, the Company will withhold corporate income tax at the rate of 10% on behalf of such shareholders.

Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of Document Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) issued by the State Administration of Taxation on 28 June 2011 and the circular on Tax Arrangements on Dividends Paid to Hong Kong Residents by Mainland Companies issued by Hong Kong Stock Exchange on 4 July 2011, when the domestic non-foreign invested enterprises issuing the stocks in Hong Kong distribute dividend to its shareholders, it shall withhold 10% tax rate as individual income tax. When the Company distributes dividend to individual shareholders of H Shares, it shall withhold 10% tax rate as individual income tax unless otherwise specified by the tax regulations, relevant tax agreements or notice, in which case the Company will address it in accordance with the relevant regulations and the requirements of fiscal authority.

(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 ordinary shareholders of listed company based on the consolidated statement for the year of dividends	Percentage in net profit attributable to ordinary shareholders of listed company based on the consolidated statement (%)
2017	0	3.80	0	1,079,993,942.36	3,520,645,566.99	30.68
2016	0	3.60	0	968,007,793.68	3,196,394,644.62	30.28
2015	0	3.30	0	887,340,477.54	2,876,989,142.22	30.84

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

☐ Applicable ✓ Not applicable

(IV) The Company shall disclose reasons and usage and plans when profit recorded 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

(I) Commitments by De facto Controller, Shareholders, Related Parties, Acquirers and the Company and other Commitments Related Parties During or Lasting to the Reporting Period

✓ Applicable ☐ Not applicable

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:

1. 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 non-competition deed, irrevocably grant the Company the pre-emptive right to acquire all of such businesses or assets at any time;

2. it and its subsidiaries shall avoid any business or operations that may compete with the Company;

3. it shall avoid investing in any other companies or enterprises that compete with the business and operations of the Company; and

4. 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 2017.

(II) 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 original forecast as regard to the assets or projects and the relevant reasons

☐ Achieved ☐ Not achieved ✓ Not applicable

III. APPROPRIATION AND SETTLEMENT OF FUNDS DURING THE REPORTING PERIOD

☐ Applicable ✓ Not applicable

IV. STATEMENT OF THE COMPANY ON THE "NON – STANDARD AUDIT REPORT" PREPARED BY THE ACCOUNTING FIRM

☐ Applicable ✓ Not applicable

V. COMPANY'S ANALYSIS ON THE CAUSE AND IMPACT OF CHANGES OF ACCOUNTING POLICIES AND ACCOUNTING ESTIMATION AND CORRECTION OF MATERIAL ERRORS OF ACCOUNTING

(I) Company's analysis on the cause and impact of changes in accounting policies and accounting estimation

✓ Applicable ☐ Not applicable

During the Reporting Period, Central Ministry of Finance issued the Notice on Issuing the Revised "Accounting Standards for Business Enterprises No. 16 – Government Grants" (Cai Kuai [2017] No. 15) and the Notice on Issuing the "Accounting Standards for Business Enterprises No. 42 – Non-current Assets Held for Sale, Disposal Groups and Discontinued Operation" (Cai Kuai [2017] No. 13). Changes in accounting policy was made by the Company in accordance with the requirement of aforesaid documents and was approved at the 11th Meeting of the sixth Session of the Board of Directors convened on 30 October 2017.

The change in accounting policy only impacts the items of the Company's PRC financial statements, and has no significant impact on financial position, operating results and cash flow with no involvement in retrospective adjustment of profit or loss in prior years. The accounting policy subsequent to the change may give a true and fair view of the Company's financial position and operating results. Further, it would not harm the interests of the Company and its shareholders, especially those of the minority shareholders, and in the interest of the Company and its shareholders as a whole (Please refer to Company's announcement Lin No. 2017-039 and Lin No. 2017-040 for details).

(II) Company's analysis on the cause and impact of correction of material errors of accounting

☐ Applicable ✓ Not applicable

(III) Communication with previous accounting firm

☐ Applicable ✓ Not applicable

(IV) Other information

☐ Applicable ✓ Not applicable

VI. APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRMS

Unit: RMB0'000

	Current engagement
Name of the domestic accounting firm	PricewaterhouseCoopers Zhong Tian LLP (special general partnership)
Remuneration for the domestic accounting firm (including overseas) note	2,100
Number of years of service of the domestic accounting firm	7 years
Name of the overseas accounting firm	PricewaterhouseCoopers
Remuneration for the overseas accounting firm (including domestic) note	2,100
Number of years of service of the overseas accounting firm	7 years

	Name	Remuneration
Accounting firm for internal control audit	PricewaterhouseCoopers Zhong Tian LLP (special general partnership)	130

Note: advances and tax charges are included in the remuneration.

Appointment and dismissal of accounting firms

☐ Applicable ✓ Not applicable

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

Statement of the change in accounting firm during the auditing period

☐ Applicable ✓ Not applicable

VII. RISKS OF SUSPENSION OF LISTING

(I) Causes of suspension of listing

☐ Applicable ✓ Not applicable

(II) Corresponding measures proposed to be taken by the Company

☐ Applicable ✓ Not applicable

VIII. STATUSES AND CAUSES OF TERMINATION OF LISTING

☐ Applicable ✓ Not applicable

IX. ISSUES RELEVANT TO INSOLVENCY AND RESTRUCTURING

☐ Applicable ✓ Not applicable

X. MATERIAL LITIGATIONS AND ARBITRATIONS

☐ Material litigations and arbitrations occurs during the year ✓ No material litigations and arbitrations occurs during the year

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

☐ Applicable ✓ Not applicable

XII. STATEMENTS ON THE INTEGRITY OF THE COMPANY AND ITS CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLER DURING THE REPORTING PERIOD

☐ Applicable ✓ Not applicable

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.

XIII. EQUITY INCENTIVE PLANS, EMPLOYEE SHARE SCHEMES AND OTHER INCENTIVE SCHEMES OF THE COMPANY AND IMPACT

(I) Relevant Incentives disclosed in interim announcements without subsequent development or changes during implementation

☐ Applicable ✓ Not applicable

(II) Incentives not disclosed in interim announcements or with subsequent development

Equity incentives
☐ Applicable ✓ Not applicable

Other information
☐ Applicable ✓ Not applicable

Employee share schemes
☐ Applicable ✓ Not applicable

Other incentives scheme
☐ Applicable ✓ Not applicable

XIV. SIGNIFICANT CONNECTED TRANSACTIONS

(I) Connected transactions relating to daily operations

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

✓ Applicable ☐ Not applicable

Overview of Events	Search Index
The Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Daily Connected Transactions in 2017	Please refer to Company's announcement Lin No. 2017-008
The Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. regarding the Renewal of Financial Services Agreement with Shanghai Shangshi Group Finance Co., Ltd. and Related/ Continuing Connected Transactions	Please refer to Company's announcement Lin No. 2016-010
The Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Renewal of the Daily Connected Transactions Framework Agreement with Jiangxi Nanhua Medicines Co., Ltd. and Daily Connected Transactions/Continuing Connected Transactions	Please refer to Company's announcement Lin No. 2016-016
The Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Amendment of the Agreement about the Daily Connected Transactions/Continuing Connected Transactions of Leasing of Properties and Production Equipment	Please refer to Company's announcement Lin No. 2017-020
The Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Entering into Property Leasing Framework Agreement and Continuing Connected Transactions	Please refer to Company's announcement Lin No. 2017-037

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

☐ Applicable ✓ Not applicable

3. *Events not disclosed in interim announcements*

☐ Applicable ✓ Not applicable

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

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

✓ Applicable ☐ Not applicable

Overview of Events	Search Index
The Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Connected Transaction of Transfer of 100% Equity Interest in Shanghai Huashi Asset Management Co., Ltd.	Please refer to Company's announcement Lin No. 2017-053

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

☐ Applicable ✓ Not applicable

3. *Events not disclosed in interim announcements*

☐ Applicable ✓ Not applicable

4. *Performance with agreed target shall be disclosed during the Reporting Period*

☐ Applicable ✓ Not applicable

(III) Material connected transaction relating to joint external investment

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

✓ Applicable ☐ Not applicable

Overview of Events	Search Index
The Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. regarding capital increase in Shangshi Commercial Factoring Co., Ltd. and signing of the Commercial Factoring Services Framework Agreement with Shangshi Commercial Factoring Co., Ltd. and Related/Connected Transactions	Please refer to Company's announcement Lin No. 2017-028

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

☐ Applicable ✓ Not applicable

3. *Events not disclosed in interim announcements*
☐ Applicable ✓ Not applicable

(IV) Credits and liabilities with related parties

1. *Events disclosed in interim announcements without subsequent development or changes during implementation*
✓ Applicable ☐ Not applicable

Overview of Events	Search Index
The Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Connected Transaction of Foreign Wholly-owned Subsidiary Borrowing from Controlling Shareholders	Please refer to Company's announcement Lin No. 2017-048

2. *Events disclosed in interim announcements with subsequent development or changes during implementation*
☐ Applicable ✓ Not applicable

3. *Events not disclosed in interim announcements*
✓ Applicable ☐ Not applicable

In order to meet their business development needs and the guarantee financing needs of the Company, related parties has provided 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.	12,000.00	11 January 2017	10 March 2018	No
Shanghai Pharmaceutical (Group)	700.00	20 September 2003	16 September 2018	No
Total	12,700.00	/	/	/

(V) Others (Disclosed pursuant to the requirements of the Hong Kong Listing Rules)

✓ Applicable ☐ Not applicable

1. *Details of non-exempt continuing connected transactions during the Reporting Period*

(1) Continuing Connected transactions between the Group and SIIC (an Controlling Shareholder) and its subsidiaries, Shanghai Shangshi and its subsidiaries (including Shanghai Pharmaceutical (Group) and its subsidiaries)

The Company approved the Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Daily Connected Transactions/Continuing Connected Transactions in 2017 at the 5th meeting of the sixth session of the Board of Directors held on 21 March 2017. During the period from January to December 2017, the Group expects that the amount receivable from the sales of products and the provision of services by the Company to SIIC and its subsidiaries, Shanghai Shangshi and its subsidiaries (including Shanghai Pharmaceutical (Group) and its subsidiaries) shall not exceed RMB10 million; the amount payable for the procurement of products and the acceptance of services from SIIC and its subsidiaries, Shanghai Shangshi and its subsidiaries (including Shanghai Pharmaceutical (Group) and its subsidiaries) shall not exceed RMB35.5 million; the amount payable by the Group for leasing premises and production equipment from Shanghai Pharmaceutical (Group) and its subsidiaries shall not exceed RMB100 million. In 2017, the relevant percentage ratios (as defined under Chapter 14 of the Hong Kong Listing Rules, the same below) other than profits ratio corresponding to the actual amount of the transactions in relation to the continuing connected transactions between the Group and Shanghai Pharmaceutical (Group) and its subsidiaries in respect of properties and production equipment leasing were higher than 0.1% but less than 5%, shall be subject to reporting, annual review and announcement requirements (other relevant percentage ratios other than profits ratio corresponding to the continuing connected transactions were less than 0.1%). During the period from January to December 2017, the amount of properties and production equipment leasing payable by the Group as a lessee was RMB41,135,900 (Please refer to the announcement of the Company Lin No. 2018-013 for details).

Unit: RMB0'000

Date of transaction	Lessee	Lessor	Connected relationship	Transaction	Actual amount	Annual cap
During the period from January to December 2017	Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.	Shanghai Pharmaceutical (Group)	Parent company	Property	6.18	/
	Shanghai Huashi Pharmacy Distribution Co., Ltd.		Parent company		382.65	/
	Wholesale Department of Shanghai Medical Instrument Co., Ltd.		Parent company		46.00	/
	Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.		Parent company		52.07	/
	Shanghai Sunve Pharmaceutical Co.,Ltd. Shipu Dedicament Chemical Industry Factory		Parent company		15.35	/
	Shanghai Zhonghua Pharmaceutical Co., Ltd.		Parent company		41.66	/
	Shanghai Leiyunshang Pharmaceutical Co., Ltd.		Parent company		171.01	/
	Shanghai Traditional Chinese Medicine Co., Ltd.		Parent company		334.47	/
	Shanghai Pharmaceuticals Holding Co., Ltd.		Parent company		570.48	/
	Shanghai Medical Instruments Co., Ltd.		Parent company		77.26	/
	Shanghai Haichang Medical Plastic Plant		Parent company		30.45	/
	Shanghai Leiyunshang Pharmaceutical Co., Ltd.		Parent company		323.07	/
	Shanghai Pharmaceuticals Holding Co., Ltd.	Shanghai Indu-Land Real Estate Management Co., Ltd.	Wholly-owned subsidiary of parent company	Property	151.42	/
	Shanghai Pharmaceuticals Holding Co., Ltd.				155.99	/
	Shanghai Pharmaceuticals Holding Co., Ltd.				111.21	/
	Shanghai Pharmaceuticals Holding Co., Ltd.				115.94	/
	Shanghai Zhonghua Pharmaceutical Co., Ltd.				193.77	/
	Shanghai SPH New Asiatic Pharmaceutical Co. Ltd	Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	Wholly-owned subsidiary of parent company	Property and equipment	1,334.61	/
Total		/	/	/	4,113.59	10,000.00

To ensure the stability of the leasing business and to satisfy the requirements of development of business in future from time to time, the Company approved the Proposal of Entering into Property Leasing Framework Agreement and Daily Related Transactions/Continuing Connected Transactions at the 11th meeting of the sixth session of the Board of Directors held on 30 October 2017. On the same day, the Company and its Controlling Shareholder, Shanghai Pharmaceutical (Group), entered into a Property Leasing Framework Agreement: Shanghai Pharmaceutical (Group) and its subsidiaries provide property, equipment leasing and premises services to the Company and its subsidiaries. The agreement with a term of three years commencing from 1 January 2018 and ending on 31 December 2020. The annual caps for 2018, 2019 and 2020 under this agreement were RMB100 million respectively (Please refer to Company's announcement Lin No. 2017-037 for details).

(2) Financial Services Agreement entered between the Group and Shanghai Shangshi Group Finance Co., Ltd. (the "Finance Company")

In order to further expand its financing channels, improve its deposit income and lower financing costs, the Company approved The Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding the Renewal of Financial Services Agreement with Shanghai Shangshi Group Finance Co., Ltd. and Daily Related Transactions/Continuing Connected Transactions at the 2015 annual general meeting held on 28 June 2016. The agreement will be effective from the agreement effective date to the date of the 2018 annual general meeting of the Company. During the term of the agreement, the maximum daily balance of deposits of the Group with the Finance Company shall not exceed RMB2.0 billion, and the maximum outstanding balance of comprehensive credit facilities provided to the Group by the Finance Company shall not exceed RMB3.0 billion. As of 31 December 2017, the actual amount of daily connected transactions did not exceed the amount cap approved by the annual general meeting above. In 2017, the relevant percentage ratios other than profits ratio for actual deposit services between the Group and the Finance Company, calculated on an annual basis, were higher than 5%, shall be subject to reporting, annual review, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules. 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 such loan services; 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%.

Unit: RMB100 million

Date of transaction	Connected relationship	Types of connected transactions	Subject of connected transactions	Actual amount of connected transactions as of 31 December 2017	Cap for connected transactions
During the period from January to December 2017	Subsidiary of Controlling Shareholder	Deposit with connected Finance Company	Deposit service (daily cap)	19.92	20

Note: please refer to Company's announcement Lin No. 2018-013 for details.

(3) Commercial Factoring Services Framework Agreement entered between the Group and Shangshi Commercial Factoring Co., Ltd. (the "Factoring Company")

In order to optimize Company's asset structure and enhance the efficiency of capital utilization, as well as expand its financing channels and lower financing costs, the Company approved the Proposal regarding Capital Increase in Shangshi Commercial Factoring Co., Ltd. and Signing of the Commercial Factoring Services Framework Agreement with Shangshi Commercial Factoring Co., Ltd. and Related/Connected Transactions at 7th meeting of the sixth session of the Board of Directors held on 15 June 2017.

On 15 June 2017, the Company entered into the Capital Increase Agreement with Shangshi Financial Leasing Co., Ltd. (the "Shangshi Leasing"), Shanghai Shentong Metro Co., Ltd. (the "Shentong Metro") and the Factoring Company, determining to increase capital in the Factoring Company jointly: Shanghai Pharma will contribute in cash an additional RMB137.5 million, with 27.5% equity interest in Factoring Company upon completion of capital increase. On the same day, Shanghai Pharma entered into the Commercial Factoring Services Framework Agreement with the Factoring Company, pursuant to which the Factoring Company shall provide commercial factoring services to the Group. From the effective date of the factoring services agreement up to the date of the 2017 annual general meeting of the Company, the total amount of comprehensive credit to be obtained by the Group from the Factoring Company in respect of the accounts receivable financing services shall not exceed RMB1.1 billion (the annual cap for 2017 and 2018 is RMB700 million and RMB400 million, respectively). Transaction amount of other commercial factoring services shall not exceed RMB100 million (the annual cap for 2017 and 2018 was RMB50 million and RMB50 million, respectively). Details are as follow:

Unit: RMB100 million

Party of connected transaction	Connected relationship	Types of connected transactions	Subject of connected transactions	Annual cap for 2017 connected transactions
Finance Company	refer to note 2 for details	Factoring services provided by connected company	the total amount of comprehensive credit to be obtained by the Group from the Factoring Company in respect of the accounts receivable financing services	7
			Other commercial factoring services	0.5

Note 1: Please refer to Company's announcement Lin No. 2017-028 for details.

Note 2: Prior to the completion of the Capital Increase mentioned above, the Factoring Company is 100% owned by Shangshi Leasing; Shangshi Leasing is 40% owned by Shanghai Galaxy Investment Co., Ltd. ("Galaxy Investment"); and the Controlling Shareholders of Shanghai Pharma, namely SIIC and Shanghai Shangshi hold an aggregate of more than 50% of the equity interest in Galaxy Investment. As such, Pursuant to Chapter 14A of the Hong Kong Listing Rules and Rule 10.1.3 of Rules Governing the Listing of Stocks on Shanghai Stock Exchange, both Shangshi Leasing and the Factoring Company are connected persons of the Company. Upon completion of the Capital Increase mentioned above, as the Company will hold 27.5% of the equity interest in the Factoring Company, and the shareholding in Factoring Company by the Controlling Shareholders of Shanghai Pharma through Shangshi Leasing is more than 10%, the Factoring Company is a commonly held entity as defined under Chapter 14A of the Hong Kong Listing Rules. As the commercial factoring services to be provided by the Factoring Company in accordance with the terms and conditions of the Commercial Factoring Services Framework Agreement involve financial assistance, pursuant to Rule 14A.26 of the Hong Kong Listing Rules, the transactions contemplated under the Commercial Factoring Services Framework Agreement will constitute continuing connected transactions of the Company.

Note 3: As the Factoring Company has completed the Capital Increase in the second half of 2017 and it has to finish due diligence investigation and agreement negotiations prior to carrying out business with the Group, the Group has no accounts receivable in respect of financing services and other commercial factoring services with the Factoring Company at this stage.

(4) Confirmation of continuing connected transactions

The directors of the Company (including independent non-executive directors) have reviewed the foregoing connected transactions, and confirm that the foregoing connected transactions are:

i. entered into during ordinary course of business;

ii. entered into on normal commercial terms or better; and

iii. conducted in compliance with the relevant connected transaction agreements, and are fair and reasonable and in the interest of the shareholders as a whole.

Auditors of the Company has submitted a comment letter on continuing connected transactions to the board of directors for connected transactions pursuant to Rule 14A.56 of the Hong Kong Listing Rules, and confirmed that the foregoing connected transactions:

i. no transactions were entered into without approval of the board of directors of the Company;

ii. no transactions that designed with provision goods or services by the Group were entered into without in compliance with pricing policies of the Group;

iii. no transactions were entered into without in compliance with relevant connected transaction agreements in all material respects; and

iv. no transactions exceeded caps.

The Company has delivered a copy of auditor's letter to Hong Kong Stock Exchange.

2. *Other non-exempt connected transactions*

In order to further focus on its principal pharmaceutical business, the Company approved the Proposal regarding Transfer of 100% Equity Interest in subsidiary, Shanghai Huashi Asset Management Co., Ltd., to a Controlling Shareholder and Related/Connected Transaction at the 13th meeting of the sixth session of the Board of Directors held on 18 December 2017. Pursuant to the Proposal, Shanghai Pharma Co., Ltd. and Shanghai Huashi Pharmacy Co., Ltd., each a wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with the Company's Controlling Shareholder, namely, Shanghai Pharmaceutical (Group) before 31 December 2017, to transfer jointly the 100% equity interest in Shanghai Huashi Asset Management Co., Ltd. to Shanghai Pharmaceutical (Group), at a consideration of approximately RMB218,100,600 (Please refer to Company's announcement Lin No. 2017-053 for details).

3. *Significant related parties*

Save as disclosed above, significant related party transactions which do not constitute connected transactions under the Listing Rules during the year are disclosed in Note 45 to the annual financial statements prepared under the Hong Kong Financial Reporting Standards.

XV. MATERIAL CONTRACTS AND PERFORMANCE THEREOF

(I) Trusteeship, contracting and leasing

1. *Trusteeship*

☐ Applicable ✓ Not applicable

2. *Contracting*

☐ Applicable ✓ Not applicable

3. *Leasing*

☐ Applicable ✓ Not applicable

(II) Guarantees

✓ Applicable ☐ Not applicable

The Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding External Guarantee Plan for 2017 and the Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. regarding New External Guarantee Plan for 2017 were approved at the 5th and 6th Meeting of the Sixth Session of the Board of Directors and the 2016 annual general meeting, respectively (For details, please refer to the Company's announcement Lin No. 2017-010, Lin No. 2017-021 and Lin No. 2017-030).

Unit: RMB

External guarantees provided by the Company and its subsidiaries (excluding those provided to its subsidiaries)													
Guarantor	Relationship between the guarantor and the listed-company	Guaranteed party	Value of guarantee	Date of guarantee (date of agreement)	Commen-cement 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 Pharma Co., Ltd.	Wholly-owned subsidiary	Shanghai Luoda Pharmaceutical Co., Ltd	8,500,000.00		29 August 2016	23 May 2017	Joint guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Shanghai Luoda Pharmaceutical Co., Ltd	6,500,000.00		21 December 2016	1 December 2017	Joint guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	987,091.47		24 November 2016	24 May 2017	Joint guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	840,383.02		24 November 2016	24 February 2017	Joint guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	4,659,531.12		15 December 2016	15 March 2017	Joint guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	941,646.39		15 December 2016	15 June 2017	Joint guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	207,537.68		21 December 2016	21 March 2017	Joint guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	1,318,640.09		17 January 2017	17 July 2017	Joint guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	634,521.28		17 January 2017	17 April 2017	Joint guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	493,083.92		23 February 2017	23 August 2017	Joint guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	1,051,561.91		24 October 2017	24 January 2018	Joint guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	1,124,716.48		24 October 2017	24 April 2018	Joint guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	2,073,145.13		21 December 2017	21 March 2018	Joint guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	1,213,458.89		21 December 2017	21 June 2018	Joint guarantee	No	No		No	No	Associate
Shanghai Pharma Zhenjiang Co., Ltd.	Holding subsidiary	Yunyang People's Hospital of Danyang	30,000,000.00		14 August 2015	5 December 2017	Joint guarantee	Yes	No		No	No	Others
SPH Xuzhou Pharmaceutical Co., Ltd.	Holding subsidiary	Nanjing Sample Digital Technology Co., Ltd.	15,000,000.00		26 October 2016	3 July 2017	Joint guarantee	Yes	No		No	No	Others
Total value guaranteed during the Reporting Period (excluding those provided to its subsidiaries)													7,909,127.70
Total remaining balance guaranteed at the end of the Reporting Period (A)(excluding those provided to its subsidiaries)													5,462,882.41
Guarantees provided by the Company and its subsidiaries to its subsidiaries													
Total value guaranteed for its subsidiaries during the Reporting Period													4,272,952,075.08
Total remaining balance guaranteed for its subsidiaries at the end of the Reporting Period (B)													2,303,642,738.52
Total value guaranteed by the Company (including those provided to its subsidiaries)													
Total value guaranteed (A+B)													2,309,105,620.93
Percentage of total value guaranteed in the Company's net assets (%)													6.79
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)													1,249,423,748.06
Amount of total value guaranteed exceeding 50% of net assets (E)													
Total of value guaranteed for the above three items (C+D+E)													1,249,423,748.06
Details of possible joint and several settlement liabilities for undue guarantee													
Details of guarantee													

(III) Appoint custodian for management of funds

1. *Asset management mandates*

(1). Overall asset management mandates

✓ Applicable ☐ Not applicable

Unit: RMB

Type	Capital source	The amount incurred	The balances yet to be due	The overdue amount yet to be collected
Bank Wealth Management Product	Self-owed fund	200,000,000.00	0.00	0.00
Public Fund Product	Self-owed fund	400,000,000.00	0.00	0.00

Others

☐ Applicable ✓ Not applicable

(2). Individual asset management mandates

✓ Applicable ☐ Not applicable

Unit: RMB

Trustee	Type of asset management mandate	Amount of asset management mandate	Commencement date of asset management mandate	Termination date of asset management mandate	Capital source	Capital allocation	Remuneration determination method	Annual yield	Estimated profit (if any)	Actual profit or loss	Actual amount recovered	Whether undergone legal procedures	Whether entrust asset management plan in the future	Impairment provision amount provided (if any)
A Bank	Principal preservation with floating return	200,000,000.00	10 April 2017	30 June 2017	Self-owed fund	Products with lower risks and good liquidity	Interest paid pursuant to agreement	2.92%		1,311,956.94	Recovered	yes	no	
B Found Company	Money fund	400,000,000.00	17 May 2017	20 September 2017	Self-owed fund	Products with lower risks and good liquidity	Interest paid pursuant to agreement	3.10%		4,317,556.85	Recovered	yes	no	

Others

☐ Applicable ✓ Not applicable

(3). Provision for impairment of asset management mandates

☐ Applicable ✓ Not applicable

2. *Entrusted loans*

(1). Overall entrusted loans

☐ Applicable ✓ Not applicable

Others

☐ Applicable ✓ Not applicable

(2). Individual entrusted loans

☐ Applicable ✓ Not applicable

Others

☐ Applicable ✓ Not applicable

(3). Provision for impairment of entrusted loans

☐ Applicable ✓ Not applicable

3. *Other asset management mandates and investment in derivatives*

✓ Applicable ☐ Not applicable

During the year, the Company gained total profits of RMB9,952,800 by transaction of state bonds buy-back.

(IV) Other material contracts

☐ Applicable ✓ Not applicable

XVI. STATEMENTS ABOUT OTHER SIGNIFICANT EVENTS

✓ Applicable ☐ Not applicable

Progress on the litigation matters of Pien Tze Huang

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. 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 Zi No. 35-3, in which Zhangzhou Intermediate Court rejected the objection to the case's jurisdiction by Xiamen Traditional Chinese Medicine at first instance. 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 at final instance 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 Notice from Xiamen Municipal Intermediate People's Court, Fujian Province (2014) Xia Min Chu Zi No. 937. 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. Pien Tze Huang made some amendments to the original 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 of the plaintiff 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 at the first instance. 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. On 20 March 2017, Xiamen Traditional Chinese Medicine received the Judgment (2014) Rong Min Chu Zi No. 1431 from Fuzhou Intermediate Court, which supported part of litigation request of Pien Tze Huang. On 1 April 2017, Xiamen Traditional Chinese Medicine filed an appeal to the Fujian Higher Court during the appeal period. On 31 July 2017, the case has been formally accepted by Fujian Higher Court. Fujian Higher Court conducted the second trial against this case on 30 October 2017, 19 December 2017 and 8 January 2018 respectively.

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" ("八寶丹片仔癀") (Application No: 11683990) and "Pien Tze Huang Pill of Eight Treasures" ("片仔癀八寶丹") (Application No: 11683929) on items under the fifth category of "traditional Chinese medicine" on 1 November 2012 in respect of 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 allowed to register, including trademark of "Pill of Eight Treasures Pien Tze Huang" No.11683990 [(2015) Shang Biao Yi Zi No.0000052574] and trademark of "Pien Tze Huang Pill of Eight Treasures" No.11683929 [(2015) Shang Biao Yi Zi No.0000052569], and the registration of the two trademarks of Pien Tze Huang was rejected. On 21 March 2016, Xiamen Traditional Chinese Medicine received the review application for the above decision of non-registration submitted by Pien Tze Huang, which was sent by the Trademark Appraisal Committee of the State Administration for Industry and Commerce. On 18 April 2016, Xiamen Traditional Chinese Medicine submitted the defense materials in relation to review of decision of non-registration against Pien Tze Huang to the Trademark Appraisal Committee of the State Administration for Industry and Commerce. On 3 March 2017, the Trademark Appraisal Committee of the Trademark Bureau of State Administration for Industry and Commerce made the review decision that trademarks were not allowed to register, including trademark of "Pill of Eight Treasures Pien Tze Huang" No.11683990 [(2017) Shang Ping Zi No.0000018006] and trademark of "Pien Tze Huang Pill of Eight Treasures" No.11683929 [(2017) Shang Ping Zi No. 0000018011],

and the registration of the two trademarks of Pien Tze Huang was rejected. On 18 April 2017, Pien Tze Huang filed an administrative lawsuit to Beijing Intellectual Property Court, asking for the cancellation of the review decision of non-registration, and Xiamen Traditional Chinese Medicine took part in the litigation as the third party of the case. On 25 October 2017, Beijing Intellectual Property Court conducted the first trial against this case, and Xiamen Traditional Chinese Medicine attended in the trial as the third party.

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 to as "Huichun Medicine Railway Station Pharmacy"), Fuzhou Huichun Medicine Chain Co., Ltd. (referred to as "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 arising from its false propaganda; to issue an order to Huichun Medicine Railway Station Pharmacy and Huichun Medicine to jointly compensate Xiamen Traditional Chinese Medicine an economic loss of RMB3,000; and to issue an order to the three defendants to jointly assume all the legal costs to the case. Fuzhou Intermediate Court accepted the case with case (2015) Rong Min Chu Zi No. 1518 on that day. 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 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 satisfied with the judgment, and appealed to Fujian Fujian Higher Court. On 7 December 2015, Fujian Higher Court issued Civil Judgment (2015) Min Min Zhong Zi No. 2095 to revoke Fuzhou Intermediate Court's Civil Judgment and transferred the litigation involving Pien Tze Huang in the case to the jurisdiction of Zhangzhou Intermediate Court, and the litigations involving Huichun Medicine and Huichun Medicine Railway Station Pharmacy were still under trial by Fuzhou Intermediate Court. The details are as follows:

   (1) The part heard by Fuzhou Intermediate Court

   On 14 June 2016, the litigation involving Huichun Medicine and Huichun Medicine Railway Station Pharmacy was heard by Fuzhou Intermediate Court; on 14 October 2016, Fuzhou Intermediate Court issued Civil Judgment (2015) Rong Min Chu Zi No. 1518 and rejected the claim of Xiamen Traditional Chinese Medicine. Xiamen Traditional Chinese Medicine filed an appeal afterwards during the appeal period. On 1 March 2017, Fujian Higher Court issued Civil Judgment (2017) Min Min Zhong Zi No. 37 to revoke Fuzhou Intermediate Court's Civil Judgment (2015) Rong Min Chu Zi No.1518 and instructed that the litigation involving Huichun Medicine and Huichun Medicine Railway Station Pharmacy be under trial by Fuzhou Intermediate Court. On 15 November 2017, Xiamen Traditional Chinese Medicine submitted an application for withdrawing the claim to Fuzhou Intermediate Court, and approved by Fuzhou Intermediate Court on 17 January 2018.

(2) *The part heard by Zhangzhou Intermediate Court*

The evidence exchange was held by Zhangzhou Intermediate Court on 18 September 2016 and heard on 13 October 2016. Zhangzhou Intermediate Court issued a civil judgment on the preservation of evidence related to the case on the same day. On 23 May 2017, Zhangzhou Intermediate Court rejected the claim made by Xiamen Traditional Chinese Medicine at first instance. After receiving the judgement, on 20 June 2017, Xiamen Traditional Chinese Medicine filed an appeal to Fujian Higher Court during the appeal period. On 20 September 2017, the case has been formally accepted by Fujian Higher Court. On 30 October 2017, Fujian Higher Court conducted the first trial of the second instance of this case.

XVII. POSITIVE PERFORMANCE OF SOCIAL RESPONSIBILITIES

(I) Poverty alleviation work of the listed company

✓ Applicable ☐ Not applicable

Details are set out in the "2017 Social Responsibility Report of Shanghai Pharmaceuticals Holding Co., Ltd." disclosed by the Company.

(II) Performing social responsibilities

✓ Applicable ☐ Not applicable

Details are set out in the "2017 Social Responsibility Report of Shanghai Pharmaceuticals Holding Co., Ltd." disclosed by the Company.

(III) Environment

1. *Description of the environmental protection work performed by the company and its significant subsidiaries which are in industry with serious pollution recognized by the national environmental protection authorities*

☐ Applicable ✓ Not applicable

2 *Companies other than which are in industry with serious pollution*

✓ Applicable ☐ Not applicable

Details are set out in the "2017 Social Responsibility Report of Shanghai Pharmaceuticals Holding Co., Ltd." disclosed by the Company.

XVIII. CONVERTIBLE CORPORATE BONDS

(I) Conversion of debt and issuance

☐ Applicable ✓ Not applicable

Changes in Ordinary Share Capital and Information about Shareholders

I. CHANGES IN ORDINARY SHARE CAPITAL

(I) Table of changes in ordinary share

1. *Table of changes in ordinary share*

   During the Reporting Period, there was no change in the total number of shares and share capital structure of the Company. As at 31 December 2017, 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*

   ☐ Applicable ✓ Not applicable

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

   ☐ Applicable ✓ Not applicable

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

   ✓Applicable ☐ Not applicable

   As approved Zheng Jian Xu Ke [2017] No. 2424 of CSRC, the Company have successfully allotted and issued an aggregate of 153,178,784 new H shares to not fewer than six (6) and not more than ten (10) Placees, who and whose ultimate beneficial owners are overseas third parties independent of the Company and not connected persons of the Company, with a nominal value of RMB1 each, in accordance with the general mandate granted to the Board at the 2016 annual general meeting of the Company held in January 2018. Upon completion of this placing, the total number of shares in issue of the Company increased from 2,688,910,538 shares to 2,842,089,322 shares, of which the total number of H shares in issue increased from 765,893,920 shares to 919,072,704 shares, and the number of A shares in issue of the Company remained at 1,923,016,618 shares. The issue price in this placing is HK$20.43 per share, and the closing price of H shares of the Company at the date of the placing is HK$21.9. The Company raised funds of HK$3,129.44 million, but after deducting the listing fees paid overseas, the net proceeds of HK$3,116.79 million is used for industrial manufacturing, distribution business expansion and supplementary working capital. As of the date of this report, the raised funds has not been utilized, and all of proceeds has been deposited with account for raising funds.

(II) Changes in trade-restricted shares

☐ Applicable ✓ Not applicable

During the Reporting Period, there was no change in the trade-restricted shares of the Company. As at 31 December 2017, 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

✓ Applicable ☐ Not applicable

For details, please refer to "Chapter 10 Relevant Information of Corporate Bonds" below.

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

☐ Applicable ✓ Not applicable

(III) Details of shares held by the Company's employees

☐ Applicable ✓ Not applicable

III. SHAREHOLDERS AND DE FACTO CONTROLLER

(I) Number of shareholders

The total number of ordinary shareholders as at the end of the Reporting Period	75,547
The total number of ordinary shareholders as at the end of the month prior to the disclosure date of the annual report	77,005
The total number of shareholders of preference shares with voting rights restored as at the end of the reporting period	0
The total number of shareholders of preference shares with voting rights restored as at the end of the month prior to the disclosure date of the annual report	0

Note 1: Among the 75,547 shareholders as at the end of the Reporting Period, 73,368 were A-share holders and 2,179 were H-share holders

Note 2: Among the total 77,005 shareholders as at the end of the month prior to the disclosure date of the annual report, 74,875 were A-share holders and 2,130 were H-share holders

(II) Top 10 shareholders and top 10 shareholders in circulation (or without trade restriction) and their shareholdings at the end of the Reporting Period

Unit: Share

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	-18,449,200	729,703,220	27.14	0	Unknown		Foreign shareholder
Shanghai Pharmaceutical (Group)	0	716,516,039	26.65	0	Nil		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 shareholder
China Securities Finance Corporation Limited	64,108,804	130,640,296	4.86	0	Nil		Unknown
Shanghai Guosheng and Shanghai Shengrui	5,887,953	43,100,900	1.60	0	Unknown		State-owned legal person
Central Huijin Investment Ltd.	0	24,891,300	0.93	0	Nil		Unknown
Shenergy (Group) Co., Ltd.	0	23,199,520	0.86	0	Nil		State-owned legal person
NSSF 604 Combination	-5,669,500	21,145,910	0.79	0	Nil		Unknown
Taiping Life Insurance Company Limited-Dividends-Team Dividends	15,346,853	16,846,719	0.63	0	Nil		Unknown
NSSF 116 Combination	/	13,574,631	0.50	0	Nil		Unknown

Shareholdings of top 10 shareholders without trade restrictions			
	Number of shares without	Class and number of shares	
Name of shareholder	trade restrictions	Class	Number of shares
HKSCC NOMINEES LIMITED	729,703,220	Overseas listed foreign shares	729,703,220
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 Overseas listed foreign shares	222,301,798 16,284,400
China Securities Finance Corporation Limited	130,640,296	RMB ordinary shares	130,640,296
Shanghai Guosheng and Shanghai Shengrui	43,100,900	RMB ordinary shares Overseas listed foreign shares	24,585,800 18,515,100
Central Huijin Asset Management Co., Ltd	24,891,300	RMB ordinary shares	24,891,300
Shenergy (Group) Co., Ltd.	23,199,520	RMB ordinary shares	23,199,520
NSSF 604 Combination	21,145,910	RMB ordinary shares	21,145,910
Taiping Life Insurance Company Limited-Dividends-Team Dividends	16,846,719	RMB ordinary shares	16,846,719
NSSF 116 Combination	13,574,631	RMB ordinary shares	13,574,631
Note on connected relationship 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-owned subsidiary of Shanghai Guosheng, which is a wholly-owned subsidiary of Shanghai SASAC. The Company is not aware of any connected relationship 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	/		

Note 1: Shares held by HKSCC NOMINEES LIMITED (Hong Kong Securities Clearing Company Nominees Limited) are held on behalf of its clients and the number of shares it holds as shown in the table above excludes 16,284,400 H shares held by SIIC and its wholly-owned subsidiaries and 18,515,100 H shares held by Shanghai Guosheng and Shanghai Shengrui through Southbound Trading. 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.

Number of and the trade restrictions on the shares held by the top 10 shareholders holding trade-restricted shares

✓ Applicable ☐ Not applicable

Unit: Share

No.	Name of shareholder holding trade-restricted shares	Number of trade restricted shares	The listing and trading of trade-restricted shares: Time available for listing and trading	The listing and trading of trade-restricted shares: Number of additional Shares available for listing and trading	Trade restrictions
1	Hainan Zhong Wang Investment and Management Company Limited	81,600	Pending	0	The consideration payable to Shanghai Pharmaceutical (Group) in the equity division reform remained outstanding.
Note on connected relationship or concerted actions of the above 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 person*

✓ Applicable ☐ Not applicable

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, environmental protection and new energy.
Equity interests in other controlled and invested companies whose shares were listed in the PRC or overseas during the Reporting Period	(1) Shanghai Industrial Holdings Limited (a company listed on the Hong Kong Stock Exchange with stock code 00363) (2) Shanghai Industrial Urban Development Group Limited (a company listed on the Hong Kong Stock Exchange with stock code 00563) (3) Shanghai Industrial Environmental Holding Co., Ltd. (a company listed on the Main Board of Singapore Exchange with stock code 5GB) (4) Shanghai Industrial Development Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600748) (5) Shanghai International Shanghai Growth Investment Limited (a company listed on the Hong Kong Stock Exchange with stock code 00770)

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)

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

(II) De Facto Controller

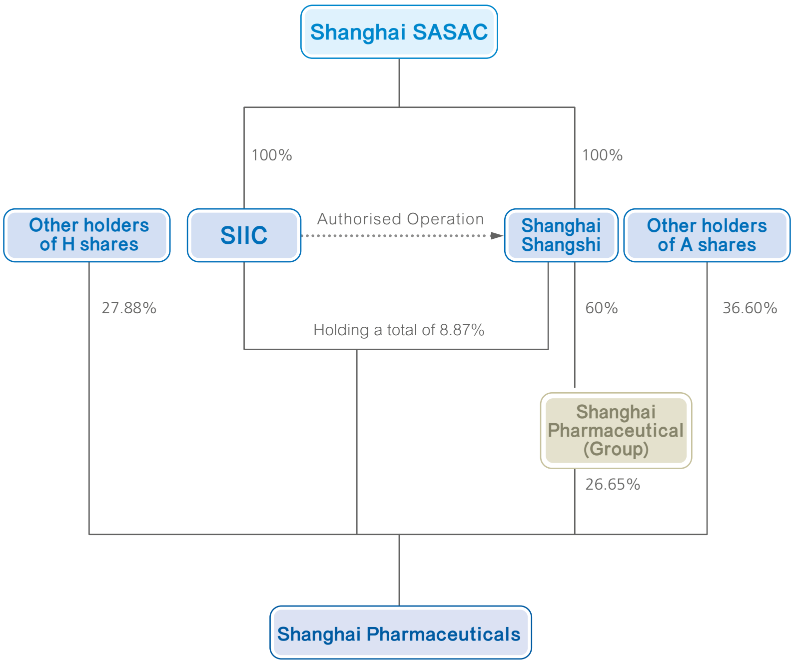
1 *Legal person*

✓ Applicable ☐ Not applicable

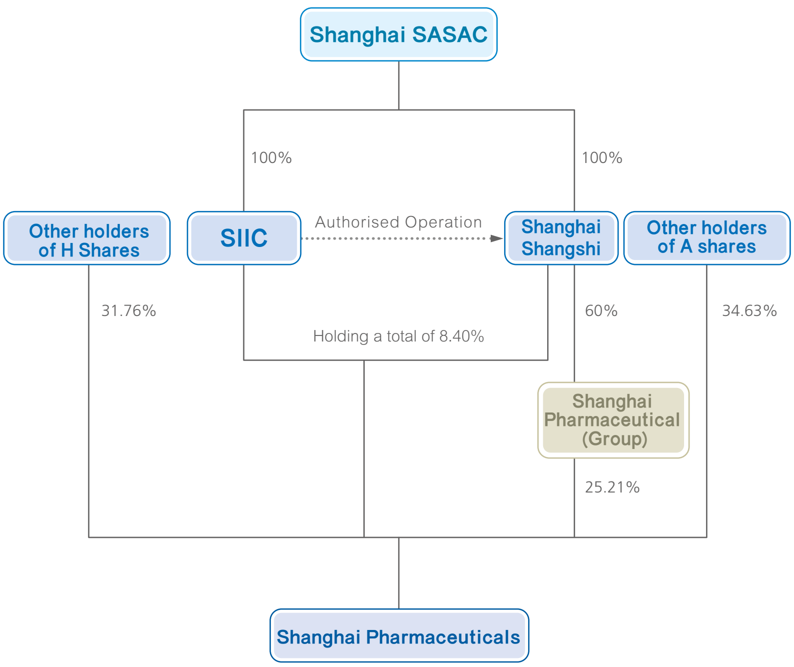
The de facto controller of the Company is Shanghai SASAC.

2 *The chart illustrating the ownership and control relationship between the Company and the de facto controller*

✓ Applicable ☐ Not applicable



In January 2018, after the completion of H share placing (see the Company's announcement Lin No. 2018-006), as at the date of this annual report, controlling relationship between the Company and the de facto controller is as follows:



V. OTHERS (DISCLOSED PURSUANT TO THE REQUIREMENTS OF THE SFO AND THE HONG KONG LISTING RULES)

(I) Interests and short positions of Directors, Chief Executive, substantial shareholders and other persons in the shares and underlying shares

As at 31 December 2017, 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 general meetings of the Company. Interests and short positions of Directors and Chief Executive are set out "Chapter 8 Directors, Supervisors, Senior Management and Employees" below.

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 13.01	3.71 3.71
Credit Suisse AG	H shares	Interests of controlled corporation	99,632,100 (L) 99,632,100 (S)	13.01 13.01	3.71 3.71
JPMorgan Chase & Co.	H shares	Beneficial owner/investment manager/custodian/approved lending agent	75,952,827 (L) 187,721 (S) 71,431,442 (P)	9.92 0.02 9.33	2.82 0.01 2.66
National Council for Social Security Fund	H shares	Beneficial owner	66,633,400 (L)	8.70	2.48
BlackRock, Inc.	H shares	Interests of controlled corporation	53,605,374 (L) 145,600 (S)	7.00 0.02	1.99 0.01

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

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 2017, 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.

(II) PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under Articles of Association or the applicable laws of China in which the Company was incorporated.

(III) PURCHASE, SALES AND REDEMPTION OF SHARES

During the period from January to December 2017, 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 existing and resigned of directors, supervisors and senior management during the Reporting Period

✓ Applicable ☐ Not applicable

Unit: Share

Name	Position	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 (increase/ decrease)	Total remuneration payable by the Company during the Reporting Period (RMB10,000) (before tax)	Whether obtained salary from connected parties of the Company
Zhou Jun	Chairman, Non-Executive Director	Male	49	20 October 2016	28 June 2019	0	0	0	/	0.00	Yes
Cho Man	Executive Director, President	Male	57	5 June 2013	28 June 2019	20,009 A Shares	20,009 A Shares	0	/	303.54	No
Li Yongzhong	Executive Director, Vice President	Male	48	28 June 2016	28 June 2019	0	0	0	/	303.09	No
Shen Bo	Executive Director, Vice President, Chief Financial Officer	Male	45	28 June 2016	28 June 2019	71,700 A Shares	71,700 A Shares	0	/	243.82	No
Li An	Non-Executive Director	Female	57	28 June 2016	28 June 2019	0	0	0	/	0.00	Yes
Wan Kam To	Independent Non-Executive Director	Male	65	5 June 2013	28 June 2019	0	0	0	/	25.00	No
Tse Cho Che, Edward	Independent Non-Executive Director	Male	62	5 June 2013	28 June 2019	0	0	0	/	23.00	No
Cai Jiangnan	Independent Non-Executive Director	Male	61	28 June 2016	28 June 2019	0	0	0	/	23.00	No
Hong Liang	Independent Non-Executive Director	Male	43	28 June 2016	28 June 2019	0	0	0	/	20.00	No
Xu Youli	Chief Supervisor	Male	44	28 June 2016	28 June 2019	0	0	0	/	0.00	Yes
Chen Xin	Supervisor	Female	55	31 March 2010	28 June 2019	10,000 A Shares	10,000 A Shares	0	/	0.00	Yes
Xin Keng	Supervisor	Male	51	5 June 2013	28 June 2019	0	0	0	/	0.00	Yes
Liu Yanjun	Vice President	Male	53	5 June 2013	28 June 2019	60,000 A Shares	60,000 A Shares	0	/	212.37	No
Shu Chang	Vice President	Male	60	8 October 2012	28 June 2019	4,600 A Shares	4,600 A Shares	0	/	202.69	No
Mao Jianyi	Vice President	Male	50	19 November 2013	28 June 2019	0	0	0	/	202.69	No
Gu Haoliang	Vice President	Male	56	25 August 2016	28 June 2019	0	0	0	/	224.8	No
Liu Dawei	Vice President, Secretary of the board of directors and Joint Company Secretary	Male	38	28 June 2016	28 June 2019	0	0	0	/	177.69	No
Zhang Yaohua	Vice President	Male	45	15 June 2017	28 June 2019	0	0	0	/	35.06	No
Ren Jian	No longer as Vice President	Male	53	31 March 2010	27 April 2017	81,518 A Shares	81,518 A Shares	0	/	138.98	No
Total	/	/	/	/	/	247,827 A Shares	247,827 A Shares	0	/	2,135.73	/

Note 1: None 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.

Note 2: The Company has, pursuant to Rule 3.13 of the Hong Kong Listing Rules, received from each of the four independent non-executive Directors, namely Mr. Wan Kam To, Mr. Tse Cho Che, Edward, Mr. Cai Jiangnan and Mr. Hong Liang an annual confirmation of his/her independence and still considers each of them to be independent.

Name	Major Work Experience
Zhou Jun	
Mr. Zhou Jun, born in March 1969, obtained a bachelor's degree of Arts from Nanjing University and a master's degree of Economics in International Finance from Fudan University. He is an economist. He has over 20 years of professional experience in securities, merger and acquisition, financial investment, real estate, project planning and corporate management. He is currently the chairman of the Board and a non-executive director of the Company, and holds directorship in subsidiary of the Company. He has been a president and an executive director of Shanghai Industrial Investment (Holdings) Co., Ltd. since September 2016 and May 2012, respectively. He has also been the vice chairman and the chief executive officer and the executive director of Shanghai Industrial Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code of 00363) since August 2016 and April 2009, respectively. He also served as the chairman of Shanghai Shengtai Investment and Management Limited, an affiliate of Shanghai Charity Foundation since June 2014, and has been the independent non-executive director of Zhejiang Expressway Co., Ltd. (a company listed on The Stock Exchange of Hong Kong Limited with stock code of 00576; London Market for Hong Kong Stocks code of ZHEH; United States ADR code of ZHEXY) since July 2012. He was also the executive chairman of SIIC Environment Holdings Ltd. (a company listed on the Singapore Stock Exchange with stock code of BHK) since May 2012; the chairman of SIIC Management (Shanghai) Ltd. since November 2010; the chairman of Shanghai Shen-Yu Development Co., Ltd. since November 2009; the chairman of Shanghai Galaxy Investments Co., Ltd. since July 2009; the chairman of Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd. and Shanghai Luqiao Development Co., Ltd. since April 2009; the chairman of S.I. Infrastructure Holdings Limited since March 2009. Meanwhile, Mr. Zhou Jun is a member of the executive committee of the Chinese People's Political Consultative Conference in Shanghai. He held the positions of the executive director of Shanghai Industrial Urban Development Group Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code of 00563), a deputy general manager of SIIC Real Estate Holdings (Shanghai) Co., Ltd., deputy chief executive officer of Shanghai Industrial Holdings Limited, deputy general manager of Shanghai United Industrial Co., Ltd., managing director of Shanghai Galaxy Investments Co., Ltd and general manager of investment planning department as well as vice president of Shanghai Industrial Investment (Holdings) Co., Ltd., etc as well.	
Cho Man	
Mr. Cho Man, born in May 1961, has a bachelor's degree in pharmacy from Sichuan University (former 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 currently an executive director and the president of the Company and holds directorship in certain subsidiaries of the Company. 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, etc.	

Name	Major Work Experience
Li Yongzhong	
Mr. Li Yongzhong, born in February 1970, an executive master of business administration from the China Europe International Business School. He is qualified as an pharmacist. He is currently the executive director and vice president of the Company and the general manager and director of Shanghai Pharma Co., Ltd., a subsidiary of the Company. He also holds directorship in other subsidiaries of the Company. His previous positions included deputy manager of the New Drug Branch of, deputy general manager and general manager of pharmaceutical distribution business department of, and general manager assistant and deputy general manager of Shanghai Pharmaceutical Co., Ltd. and vice president of Shanghai Pharmaceuticals Holding Co., Ltd., 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 currently the executive director, vice president and chief financial officer of the Company, and holds directorships in certain subsidiaries of the Company. He has been a non- executive director of Tianda Pharmaceuticals Limited. (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. (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.	
Li An	
Ms. Li An, born in July 1961, obtained a bachelor's degree in Engineering from Shanghai University of Science and Technology and is an engineer. She is currently a non-executive director of the Company without any directorship in any subsidiaries of the Company. She has been the vice president of Shanghai Guosheng (Group) Co. Ltd, a director of Shanghai Lengguang Industrial Co., Ltd (changed its name to East China Construction Group Co., Ltd (華東建築集團股份有限公司) in October 2015 and a company listed on the Shanghai Stock Exchange with stock code 600629) and a director of Shanghai Tunnel Engineering Co., Ltd (a company listed on the Shanghai Stock Exchange with stock code 600820) since September 2014, July 2015 and September 2015, respectively. She previously served as the deputy director of the Institute of Information Technology in Hongkou District, a senior staff member of Industry District of the Planned Economy Committee in Hongkou District, the section chief of the Grass-roots Work Division of the Economic Committee in Hongkou District (虹口區經濟委員會基層工作科), a principal staff member of Shanghai Municipal State-owned Assets Supervision and Administration Office, a deputy director of the Property Rights Division of the Municipal State-owned Assets Supervision and Administration Office, a deputy director and the director of the Property Rights Division of the Municipal State-owned Assets Supervision and Administration Commission and the director of the Center of Property Rights, etc.	

Name	Major Work Experience
Wan Kam To	
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 currently an independent non-executive director of the Company and does not hold any directorship in any subsidiaries 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 A-LIVING SERVICES CO., LTD. (雅居樂雅生活服務股份有限公司)(a company listed on The Stock Exchange of Hong Kong Limited with stock code 03319 on 9 February 2018) since August 2017. He has been an an independent director of China International Trade Center Co., Ltd (a company listed on The Stock of Shanghai Limited Listed with stock code 600007) since November 2016. 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 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 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 Greater China Professional Services Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 08193), 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), 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) and a partner of PricewaterhouseCoopers in Hong Kong (from May 1992 to June 2008), etc.	
Tse Cho Che, Edward	
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 currently an independent non-executive director of the Company and does not hold any directorship in any subsidiaries 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 since April 2014. 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, etc.	

Name	Major Work Experience
Cai Jiangnan	Mr. Cai Jiangnan, born in June 1957, obtained a bachelor's degree in Economics from East China Normal University, a master's degree in Economics from Fudan University and a Ph.D. in Social Politics from Brandeis University in the United States of America. Mr. Cai is currently an independent non-executive director of the Company without any directorship in any subsidiaries of the Company. Mr. Cai has been engaged in teaching, researching and consulting in respect of health economics and health policy in universities, consulting companies and government departments in both China and the United States of America for more than 20 years, and published a large number of influential research results. Mr. Cai has been awarded Sun Yefang Economic Science Paper Award in 1990, the NHRI Most Outstanding Abstract Award in 2002, the Outstanding Paper Award at the Annual Meeting of Shanghai Academy of Social Sciences in 2009 (上海市社會科學界年會優秀論文獎), as well as a nominee of 2013 Top Ten Big News on Health Care Reform (十大醫改新聞人物提名) organized by "Chinese Health" magazine (《中國衛生》). Mr. Cai was also one of the main founders of the School of Business in East China University of Science and Technology. He has been the director of Health Management and Policy Center in and an adjunct professor of economics in China Europe International Business School since May 2012. He also has been an independent director of Zhejiang Dian Diagnostics Co., Ltd (a company listed on the Shenzhen Stock Exchange with stock code 300244) and Harmonicare Medical Holdings Limited (a company listed on the Hong Kong Stock Exchange with stock code 01509) since 2014 and 2015, respectively. He previously served as the first head of the Department of Public Economics in School of Economics, Fudan University and the director of the Institute of Economic Development, East China University of Science and Technology, etc.
Hong Liang	Mr. Hong Liang, born in December 1975, obtained a bachelor's degree in Economic Law from East China University of Political Science and Law and a master's degree in International Comparative Law from Chicago-Kent College of Law in the United States of America. Mr. Hong Liang is currently the independent non-executive director of the Company without any directorship in any subsidiaries of the Company. Mr. Hong has extensive experience in corporate law, finance law, state assets and state-owned enterprises and other related law fields. He has been a managing partner of Shanghai Everbright Law Firm, an independent non-executive director of Shanghai Winner Information Technology Co., Inc. (a listed company on the Shenzhen Stock Exchange Co., Ltd with stock code 300609) and an external director of Shanghai Hongfang (Group) Co. Ltd (上海虹房(集團)有限公司) and Shanghai Changyuan Culture (Group) Co. Ltd (上海長遠文化(集團)有限公司) since July 1999, November 2014 and January 2015, respectively. Meanwhile, he also serves as a member of China Youth Federation, a standing committee member of Shanghai Youth Federation, a member of Shanghai Lawyers Association, the director of State Assets and State-owned Enterprises Business Research Commission (國資國企業務研究委員會), an adjunct professor of East China University of Political Science and Law and Shanghai Institute of Political Science and Law, and an arbitrator of Shanghai International Economic and Trade Arbitration Commission and Lianyungang Arbitration Commission. He previously worked at Shanghai Municipal People's Government and The Stock Exchange of Hong Kong Limited, etc.
Xu Youli	Mr. Xu Youli, born in April 1974, obtained a bachelor's degree in Economics from the University of Finance and Economics in Shanghai and a master's degree of Business Administration degree from Fudan University. He is a senior accountant, certified public accountant and an international certified internal auditor. Mr. Xu is currently the chief supervisor of the Company without any directorship in any subsidiaries of the Company. Mr. Xu serves as the vice president of Shanghai Industrial Investment (Holdings) Co. Ltd. since April 2016; director of Shanghai Industrial Development Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600748) since November 2012; and general manager of the audit department of Shanghai Industrial Investment (Holdings) Co., Ltd. since September 2011. He was the director of the Shanghai Shidongkou Second Power Plant, deputy manager and manager of the supervision and audit department of East China Branch of China Huaneng Group, deputy general manager of the audit department of and president assistant of Shanghai Industrial Investment (Holdings) Co., Ltd., etc.

Name	Major Work Experience
Chen Xin	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 does not hold any directorship in Company's subsidiaries. She has been Deputy Secretary of the Party Committee of Shanghai Pharmaceutical (Group) Co., Ltd. and the Party Committee of Shanghai Pharmaceuticals Holding Co., Ltd. since April 2016. 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.
Xin Keng	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), etc.
Liu Yanjun	Mr. Liu Yanjun, born in February 1965, holds a bachelor's degree in Naval Medicine, a master's 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., a subsidiary of the Company. He holds a concurrent office of director in the Company's other subsidiaries. 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, etc.
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's degree of Economics from the Graduate School of New York University, United States. He is currently a vice president of the Company and does not hold any directorship 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 Listed 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).

Name	Major Work Experience
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 of America (美國華盛頓國際公開大學)). Mr. Mao is a physician. He is currently a vice president of the Company and holds directorship in certain subsidiaries of the Company. He served as vice president of the prescription drug division of Shanghai Pharmaceutical (Group) Co., Ltd., general manager of 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.	
Gu Haoliang	
Mr. Gu Haoliang, born in February 1962, obtained a bachelor's degree of Industrial Accounting in Shanghai University of Finance and Economics, a Ph.D. of business administration of ESC RENNES School of Business, France. He is a senior accountant. He is currently the vice president of the Company, the general manager of the Company's subsidiary, SPH Sine Pharmaceutical Factory Co., Ltd., the chairman of the Company's subsidiary SPH New Asia Pharmaceutical Co., Ltd., the head of the marketing center of the Company, and holds directorship of other subsidiaries of the Company. He was also the former chief financial officer of the prescription medicine business department of Shanghai Pharmaceutical (Group) Co., Ltd., the general manager of Shanghai Sine Tianyi Pharmaceutical Co., Ltd., the deputy general manager of Shanghai Honglian Electric Appliance Co., Ltd., the deputy general manager of Shangling Tian'an Refrigerator Co., Ltd., the deputy general manager of Hengtai Textile Co., Ltd., the finance director of Shanghai Aerospace Bureau 802 Institute, etc.	
Liu Dawei	
Mr. Liu Dawei, born in August 1980, obtained a bachelor's degree in Economics with a major in Taxation from the Shanghai University of Finance and Economics and a master's degree of Business Administration degree with a major in Finance and Financial Management from the W. P. Carey School of Business at Arizona State University in the United States of America and is an accountant. He currently serves as vice president, secretary of the Board and joint company secretary and holds directorship in subsidiaries of the Company. He previously served as general manager of the strategic operations department and the deputy general manager of the investment development department of the Company, chief financial officer, the general manager of the headquarters finance department of Shanghai Pharmaceutical Co., Ltd., and the general manager, assistant to the department head and financial management officer of the headquarters finance department of Shanghai Pharmaceutical Co., Ltd, etc.	
Zhang Yaohua	
Mr. Zhang Yaohua, born in July 1973, has a bachelor's degree in Polymer Chemistry from Fudan University and a MPAcc from Shanghai National Accounting Institute – Shanghai University of Finance and Economics, is an economist. He is currently a vice president of the Company, and holds directorship in certain subsidiaries of the Company. He previously served as the general manager of department of strategy and investment of the Company, Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd and SPH Dong Ying (Jiangsu) Pharmaceutical Co., Ltd. (上藥東英(江蘇)藥業有限公司), etc.	

Note on others

☐ Applicable ✓ Not applicable

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

☐ Applicable ✓ Not applicable

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

(I) Positions in Shareholder Entities

✓ Applicable ☐ Not applicable

Name	Name of shareholder entity	Position held in the shareholder entity	Starting date of term of office	Expiry date of term of office
Zhou Jun	Shanghai Industrial Investment (Holdings) Co., Ltd.	President	September 2016	up to today
Zhou Jun	Shanghai Industrial Investment (Holdings) Co., Ltd.	Executive director	May 2012	up to today
Zhou Jun	Shanghai Shangshi (Group) Co., Ltd.	Vice Chairman and president	September 2016	up to today
Zhou Jun	Shanghai Pharmaceutical (Group) Co., Ltd.	Chairman, director and president	February 2017	up to today
Li An	Shanghai Guosheng Group Co., Ltd.	Vice president	September 2014	up to today
Li An	Shanghai Shengrui Investment Co., Ltd.	Executive director	January 2016	up to today
Xu Youli	Shanghai Industrial Investment (Holdings) Co., Ltd.	Vice president	April 2016	up to today
Chen Xin	Shanghai Pharmaceutical (Group) Co., Ltd.	Supervisor	February 2017	up to today
Xin Keng	Shenergy (Group) Co., Ltd.	Principal of the finance department	August 2009	up to today
Ren Jian	Shanghai Pharmaceutical (Group) Co., Ltd.	Director	February 2017	up to today
Ren Jian	Shanghai Pharmaceutical (Group) Co., Ltd.	Vice president	April 2017	up to today
Explanation of positions in Shareholder Entities	None			

(II) Positions in other entities

✓ Applicable ☐ Not applicable

Name	Name of other entities	Position held in the entity	Starting date of term of office	Expiry date of term of office
Zhou Jun	Shanghai Pharmaceuticals (HK) Investment Limited	Director	August 2017	up to today
Cho Man	Shanghai Pharmaceutical Co., Ltd.	Chairman	August 2016	up to today
Cho Man	Shanghai SPH No.1 Biochemical and Pharmaceutical Co., Ltd.	Chairman	June 2013	up to today
Cho Man	Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.	Chairman	June 2013	up to today
Cho Man	SPH Qingdao Growful Pharmaceutical Co., Ltd.	Chairman	June 2013	up to today
Cho Man	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Director	June 2013	up to today
Cho Man	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Chairman	August 2016	up to today
Cho Man	Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Chairman	August 2016	up to today
Cho Man	Zeus Investment Limited	Director	July 2016	up to today
Cho Man	Liaoning Herbpex Pharmaceutical (Group) Co., Ltd.	Chairman	May 2017	up to today
Cho Man	Shanghai Pharmaceuticals (HK) Investment Limited	Director	August 2017	up to today
Li Yongzhong	Shanghai Pharmaceutical Co., Ltd.	Director	April 2010	up to today
Li Yongzhong	Shanghai Pharmaceutical Co., Ltd.	General manager	October 2012	up to today
Li Yongzhong	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Director	April 2011	up to today
Li Yongzhong	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Chairman	August 2016	up to today
Li Yongzhong	Shanghai Pharma Northern Investment Co., Ltd.	Director	January 2012	up to today
Li Yongzhong	Shanghai Pharma Northern Investment Co., Ltd.	Chairman	August 2016	up to today
Li Yongzhong	China International Pharmaceutical (Holding) Corporation Limited	Director	August 2014	up to today
Li Yongzhong	Shanghai Pharma Health Commerce Co., Ltd	Chairman	August 2016	up to today
Li Yongzhong	Zeus Investment Limited	Director	July 2016	up to today
Shen Bo	Shanghai Traditional Chinese Medicine Co., Ltd.	Chairman	December 2017	up to today
Shen Bo	Shanghai Pharmaceutical Co., Ltd.	Supervisor	April 2010	up to today
Shen Bo	SPH Changzhou Pharmaceutical Co., Ltd.	Director	June 2007	up to today
Shen Bo	SPH Changzhou Pharmaceutical Co., Ltd.	Chairman	August 2016	up to today
Shen Bo	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Director	April 2011	up to today
Shen Bo	Shanghai Pharma Northern Investment Co., Ltd.	Director	January 2012	up to today
Shen Bo	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Director	March 2013	up to today
Shen Bo	SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd.	Director	July 2013	up to today
Shen Bo	China International Pharmaceutical (Holding) Corporation Limited	Executive director	May 2014	up to today

Name	Name of other entities	Position held in the entity	Starting date of term of office	Expiry date of term of office
Shen Bo	Shanghai Pharma Health Commerce Co., Ltd	Director	August 2016	up to today
Shen Bo	Shanghai Hefeng Pharmaceutical Co., Ltd.	Chairman	November 2015	up to today
Shen Bo	Shanghai Industrial Group Pharmaceutical Co. Ltd.	Executive director	October 2015	up to today
Shen Bo	Shanghai Huarui Investment Co. Ltd.	Executive director	October 2015	up to today
Shen Bo	Xiamen Traditional Chinese Medicine Co., Ltd.	Chairman	August 2016	up to today
Shen Bo	Zeus Investment Limited	Director	July 2016	up to today
Liu Yanjun	Shanghai Jiaolian Drug Development Co., Ltd.	Chairman	February 2014	up to today
Liu Yanjun	Shanghai Pharmaceutical Group (Benxi) Northern Pharma Co., Ltd.	Executive director	November 2014	up to today
Liu Yanjun	Shanghai Pharmaceutical Group (Benxi) Northern Pharma Co., Ltd.	General manager	November 2014	June 2017
Liu Yanjun	Shanghai Yichuang Research and Development Centre of Traditional Chinese Medicine Co., Ltd.	Chairman	October 2015	up to today
Liu Yanjun	Shanghai Healthcare Industry Equity Investment Fund	Member of the advisory committee	December 2016	up to today
Liu Yanjun	Shanghai Sunway Biotech Co., Ltd.	Chairman	December 2017	up to today
Mao Jianyi	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Director	June 2013	up to today
Mao Jianyi	Shanghai Ajinomoto Amino Acid Co., Ltd.	Chairman	March 2016	up to today
Mao Jianyi	Shanghai Pharmaceutical Yisheng Medical Investment and Management Co., Ltd.	Chairman	November 2017	up to today
Gu Haoliang	Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.	Director	November 2010	up to today
Gu Haoliang	Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.	General manager	December 2008	up to today
Gu Haoliang	Shanghai SPH New Asiatic Pharmaceutical Co., Ltd.	Chairman	June 2014	up to today
Gu Haoliang	SPH Changzhou Pharmaceutical Co., Ltd.	Director	August 2016	up to today
Gu Haoliang	Shanghai Pharma Sales Co.,Ltd.	Chairman	September 2016	up to today
Gu Haoliang	Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Director	August 2016	up to today
Gu Haoliang	SPH Qingdao Growful Pharmaceutical Co., Ltd.	Director	September 2016	up to today
Liu Dawei	Shanghai Pharma Health Commerce Co., Ltd	Director	March 2015	up to today
Liu Dawei	Shanghai Ruijian Capital Management Co., Ltd.	Director	September 2016	up to today
Liu Dawei	Shanghai Lianyi Investment Center	Member of the investment committee	September 2016	up to today
Liu Dawei	Shanghai Healthcare Industry Equity Investment Fund	Member of the investment and decision-making committee	October 2015	up to today

Name	Name of other entities	Position held in the entity	Starting date of term of office	Expiry date of term of office
Liu Dawei	Guangzhou Z.S.Y Pharmaceutical Co., Ltd.	Director	June 2013	February 2017
Liu Dawei	Shanghai Pharmaceuticals (HK) Investment Limited	Director	August 2017	up to today
Zhang Yaohua	Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Chairman	May 2017	up to today
Zhang Yaohua	Shanghai Pharma Group Changzhou Kony Pharmaceutical Co., Ltd	Chairman	March 2015	up to today
Zhang Yaohua	Shanghai Pharmaceutical Group (Dali) Red Yew Co.,Ltd.	Chairman	May 2017	up to today
Zhang Yaohua	Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	General manager	September 2016	July 2017
Zhang Yaohua	SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd.	General manager	July 2013	November 2017
Zhang Yaohua	SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd.	Director	July 2013	up to today
Zhang Yaohua	Shanghai Pharma Sales Co.,Ltd.	Director	September 2016	up to today
Zhang Yaohua	Shanghai SPH Tsumura Pharmaceutical Co., Ltd	Chairman	December 2017	up to today
Ren Jian	Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Chairman	August 2016	May 2017
Ren Jian	Liaoning SPH Herbapex Pharmaceutical (Group) Co., Ltd.	Chairman	February 2011	May 2017
Ren Jian	Shanghai Sunve Co., Ltd.	Chairman	September 2016	May 2017
Ren Jian	Shanghai Pharmaceutical Group (Dali) Red Yew Co.,Ltd.	Chairman	February 2015	May 2017
Explanation of positions in other entities	None			

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND THE SENIOR MANAGEMENT

✓ Applicable ☐ Not applicable

Procedures for determining the remuneration of directors, supervisors and senior management	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 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.
Determination criteria for the remuneration of directors, supervisors and senior management	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.
Payment of the remuneration payable to directors, supervisors and senior management	The directors, supervisors and senior management of the Company receive remuneration from the Company in strict compliance with the operation responsibility assessment mechanism. The remuneration disclosed by the Company is consistent with the actual payment.
Actual total remuneration received by all directors, supervisors and senior management at the end of the Reporting Period	The remuneration actually received by the directors, supervisors and senior management of the Company in 2017 is RMB21.3573 million in total.

IV. CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

✓ Applicable ☐ Not applicable

Name	Position	Change situation	Reasons for changes
Ren Jian	Vice president	Resignation	Job Arrangement
Zhang Yaohua	Vice president	Appointment	Job Demand

V. THE RECORDS OF BEING PUNISHED 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	152
Number of in-service employees of the major subsidiaries	42,084
Total number of in-service employees	42,236
The number of retired employees whose expenses are borne by the parent company and the major subsidiaries	93
Composition of professions	
Type of profession	**Number of staff in the profession**
Production staff	14,040
Sales staff	17,150
Technical staff	4,626
Finance staff	1,541
Administrative staff	3,369
Others (Service staff)	1,510
Total	42,236

Education level	
Type of education level	**Number of persons**
PhD	53
Master	960
University graduate	8,558
College graduate	12,110
Specialized secondary school (high school) graduate	10,985
Below specialized secondary school graduate	9,570
Total	42,236

(II) Remuneration Policy

✓ Applicable ☐ Not applicable

The Company adhered to the payment concept of "Position, Ability, Performance and Market" which improved annual and term performance evaluation system of senior management of the Company and management of the subsidiaries, with upgraded performance-based incentive and restraint mechanism. 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 Company carried out market research or remuneration, improving the staff revenue growth and underpinning mechanisms related to the Company's operating performance, so that employees can share the achievements of enterprise development.

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 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. Moreover, the Company establishes the supplementary pension system and improves the corporate welfare system, which will enhance the cohesion and competitiveness of the Group.

(III) Training Program

✓ Applicable ☐ Not applicable

Focusing on the Company's strategy and the annual priorities, combined with the staff's own positions and career development needs, the Company provided professional, efficient and personalized training courses and solutions for the staff. According to the requirements of the national regulatory authorities, the Company organized employees to receive GMP, GSP, operation skills, occupational safety, environmental protection and other systematic training every year. According to the requirements for the compliance of listed companies, the Company organized management at all levels to receive legal, internal control, risk management and other special training. In order to improve the management level and leadership ability, the Company carried out the senior management leadership development project and the "Large Wild Goose" (new manager) learning project in forms of lectures on special topics, purpose-driven visiting and internal sharing. In combination with the construction of compliance culture and the implementation of the R&D project manager system, the Company carried out the capacity improvement of contract administrators; in combination with the implementation of the R&D project manager system, the Company carried out mixed learning project. Around the constant development of the project of Lean Six Sigma, the Company organized more than 100 employees to participate in the project approval counselling and the green belt training courses, and completed the corresponding examinations; to strengthen the new employees' corporate culture identification and corporate ownership, the Company organized 214 new employees with an undergraduate degree or more to participate in the "Fledging Goose Fly High – New College Entrance Vocational Training". The Company has organized special training such as strategy and culture lectures, medical policy interpretations, indissolvable drug's dosage design and technology development, pharmaceutical production quality control compliance, laboratory safety and completeness of information compliance, etc. to adapt to new developments and policies. Through cooperation with training institutions, it carries out human resource, financial audit, internal lecturer, high-skilled personnel, grass-roots team leader and other systematic training.

(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 Note 30 of financial statements prepared in accordance with the China Accounting Standards for Business Enterprises and Note 34 of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

(V) Labour Outsourcing

☐ Applicable ✓ Not applicable

In order to ensure the controllability of the Company in the R&D, production, marketing and management, the Company had no massive labor outsourcing.

Corporate Governance

I. CORPORATE GOVERNANCE AND RELEVANT INFORMATION

✓ Applicable ☐ Not applicable

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. 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.

1. In relation to shareholders and general meetings: The Company treats all shareholders equally with an aim to ensure that their rights can be fully exercised. The Company convened general meetings strictly in accordance with the laws and regulations, such as the Company Law of the People's Republic of China and the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange, and the requirements of the Articles of Association and the Rules of Procedure for the General Meeting;

2. In relation to the Controlling Shareholders and the listed companies: the code of conduct of the Company's Controlling Shareholders does not exceed directly or indirectly the power of general meetings to intervene the Company's decision-making and business activities; the Company and Controlling Shareholders are independent in the business, personnel, asset, institution, finance and other aspects, and the Company has independent and complete business and self-management capacity. The board of directors, the board of supervisors and the internal management institutions of the Company are independent in operation;

3. In relation to directors and the Board of Directors: see the "Corporate Governance Report" hereunder for details;

4. In relation to supervisors and the Board of Supervisors: see the "Corporate Governance Report" hereunder for details;

5. In relation to the relevant stakeholders: the Company can fully respect and maintain legitimate rights and interests of the bank, other creditors, employees, consumers and other relevant stakeholders to jointly promote the Company's sustained and sound development;

6. In relation to the information disclosure and transparency: the Company makes true, accurate, complete and timely disclosure of relevant information strictly in accordance with laws, regulations and Articles of Association provisions; in order for further standardization of information disclosure, the Company also develops the Information Disclosure Service Management System, Connected Transaction Management System, Cumulative Voting System Implementation Details and other information disclosure systems. The Company appoints the secretary of the board of directors to be responsible for the information disclosure, serving investor visits and consultation;

7. Registration management for persons with inside information: the Company strengthens the inside information confidentiality work, and improves the inside information registration management strictly in accordance with the Inside Information Management System and other relevant provisions. The directors, supervisors, senior management of the Company and other relevant personnel strictly abided by the confidentiality obligations during the preparation of the periodic report, the interim announcement and the planning of major events.

Whether there is a significant difference between the corporate governance and requirements of relevant provisions of the CSRC; if so, the reasons should be explained.

☐ Applicable ✓ Not applicable

II. GENERAL MEETING

Meeting Session	Date of convening	Query index on designated website for publishing resolutions	Date of disclosure on publishing resolutions
2016 Annual General Meeting of Shanghai Pharmaceuticals Holding Co., Ltd	23 June 2017	Company's announcement Lin No. 2017-030	24 June 2017

III. DUTY PERFORMANCE OF DIRECTORS

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

		Attendance at the board meetings						Attendance at the general meetings
Name of director	Independent director or not	Required attendance for the year	Attendance in person	Attendance by way of communication	Attendance by proxy	Absence	Any failure in attending in person for two consecutive meetings	Attendance for the general meetings (times)
Zhou Jun	No	9	9	6	0	0	No	1
Cho Man	No	9	9	6	0	0	No	1
Li Yongzhong	No	9	9	6	0	0	No	1
Shen Bo	No	9	9	6	0	0	No	1
Li An	No	9	9	7	0	0	No	0
Wan Kam To	Yes	9	9	6	0	0	No	1
Tse Cho Che, Edward	Yes	9	9	6	0	0	No	1
Cai Jiangnan	Yes	9	9	6	0	0	No	1
Hong Liang	Yes	9	9	6	0	0	No	1

Statement for failure to attend the board meetings for two consecutive times

☐ Applicable ✓ Not applicable

Number of board meetings held in the year	9
Including: Number of on-site meetings	2
Number of meetings held by way of communication	6
Number of meetings held on-site with attendance by way of communication available	1

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

☐ Applicable ✓ Not applicable

IV. SIGNIFICANT OPINIONS AND RECOMMENDATIONS PUT FORWARD BY THE SPECIAL COMMITTEES UNDER THE BOARD OF DIRECTORS DURING THE REPORTING PERIOD AND ANY OBJECTION SHALL BE DISCLOSED

☐ Applicable ✓ Not applicable

V. RISKS DISCOVERED BY THE BOARD OF SUPERVISORS

☐ Applicable ✓ Not applicable

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

☐ Applicable ✓ Not applicable

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

☐ Applicable ✓ Not applicable

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

✓ Applicable ☐ Not applicable

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 "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

✓ Applicable ☐ Not applicable

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

Whether to disclose Audit Report on Internal Control: Yes

X. CORPORATE GOVERNANCE REPORT (DISCLOSED PURSUANT TO THE REQUIREMENTS OF THE HONG KONG LISTING RULES)

✓ Applicable ☐ Not applicable

Shanghai Pharmaceuticals, as a company dual-listed in the A-share and H-share markets, 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 Hong Kong Listing Rules except as disclosed in this Report.

1. *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.

2. *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. Cho Man (also the president), Mr. Li Yongzhong (also the vice president), and Mr. Shen Bo (also the vice president and the chief financial officer); two non-executive directors, namely Mr. Zhou Jun (the chairman), and Ms. Li An; and four independent non-executive directors, namely Mr. Wan Kam To, Mr. Tse Cho Che, Edward, Mr. Cai Jiangnan and Mr. Hong Liang. The biographical details of the directors are set out in the chapter headed "Directors, Supervisors Senior, Management and Employees" 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. Pursuant to code provision A.5.6 of the Corporate Governance Code, the Company has adopted Diversification Policy for Board Members on March 2014. When assessing candidates for the Board, the board of directors will take into consideration of 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 term of service.

(2). Primary duties of the board of directors

The Company has complied with the provisions of the Corporate Governance Code and distinguished between the roles of the chairman and the chief executive officer. Mr. Zhou Jun 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, for the issuance of debentures or other securities and for the listing;
- to draw up proposals for major 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 establish 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 change 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;

- to exercise other functions and powers as authorized by the laws, administrative regulations, departmental rules, the Articles of Association or the general meetings.

(3). Board meetings

Pursuant to the code provision A.1.1 of the Corporate Governance Code and 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 nine meetings, including three on-site meetings, at which proposals were considered in relation to the Company's business results, financial accounts and budgets, policies formulation, profit distribution, mergers and acquisitions, connected transactions 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 the general meetings" above. In order to enhance decision efficiency, board of directors also arrange discussion of matters of the Company through e-mail between them and obtain Directors' approval through passing the written resolutions. Board of directors will arrange meeting under relevant code provisions to meet the requirements of Listing Rules.

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.

3. *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. Hong Liang, acting as its convener/chairman, Mr. Wan Kam To and Mr. Cai Jiangnan, all of them are independent executive directors. 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. Please refer to the Chapter headed "Directors, Supervisors, Senior Management and Employees" herein for the procedures of determining the remuneration of directors, supervisors and senior management.

During the Reporting Period, the remuneration and assessment committee held a total of two meetings, at which the performance review report on senior management and the proposal for assessment on management responsibilities of the senior management were discussed.

(2). Audit committee

The audit committee under the board of directors of the Company consists of three independent executive directors, including Mr. Wan Kam To, acting as its convener/chairman, Mr. Tse Cho Che, Edward and Mr. Hong Liang. 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 eight meetings, at which matters were considered in relation to the Company's business results, the self-appraisal report on internal control of the Company, summary of audit and monitor division for the year and future work plan, audit schedule on financial report, connected transactions etc.

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 Company's financial statements for the year. On such basis, the audit committee is of the opinion that Shanghai Pharmaceuticals' financial reports for 2017 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 2017 and its financial position as at 31 December 2017, 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 have reviewed the continuing connected transactions of the Company.

(3). Strategy committee

The strategy committee under the board of directors of the Company consists of three directors, including Mr. Cho Man, acting as its convener/chairman, Mr. Tse Cho Che, Edward (an independent non-executive director) and Mr. Cai Jiangnan (an independent non-executive director). 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 one meeting, at which the amendment to and execution of scrolling strategic planning of "Three Three Three Plus One" was discussed.

(4). Nomination committee

The nomination committee under the board of directors consists of three directors, including Mr. Tse Cho Che, Edward (an independent non-executive director) acting as its convener/chairman, Mr. Zhou Jun and Mr. Hong Liang (an independent non-executive director). 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 discussed in relation to the diversification policy for board members, the structure of the board etc.

(5). Attendance record of the members of committees

		Actual/required attendance (times)			
Name of member	Position	Audit committee	Remuneration and assessment committee	Strategy committee	Nomination committee
Zhou Jun	Chairman, Non-Executive Director	–	–	–	1/1
Cho Man	Executive director, president	–	–	1/1	–
Wan Kam To	Independent Non-Executive Director	8/8	2/2	–	–
Tse Cho Che, Edward	Independent Non-Executive Director	8/8	–	1/1	1/1
Cai Jiangnan	Independent Non-Executive Director	–	2/2	1/1	–
Hong Liang	Independent Non-Executive Director	8/8	2/2	–	1/1

4. *Board of supervisors*

The board of supervisors of the Company consists of three supervisors, including Mr. Xu Youli, chairman of the board of supervisors, Ms. Chen Xin, the employee supervisor and Mr. Xin Keng, the supervisor. Please refer to the Chapter 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 of directors and to be submitted to the general meetings and to propose 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 of directors 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 resolutions 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.

During the Reporting Period, the board of supervisors held a total of four meetings, at which the Company's performance, financial accounts and budgets, profit distribution plan, engagement and expense of auditors, changes of accounting policies and other matters were supervised and reviewed. All three supervisors have attended each meeting of the board of supervisors.

5. *Emoluments of Senior Management*

Please refer to Chapter 8 "Directors, Supervisors, Senior Management and Employees".

6. *Remuneration of Auditors*

With reference to the Company's actual situation of business development, the audit fee payable to PricewaterhouseCoopers by Shanghai Pharmaceuticals for 2017 was set at RMB21 million (relevant disbursement and taxation expenses inclusive) while the audit fee for internal control was set at RMB1.3 million (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 2017, a non-audit service fee of approximately RMB8.26 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.

7. *Directors' Responsibility for the Financial Statements*

Directors have confirmed their responsibility for preparation of financial statements of the Group for the year ended 31 December 2017.

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.

The statements of declaration responsibilities made by the auditor on the financial statements are contained in the "Independent Auditor's Report".

8. *Risk management and internal control*

The Board is responsible for overseeing and reviewing the Company's risk management and internal control system and ensuring the effectiveness of the system. During the Reporting Period, the Board has 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, and also the Board has taken full consideration of the resources for accounting, internal review, financial report and the qualification of the employee and their experience and makes sure the employees receive enough training with sufficient budget. In the progress of reviewing, the audit committee (on behalf of the Board) as well as the audit and monitor division are responsible for supervision of management to design, implement and monitor the risk management and internal control system. As the risk management and internal control system has its limitations, the system is designed to manage rather than eliminate the risk of failing to achieve business objectives and only make reasonable and non-absolute assurance on non-significant misrepresentation or loss. As of 31 December 2017, such system of the Company is considered operating effectively and adequately.

To respond to the ever-changing risks and follow the compliance requirements of listing governance, the Company regarded the risk control as an important part of the strategic control system. The Company has established working procedures for risk identification, risk assessment, risk response and risk report to identify internal and external risks, assess the likelihood and impact of risks, identify risk response strategies and implement response plans, and regularly and systematically report the risk and risk management information.

In preparation of risk response measures, the Company has adopted four risk response strategies, i.e. risk avoidance, risk acceptance, risk mitigation and risk transfer.

In view of the internal control, the Company has established the corporate governance structure according to the requirements of establishing the modern enterprise system based on the enterprise risk and combining with its own development, and set up the organization structure which conforms to the business scale and operational needs of the Company. The Company continuously upgraded and optimized the internal control management system in terms of the controlled environment, risk assessment, controlled activities, information and communication and supervision mechanism.

The Company also established a complete insider information processing and distribution procedure and properly implemented the insider information confidentiality procedures. For more details, please see "I. Corporate Governance and relevant information" in this section.

9. *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. For the contact information for shareholders to make inquiries or submit temporary proposals to the Company, please refer to Chapter 2 "Basic Corporate Information and Major Financial Indicators".

10. *Investor Relations*

The Company attaches great importance to the management of investor relations, and global investor call meetings were held regularly and launched global institutional investors' road show activities, actively participated in and received investor survey. Meanwhile, the Company positively responded to and answered the investors' questions through the SSE "E interactive", investor hotline and e-mails.

11. *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. Liu Dawei and Ms. Mok Ming Wai are the joint company secretaries of the Company and received relevant training not less than 15 hours in 2017, which is in conformity with Rule 3.29 of the Hong Kong Listing Rules. Ms. Mok Ming Wai (a director of TMF Hong Kong Limited) is one of the joint company secretaries of the Company, while Mr. Liu Dawei, the board secretary of the Company, serves as her internal main contact person of the Company.

12. *The Directors' Continuous Professional Development*

During the Reporting Period, all directors participated in the continuing education program to develop and update their knowledge and skills. The Company regularly provides all the directors with monthly data collection so that the directors are able to make informed decisions and discharge their responsibilities and duties as directors of the Company.

13. *Articles of Association*

The 11th meetings of the sixth session of the Board held on 30 October 2017, has reviewed and passed the proposal on amendments to the Articles of Association and Rules of Procedure of the Board of Directors. For the details of amendments, please see the Company's announcement (Lin 2017-038) or H Share announcement dated on 31 October 2017, and the proposal remains need to be reviewed and approved by the general meeting of the Company.

Relevant Information of the Corporate Bonds

✓ Applicable ☐ Not applicable

I. BASIC INFORMATION OF CORPORATE BONDS

Unit: RMB 0'000

Name of Bond	Abbreviation	Code	Date of Issue	Due Date	Balances of the Bonds	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

Information of payment of interest of Corporate Bonds

✓ Applicable ☐ Not applicable

Corporate bonds are issued to eligible investors. The date of the payment of interest for the corporate bonds of this tranche is 26 January 2018, and the Company has completed the payment of the interest of the bonds, which was RMB59.60 million in total.

Other information of Corporate Bonds

☐ Applicable ✓ Not applicable

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	Liu Changjiang, Zhang Haibin
	Contact Number	010-6653 8666
Credit Rating Agency	Name	Zhong Cheng Xin Credit Rating Co., Ltd. (中誠信證券評估有限公司)
	Office Address	24/F, Anji Building, No. 760 Tibet South Road, Huangpu District, Shanghai

Other information:

☐ Applicable ✓ Not applicable

III. USE OF RAISED FUNDS FROM THE CORPORATE BONDS

✓ Applicable ☐ Not applicable

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 in accordance with the use of proceeds as set out in the Prospectus.

IV. INFORMATION OF THE CREDIT RATING OF THE CORPORATE BONDS

✓ Applicable ☐ Not applicable

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 (subject to the date specified in the rating report), ZCX Rating will continue to pay attention to factors such as changes of external operating environment, changes of operational 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 the period of track rating, ZCX Rating completed the regular track rating of the year on 24 April 2017, in which the credit rating of the subject is AAA with stable rating outlook. The credit rating of this tranche of bonds is maintained at AAA. 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 occur 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, credit level of the bond, 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

✓ Applicable ☐ Not applicable

During the Reporting Period, this tranche of corporate bonds has no credit increasing mechanism. There is no material change on the repayment plan and other relevant information of 16 SPH 01.

VI. MEETINGS OF HOLDERS OF CORPORATE BONDS

✓ Applicable ☐ Not applicable

During the Reporting Period, no meeting of holders of corporate bonds was convened.

VII. PERFORMANCE OF THE CUSTODIAN OF THE CORPORATE BONDS

✓ Applicable ☐ Not applicable

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 the 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. On 29 June 2017, it issued the custody "Report of Shanghai Pharmaceuticals Holding Co., Ltd. Public Issuance of 2016 Corporate Bonds (First Tranche) (2016)", and disclosed on the website of the Shanghai Stock Exchange (http://www.sse.com.cn/) on 30 June 2017.

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

✓ Applicable ☐ Not applicable

Unit: RMB

Major indicator	**2017**	**2016**	**Increase or decrease over the same period of the previous year (%)**
Profits before interest, tax, depreciation and amortization	7,014,917,321.37	6,108,096,246.12	14.85
Current ratio	1.38	1.47	-6.12
Quick ratio	1.01	1.04	-2.88
Asset-liability ratio (%)	57.95%	55.48%	increased by 2.47 percentage points
Total debt to EBITDA ratio	7.79	7.52	3.59
Interest coverage ratio	6.94	8.19	-15.26
Cash interest coverage ratio	5.46	6.32	-13.61
EBITDA interest coverage ratio	8.01	9.47	-15.42
Loan repayment ratio (%)	100%	100%	/
Interest repayment ratio (%)	100%	100%	/

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

☐ Applicable ✓ Not applicable

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

✓ Applicable ☐ Not applicable

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 2017, the total amount of the Group's credit line from bank was RMB50.9 billion, of which RMB16.7 billion was used. The Company may carry out financing activities within the Group's facilities limit to support the business development. The Company repaid the principal of its bank loans on time.

XI. PERFORMANCE OF OBLIGATIONS OR COMMITMENT OF BOND RAISING PROSPECTUS OF THE COMPANY DURING THE REPORTING PERIOD

✓ Applicable ☐ Not applicable

During the Reporting Period, the Company strictly implemented the obligations and commitment of bond raising prospectus of the company, utilized the raised funds in compliance with regulations, paid the interest of corporate bonds on time and did not harm the interests of bond investors.

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

☐ Applicable ✓ Not applicable

Financial Report

I. AUDITOR'S REPORT

✓ Applicable ☐ Not applicable

Attached

II. FINANCIAL STATEMENTS

Attached

Catalogue of Documents Available for Inspection

Catalogue of Documents Available for Inspection	The financial statements signed and sealed by the legal representative, chief financial officer and the principal in charge of accounting
Catalogue of Documents Available for Inspection	The original copy of the auditor's report signed and sealed by the accounting firm and the certified public accountant
Catalogue of Documents Available for Inspection	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

Chairman: **Zhou Jun**

Submission date approved by the Board of Directors: 23 March 2018

Revised information

☐ Applicable ✓ Not applicable

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)

OPINION

What we have audited

The consolidated financial statements of Shanghai Pharmaceuticals Holding Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 136 to 276, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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

Independent Auditor's Report

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Goodwill impairment assessment
- Impairment of trade and other receivables
- Inventory valuation and provisions

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment assessment Refer to notes 5 (Critical accounting estimates and judgements) and 10 (Intangible assets) to the consolidated financial statements. At 31 December 2017, the Group held goodwill amounted to RMB6,773 million, against which a provision of RMB166 million was set aside. Management applied significant judgements in determining the value in use of the Group's Cash Generating Units (the "CGUs"). The key assumptions adopted in the calculation of value in use include: • growth rates to extrapolate cash flows within and beyond the budget period; • gross margin; and • discount rate We focused on this area due to the magnitude of goodwill balance and significance of management judgements.	For the relevant CGUs, we compared the current year actual results with the year 2017 forecast results included in the prior year forecast to consider whether management's cash flow forecasts are reliable. We assessed the valuation approaches and methodologies adopted in the cash flow forecasts by reference to industry practice. We considered management's key assumptions by: • Comparing the growth rates within the budget period with the Group's historical growth rates and industry historical data; • Comparing the growth rates beyond budget period with our independent expectation based on economic data; • Comparing the gross margin with the Group's past performance, taking into consideration of market trends; and • Assessing the discount rate by considering and recalculating the weighted average cost of capital for the individual CGU and comparable companies in the pharmaceutical industry, as well as considering territory specific factors, such as risk free interest rate and debt ratio prevailing in relevant market as of base date. We tested the mathematical accuracy of the calculations of value in use. Based on the procedures performed, we considered that management's judgements in the impairment assessment of goodwill were acceptable.

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of trade and other receivables Refer to notes 5 (Critical accounting estimates and judgements) and 18 (Trade and other receivables and other current assets) to the consolidated financial statements. At 31 December 2017, the Group held trade and other receivables amounted to RMB35,688 million, against which a provision of RMB1,765 million was set aside. Trade and other receivables are measured at amortised cost less allowance for impairment in the consolidated financial statements. For receivable balances with objective evidence of impairment, individual provision was made based on management's estimate of discounted future cash flows. Receivables without objective evidence of impairment are grouped based on their credit risk characteristics. The collective provision was determined based on the historical loss experience, taking into consideration of the current circumstances. We focused on this area due to the magnitude of trade and other receivable balances and the significance of management judgements applied in determining the provision for impairment of such balances.	We evaluated and validated the controls which management adopted to monitor the recoverability of receivables, including controls over identification of objective evidence of impairment and calculations of the impairment provisions. We checked the accuracy of aging analysis of accounts and other receivables prepared by management on sample basis and tested the IT automatic controls related to the maintenance of aging analysis where relevant. We independently assessed the recoverability of a sample of accounts and other receivable balances, focusing on significant or high risk balances. We assessed the collectability of the balances by checking the supporting evidence, including subsequent settlements, credit history, business performance and financial capability of these customers, and where applicable, lawyers' letters. We assessed the appropriateness of the Group's methodology of estimating collective provisions by considering the historical bad debts amounts and pattern, taking into consideration of factors such as customers' repayment pattern and market condition. Based on the procedures performed, we considered management's judgments in assessing the recoverability of trade and other receivables were supported by the evidence we gathered.

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Inventory valuation and provisions Refer to notes 5 (Critical accounting estimates and judgements) and 17 (Inventories) to the consolidated financial statements. At 31 December 2017, the Group held inventories amounted to RMB17,604 million, against which a provision of RMB334 million was set aside. Inventories are carried at the lower of cost and net realisable value (NRV) in the consolidated financial statements. Management determined the provision for inventory based on the level of inventories close to expiration date taking into consideration of goods return arrangement with suppliers and estimated probability of selling. We focus on this area due to the magnitude of inventory balances and the complexity of the calculation of inventory provisions.	We evaluated and validated the controls which management adopted to monitor inventory close to expiration dates and estimated probability of selling such inventories. We checked the accuracy of validity period analysis of inventories prepared by management on sample basis and tested the IT automatic controls related to the maintenance of inventory aging analysis where relevant. We selected a sample of inventories close to expiration dates for which no provision was made and examined the contracts or agreements with the suppliers for return arrangements. We assessed appropriateness of the estimated probability of selling for inventories close to expiration dates by reviewing the historical sales pattern. We tested the mathematical accuracy of the calculations of inventory provisions. Based on the procedures performed, we considered the key data used in management's assessment of inventory provision was supported by the evidence gathered.

OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is LUM Kwei Shan.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2018

Consolidated Balance Sheet

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
Assets			
Non-current assets			
Land use rights	7	**1,284,041**	1,401,636
Investment properties	8	**254,924**	258,863
Property, plant and equipment	9	**9,386,260**	7,200,689
Intangible assets	10	**8,092,080**	7,283,573
Investments in jointly controlled entities	12	**662,551**	720,549
Investments in associates	13	**4,031,617**	3,506,657
Deferred income tax assets	27	**566,264**	468,316
Available-for-sale financial assets	14	**109,081**	269,366
Other non-current prepayments	15	**733,923**	940,809
Other long-term receivables	16	**581,479**	425,362
		25,702,220	22,475,820
Current assets			
Inventories	17	**17,269,956**	16,415,757
Trade and other receivables and other current assets	18	**36,529,576**	31,880,256
Derivative financial instruments		**643**	3,318
Financial assets at fair value through profit or loss	20	**–**	742
Restricted cash	19	**1,272,666**	987,080
Cash and cash equivalents	19	**13,569,414**	10,979,744
		68,642,255	60,266,897
Total assets		**94,344,475**	82,742,717
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	21	**2,688,910**	2,688,910
Share premium	22	**14,068,206**	14,123,228
Other reserves	22	**695,440**	671,997
Retained earnings	23	**16,578,287**	14,138,422
		34,030,843	31,622,557
Non-controlling interests		**5,645,005**	5,211,908
Total equity		**39,675,848**	36,834,465

Consolidated Balance Sheet

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	*25*	**2,958,799**	2,836,284
Provisions	*26*	**75,908**	–
Deferred income tax liabilities	*27*	**620,150**	492,061
Termination benefit obligations	*30*	**51,866**	61,204
Other non-current liabilities	*28*	**632,958**	712,810
Other long-term payables	*29*	**697,135**	692,537
		5,036,816	4,794,896
Current liabilities			
Trade and other payables and other current liabilities	*24*	**35,115,294**	31,130,225
Derivative financial instruments	*20*	**2,434**	870
Current income tax liabilities		**722,406**	341,499
Borrowings	*25*	**13,791,677**	9,640,762
		49,631,811	41,113,356
Total liabilities		**54,668,627**	45,908,252
Total equity and liabilities		**94,344,475**	82,742,717

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 136 to 276 were approved by the Board of Directors on 23 March 2018 and were signed on its behalf.

ZHOU Jun
Name of Director

CHO Man
Name of Director

Consolidated Income Statement

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Revenue	6	**130,847,179**	120,764,660
Cost of sales	34	**(114,660,546)**	(106,872,566)
Gross profit		**16,186,633**	13,892,094
Distribution and selling expenses	34	**(7,411,262)**	(6,067,497)
General and administrative expenses	34	**(4,097,804)**	(4,044,858)
Other income	31	**197,740**	293,852
Other gains – net	32	**239,194**	137,427
Gains on disposal of subsidiaries and an associate	33	**206,823**	–
Operating profit		**5,321,324**	4,211,018
Finance income	36	**161,393**	171,997
Finance costs	36	**(829,701)**	(697,484)
Share of profit of jointly controlled entities	12	**212,439**	425,225
Share of profit of associates	13	**339,353**	528,240
Profit before income tax		**5,204,808**	4,638,996
Income tax expense	37	**(1,147,029)**	(809,284)
Profit for the year		**4,057,779**	3,829,712
Profit attributable to:			
Owners of the Company		**3,520,644**	3,196,394
Non-controlling interests		**537,135**	633,318
		4,057,779	3,829,712
Earnings per share attributable to owners of the Company (expressed in RMB per share)			
– Basic and diluted	38	**1.31**	1.19

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Profit for the year		**4,057,779**	3,829,712
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Change in value of available-for-sale financial assets			
– Gross	*14*	**(80,784)**	(9,961)
– Tax	*27*	**10,181**	715
Share of other comprehensive income of an associate accounted for using the equity method		**(426)**	381
Currency translation differences		**(21,506)**	(11,846)
Other comprehensive loss for the year, net of tax		**(92,535)**	(20,711)
Total comprehensive income for the year		**3,965,244**	3,809,001
Attributable to:			
– Owners of the Company		**3,434,169**	3,182,169
– Non-controlling interests		**531,075**	626,832
Total comprehensive income for the year		**3,965,244**	3,809,001

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

		Attributable to owners of the Company						
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2016		2,688,910	14,075,517	1,204,902	11,960,985	29,930,314	3,877,725	33,808,039
Comprehensive income								
Profit for the year		–	–	–	3,196,394	3,196,394	633,318	3,829,712
Other comprehensive income								
Available-for-sale financial assets								
– Gross	*14*	–	–	(9,677)	–	(9,677)	(284)	(9,961)
– Tax	*27*	–	–	644	–	644	71	715
Currency translation differences, net	*22*	–	–	(5,573)	–	(5,573)	(6,273)	(11,846)
Share of other comprehensive income of an associate accounted for using the equity method		–	–	381	–	381	–	381
Total other comprehensive loss		–	–	(14,225)	–	(14,225)	(6,486)	(20,711)
Total comprehensive income/ (loss) for the year		–	–	(14,225)	3,196,394	3,182,169	626,832	3,809,001
Transactions with owners in their capacity as owners								
Capital injections from non-controlling interests		–	55,942	–	–	55,942	253,504	309,446
Acquisitions of subsidiaries	*44*	–	–	(635,831)	–	(635,831)	727,891	92,060
Transaction with non-controlling interests	*43*	–	(8,231)	–	–	(8,231)	(4,611)	(12,842)
Dividends		–	–	–	(887,340)	(887,340)	(258,530)	(1,145,870)
Appropriation to statutory reserves	*22,23*	–	–	117,151	(117,151)	–	–	–
Others		–	–	–	(14,466)	(14,466)	(10,903)	(25,369)
Total transaction with owners		–	47,711	(518,680)	(1,018,957)	(1,489,926)	707,351	(782,575)
Balance at 31 December 2016		2,688,910	14,123,228	671,997	14,138,422	31,622,557	5,211,908	36,834,465

Consolidated Statement of Changes in Equity

	Note	Attributable to owners of the Company						
		Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2017		**2,688,910**	**14,123,228**	**671,997**	**14,138,422**	**31,622,557**	**5,211,908**	**36,834,465**
Comprehensive income								
Profit for the year		–	–	–	3,520,644	3,520,644	537,135	4,057,779
Other comprehensive income								
Available-for-sale financial assets								
– Gross	*14*	–	–	(78,817)	–	(78,817)	(1,967)	(80,784)
– Tax	*27*	–	–	9,689	–	9,689	492	10,181
Currency translation differences, net	*22*	–	–	(16,921)	–	(16,921)	(4,585)	(21,506)
Share of other comprehensive income of investments in an associate		–	–	(426)	–	(426)	–	(426)
Total other comprehensive loss		–	–	(86,475)	–	(86,475)	(6,060)	(92,535)
Total comprehensive income/(loss) for the year		–	–	(86,475)	3,520,644	3,434,169	531,075	3,965,244
Transactions with owners in their capacity as owners								
Capital injections from non-controlling interests		–	–	–	–	–	34,079	34,079
Acquisitions of subsidiaries	*44*	–	–	–	–	–	273,408	273,408
Transaction with non-controlling interests	*43*	–	(55,022)	–	–	(55,022)	(106,474)	(161,496)
Dividends		–	–	–	(968,008)	(968,008)	(302,348)	(1,270,356)
Appropriation to statutory reserves	*22,23*	–	–	105,788	(105,788)	–	–	–
Others		–	–	4,130	(6,983)	(2,853)	3,357	504
Total transaction with owners		–	(55,022)	109,918	(1,080,779)	(1,025,883)	(97,978)	(1,123,861)
Balance at 31 December 2017		**2,688,910**	**14,068,206**	**695,440**	**16,578,287**	**34,030,843**	**5,645,005**	**39,675,848**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

		Year ended 31 December	
	Note	**2017**	2016
		RMB'000	*RMB'000*
Cash flows from operating activities			
Cash generated from operations	*40(i)*	**3,391,701**	2,782,448
Interest paid		**(846,295)**	(556,189)
Income tax paid		**(904,099)**	(1,007,778)
Net cash generated from operating activities		**1,641,307**	1,218,481
Cash flows from investing activities			
Cash paid in respect of Acquisition of subsidiaries	*44*	**(572,937)**	(1,751,105)
Cash paid in respect of Acquisition of associates and a jointly controlled entity		**(581,199)**	–
Proceeds from redemption of treasury bills		**4,464,868**	2,609,214
Purchases of treasury bills		**(4,450,000)**	(2,600,000)
Purchases of property, plant and equipment ("PP&E") and investment properties		**(1,874,145)**	(1,874,941)
Proceeds from disposal of PP&E and investment properties	*40(ii)*	**108,730**	215,971
Proceeds from disposal of land use rights and intangible assets	*40(iii)*	**11,054**	219
Purchases of land use rights and intangible assets		**(133,127)**	(244,344)
Interest received		**161,207**	171,997
Dividends received		**577,207**	490,172
Proceeds from disposal of available-for-sale financial assets	*40(iv)*	**76,749**	–
Proceeds from disposal of subsidiaries and associates	*40(v)*	**240,488**	12,396
Proceeds received in respect of plant relocation, net		**–**	37,817
Proceeds from disposal of financial assets at fair value through profit or loss		**565**	–
Deposit paid in respect of business combination		**–**	(8,640)
Change of restricted cash of a fixed deposit		**–**	150,000
Other cash flows generated from investing activities		**(223,291)**	73,700
Net cash used in investing activities		**(2,193,831)**	(2,717,544)

Consolidated Statement of Cash Flows

	Note	Year ended 31 December	
		2017	2016
		RMB'000	*RMB'000*
Cash flows from financing activities			
Cash injection from non-controlling interests		**21,769**	905,627
Proceeds from borrowings		**26,807,105**	19,984,775
Repayments of borrowings		**(22,302,488)**	(18,309,491)
Dividends paid by the Group		**(1,245,328)**	(1,156,239)
Acquisitions of non-controlling interests		**(116,616)**	(67,549)
Other cash flows generated from financing activities		**(3,469)**	(153,531)
Net cash generated from financing activities		**3,160,973**	1,203,592
Net increase/(decrease) in cash and cash equivalents		**2,608,449**	(295,471)
Cash and cash equivalents at the beginning of year		**10,979,744**	11,277,855
Exchange losses on cash and cash equivalents		**(18,779)**	(2,640)
Cash and cash equivalents at end of year		**13,569,414**	10,979,744

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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 all of its 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 2016 and 2017, 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 Directors on 23 March 2018.

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.

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 consistency 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 amended standards are mandatory for the first time for the financial year beginning on or after 1 January 2017:

		Effective for annual periods beginning on or after
Amendments to HKAS 7	Statement of cash flows	1 January 2017
Amendments to HKAS 12	Income taxes	1 January 2017

Amendments as mentioned above are not expected to have a material effect on the Group's operating results, financial position or comprehensive income.

(b) *Standards, amendments and interpretations to existing standards effective in 2017 but not relevant to the Group*

		Effective for annual periods beginning on or after
Amendment to HKFRS 12	Disclosure of interest in other entities	1 January 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Changes in accounting policies and disclosures (continued)

(c) *The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted by the Group*

		Effective for annual periods beginning on or after	
Amendment to HKFRS 1	First time adoption of HKFRS	1 January 2018	
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018	
Amendments to HKFRS 4	Insurance Contracts "Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts"	1 January 2018 or when the entity first applies HKFRS 9	
HKFRS 9	Financial Instruments	1 January 2018	(i)
HKFRS15	Revenue from Contracts with Customers	1 January 2018	(ii)
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	
Amendment to HKAS 28	Investments in associates and joint ventures	1 January 2018	
Amendments to HKAS 40	Transfers of investment property	1 January 2018	
HKFRS 16	Leases	1 January 2019	(iii)
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019	
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined	

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Changes in accounting policies and disclosures (continued)

(c) *The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted by the Group* (continued)

(i) HKFRS 9, Financial Instruments

Nature of change

HKFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The Group's equity instruments that are currently classified as available-for-sale (AFS) will satisfy the conditions for classification as at fair value through profit or loss (FVPL). The Group does not expect the new guidance to have material impact on the classification and measurement of its financial assets after the assessment.

The other financial assets held by the Group are equity investments currently measured at FVPL which will continue to be measured on the same basis under HKFRS 9.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not have any hedge instrument. Therefore, the Group does not expect any impact on the new hedge accounting rules.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect material change to the loss allowance for trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Changes in accounting policies and disclosures (continued)

(c) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted by the Group (continued)

(i) HKFRS 9, Financial Instruments (continued)

Date of adoption by Group

Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

(ii) HKFRS 15, Revenue from Contracts with Customers

Nature of change

The HKICPA issued HKFRS 15 as a new standard for the recognition of revenue to replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

When applying HKFRS 15, revenue shall be recognized by applying following steps:

- identify the contract with customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contracts;
- recognize revenue when (or as) the entity satisfies a performance obligation.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Changes in accounting policies and disclosures (continued)

(c) *The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted by the Group* (continued)

(ii) HKFRS 15, Revenue from Contracts with Customers (continued)

Impact (continued)

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

- Rights of return – HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation. Due to the historical goods return rate is very low, the financial impact of applying new HKFRS 15 is not material.

- Presentation of contract assets and contract liabilities in the balance sheet – HKFRS 15 requires separate presentation of contract assets and contract liabilities in the balance sheet. This will result in some reclassifications as of 1 January 2018 in relation to contract liabilities, such as expected volume discounts and rights to return, which are currently included in other balance sheet line items.

Date of adoption by Group

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

(iii) HKFRS 16, Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Changes in accounting policies and disclosures (continued)

(c) *The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted by the Group* (continued)

(iii) HKFRS 16, Leases (continued)

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments approximately of RMB949,595,000. The Group estimates that approximately 5%-10% of these relate to payments for short-term and low-value leases which will be recognised on a straight-line basis as an expense in profit or loss.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption by Group

The standard is mandatory for financial year commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations. According to the preliminary assessment, other than the assessment results of HKFRS 9, 15 and 16 stated above, none of these is expected to have a significant effect on the consolidated financial statements of 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

(a) *Consolidation* (continued)

(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.

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.

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)

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.

(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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

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

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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Foreign currency translation (continued)

(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.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Property, plant and equipment (continued)

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 likelihood 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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 sub-group 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.

(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) *Brands*

Brands have indefinite useful life as there is no foreseeable limit to the period over which they are expected to generate net cash inflows. They are assessed for impairment on an annual basis.

(e) *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.

(f) *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.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Intangible assets (continued)

(g) *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.

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.

(h) *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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Intangible assets (continued)

(i) 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 (medicinal plants)

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.

3.11 Impairment of non-financial assets

Assets that have an indefinite useful life for example, goodwill or other non-amortising intangible assets 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 3.18 and 3.19).

(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.

(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 reliable measured. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Financial assets (continued)

(b) *Recognition and measurement* (continued)

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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Impairment of financial assets (continued)

(a) *Assets carried at amortised cost* (continued)

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.

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 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 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.

3.18 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.

3.19 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.

3.20 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.

3.21 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22 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.

3.23 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.

3.24 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.

(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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.24 Current and deferred income tax (continued)

(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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.25 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.

3.26 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.27 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.

3.28 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.28 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.

3.29 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.

3.30 Dividend distribution

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.31 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.

3.32 Other financial liabilities

Where the group does not have an unconditional right to avoid delivering cash or another financial asset to settle contractual obligation, the obligation meets the identification of a financial liability. The financial liability is recognised by the present value of the redemption amount.

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"), Hong Kong dollars ("HKD")), Australia dollars ("AUD") and New Zealand dollars ("NZD") 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.

As at 31 December 2017, 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 lower/higher by approximately RMB1,354,000 (2016: higher/lower RMB10,256,000), 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.

As at 31 December 2017, if RMB had strengthened/weakened by 5% against the AUD with all other variables held constant, the Group's other comprehensive income for the year would have been higher/lower by approximately RMB30,691,000 (2016: lower/higher RMB1,496,000), mainly as a result of other comprehensive income gains/losses arising from the translation of AUD-denominated cash and cash equivalents, receivables and payables and borrowings balances.

As at 31 December 2017, if RMB had strengthened/weakened by 5% against the NZD with all other variables held constant, the Group's other comprehensive income for the year would have been higher/lower by approximately RMB12,480,000 (2016: higher/lower RMB12,134,000), mainly as a result of other comprehensive income gains/losses arising from the translation of NZD-denominated cash and cash equivalents, receivables and payables and borrowings balances.

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(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 borrowings.

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates exposed the Group to fair value interest rate risk. In general, the Group raises 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 2017, the Group's borrowings at floating rate and fixed rate amounted to approximately RMB4,154,067,000 and RMB12,596,409,000 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 2017, if the interest rates on 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 RMB10,216,000 (2016: lower/higher RMB7,234,000) respectively, mainly as a result of higher/lower interest expenses on 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 contacts, 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 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.

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(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 *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
At 31 December 2017					
Borrowings *(Note 25)*	**13,791,677**	**2,684,479**	**263,521**	**11,542**	**16,751,219**
Interests payments on borrowings	**324,441**	**92,451**	**9,685**	**–**	**426,577**
Other Long-term payables	**–**	**7,123**	**1,754,807**	**251,763**	**2,013,693**
Financial liabilities as included in trade and other payables	**32,957,317**	**–**	**–**	**–**	**32,957,317**
	47,073,435	**2,784,053**	**2,028,013**	**263,305**	**52,148,806**
At 31 December 2016					
Borrowings *(Note 25)*	9,640,762	210,646	2,615,624	11,422	12,478,454
Interests payments on borrowings	90,330	87,928	29,483	–	207,741
Other Long-term payables	–	6,150	1,727,782	259,694	1,993,626
Financial liabilities as included in trade and other payables	29,453,962	–	–	–	29,453,962
	39,185,054	304,724	4,372,889	271,116	44,133,783

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.

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(d) *Liquidity risk* (continued)

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 2017 and 2016, 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 45(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 and interests bearing payables). 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	
	2017	2016
	RMB'000	*RMB'000*
Borrowings	**16,750,476**	12,477,046
Interests bearing payables	**653,420**	–
Total borrowings	**17,403,896**	12,477,046
Total equity	**39,675,848**	36,834,465
Total capital	**57,079,744**	49,311,511
Gearing ratio (%)	**30%**	25%

4 FINANCIAL RISK MANAGEMENT (continued)

4.3 Fair value estimation

(a) The table below analyses the Group's financial instruments carried at fair value as at 31 December 2017 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 and liabilities that are measured at fair value as at 31 December 2016 and 2017.

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
As at 31 December 2017				
Assets				
Derivative financial instruments	**–**	**643**	**–**	**643**
Available-for-sale financial assets	**78,960**	**–**	**–**	**78,960**
	78,960	**643**	**–**	**79,603**
Liabilities				
Derivative financial instruments	**–**	**2,434**	**–**	**2,434**

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)

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
As at 31 December 2016				
Assets				
Derivative financial instruments	–	3,318	–	3,318
Financial assets at fair value through profit or loss	742	–	–	742
Available-for-sale financial assets	149,695	62,525	–	212,220
	150,437	65,843	–	216,280
Liabilities				
Derivative financial instruments	–	870	–	870

There were no transfers between Levels 1 and Level 2 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.

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)

(ii) Financial instruments in level 2 (continued)

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 2 and Note 8. The fair value is within level 3 of the fair value hierarchy.

(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 2016 and 2017 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.

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.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(e) Impairment of receivables

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

(f) 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.

(g) Estimation of long-term payables for acquisition of subsidiaries

The long-term payables for redemption of shares of a subsidiary is recognised by present value of the redemption amount, which require the use of judgements and estimates. The redemption amount is determined based on the future performance of the subsidiary. Management reassesses these judgements and estimates at each balance sheet date.

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.

6 SEGMENT INFORMATION (continued)

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.

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 2017

	Production segment *RMB'000*	Distribution segment *RMB'000*	Retail segment *RMB'000*	Others *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
External revenue	12,476,152	112,264,797	5,604,498	501,732	–	130,847,179
Inter-segment revenue	2,510,855	3,885,051	35,197	186,776	(6,617,879)	–
Segment revenue	14,987,007	116,149,848	5,639,695	688,508	(6,617,879)	130,847,179
Revenue less expense by nature	1,700,957	3,044,755	77,066	(126,004)	(19,207)	4,677,567
Other income						197,740
Other gains – net						239,194
Gains on disposal of subsidiaries and an associate						206,823
Finance costs – net						(668,308)
Share of profit of jointly controlled entities	187,588	24,851	–	–	–	212,439
Share of profit of associates	279,376	52,788	(233)	7,422	–	339,353
Profit before income tax						5,204,808
Income tax expense						(1,147,029)
Profit for the year						4,057,779

6 SEGMENT INFORMATION (continued)

For the year ended 31 December 2016

	Production Segment *RMB'000*	Distribution segment *RMB'000*	Retail segment *RMB'000*	Others *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
External revenue	10,333,731	104,864,549	5,112,972	453,408	–	120,764,660
Inter-segment revenue	2,081,847	3,753,201	40,271	177,173	(6,052,492)	–
Segment revenue	12,415,578	108,617,750	5,153,243	630,581	(6,052,492)	120,764,660
Revenue less expense by nature	1,487,448	2,261,070	63,627	(81,521)	49,115	3,779,739
Other income						293,852
Other gains – net						137,427
Gains on disposal of subsidiaries and an associate						–
Finance costs – net						(525,487)
Share of profit of jointly controlled entities	403,486	21,739	–	–	–	425,225
Share of profit of associates	465,270	51,285	–	11,685	–	528,240
Profit before income tax						4,638,996
Income tax expense						(809,284)
Profit for the year						3,829,712

6 SEGMENT INFORMATION (continued)

Other segment items included in the consolidated financial statements for the year ended 31 December 2017 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	**450,691**	**213,749**	**27,097**	**29,762**	**–**	**721,299**
Amortisation of intangible assets and land use rights	**53,676**	**128,564**	**761**	**30,066**	**–**	**213,067**
Capital expenditure	**1,035,778**	**1,375,403**	**37,343**	**286,720**	**–**	**2,735,244**

Other segment items included in the consolidated financial statements for the year ended 31 December 2016 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	388,883	174,980	23,245	29,617	–	616,725
Amortisation of intangible assets and land use rights	57,245	129,987	438	19,649	–	207,319
Capital expenditure	830,052	404,599	23,957	343,673	–	1,602,281

6 SEGMENT INFORMATION (continued)

The segment assets and liabilities as at 31 December 2017 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	441,722	220,829	–	–	–	662,551
Investment in associates	2,616,575	615,750	–	799,292	–	4,031,617
Other assets	22,839,141	64,079,996	1,589,094	28,801,126	566,264	117,875,621
Elimination						(28,225,314)
Total assets						94,344,475
Segment liabilities	6,341,507	48,348,082	1,070,508	9,795,751	1,342,556	66,898,404
Elimination						(12,229,777)
Total liabilities						54,668,627

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

	Assets *RMB'000*	Liabilities *RMB'000*
Segment assets/liabilities after elimination	93,778,211	53,326,071
Unallocated:		
Current income tax liabilities	–	722,406
Deferred tax assets/liabilities – net	566,264	620,150
Total	94,344,475	54,668,627

6 SEGMENT INFORMATION (continued)

The segment assets and liabilities as at 31 December 2016 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	523,029	197,520	–	–	–	720,549
Investment in associates	2,651,784	413,776	–	441,097	–	3,506,657
Other assets	21,863,321	55,334,511	1,286,833	25,934,455	468,316	104,887,436
Elimination						(26,371,925)
Total assets						82,742,717
Segment liabilities	6,592,026	42,256,469	831,407	8,459,790	833,560	58,973,252
Elimination						(13,065,000)
Total liabilities						45,908,252

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

	Assets *RMB'000*	Liabilities *RMB'000*
Segment assets/liabilities after elimination	82,274,401	45,074,692
Unallocated:		
Current income tax liabilities	–	341,499
Deferred tax assets/liabilities – net	468,316	492,061
Total	82,742,717	45,908,252

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	
	2017	2016
	RMB'000	*RMB'000*
Opening net book amount	**1,401,636**	1,186,988
Additions	**15,713**	165,095
Transfer from PP&E *(Note 9)*	**10,770**	3,354
Acquisition of subsidiaries	**40,407**	79,514
Amortisation charge *(Note 34)*	**(38,059)**	(32,978)
Disposals	**(62,032)**	(337)
Disposal of subsidiaries	**(84,394)**	–
Closing net book amount	**1,284,041**	1,401,636

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Cost of sales	**5,229**	3,621
Distribution and selling expenses	**4,800**	3,736
General and administrative expenses	**28,030**	25,621
	38,059	32,978

(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	
	2017	2016
	RMB'000	*RMB'000*
Land use rights, secured	**90,167**	94,282

7. LAND USE RIGHTS (continued)

(c) As at 31 December 2017, 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 RMB4,873,000 (2016: RMB3,620,000).

8. INVESTMENT PROPERTIES

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

The movement of investment properties is analysed as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Cost	**455,181**	443,666
Accumulated depreciation	**(199,682)**	(184,803)
Impairment	**(575)**	–
Net book amount	**254,924**	258,863
Opening net book amount	**258,863**	262,065
Transfer from owner-occupied PP&E *(Note 9)*	**11,059**	9,174
Depreciation *(Note 34)*	**(12,160)**	(12,015)
Impairment *(Note 34)*	**(575)**	–
Transfer to owner-occupied PP&E *(Note 9)*	**(769)**	(464)
Disposals	**(1,357)**	–
Translation difference	**(137)**	103
Closing net book amount	**254,924**	258,863

(a) As at 31 December 2017, the fair values of the investment properties were approximately RMB929,710,000 (2016: RMB826,642,000). 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.

8. INVESTMENT PROPERTIES (continued)

(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	
	2017	2016
	RMB'000	*RMB'000*
Rental income	**54,381**	49,188

(c) Depreciation of investment properties has been charged to the consolidated income statements (Note 34) as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Cost of sales	**12,160**	12,015

9 PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Machinery *RMB'000*	Motor Vehicles *RMB'000*	Furniture, fittings and equipment *RMB'000*	Others *RMB'000*	Construction -in-progress *RMB'000*	Medicinal Plants *RMB'000*	Total *RMB'000*
At 1 January 2016								
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
Year ended 31 December 2016								
Opening net book amount	2,906,429	1,593,372	114,831	173,694	390,398	741,612	397,157	6,317,493
Acquisition of subsidiaries *(Note 44)*	73,468	95,926	1,888	980	11,362	36	–	183,660
Additions	14,579	155,413	32,396	47,542	79,261	1,067,605	11,128	1,407,924
Internal transfer	240,208	163,657	2,962	13,022	56,543	(476,392)	–	–
Transfer from investment properties *(Note 8)*	464	–	–	–	–	–	–	464
Transfer to land use rights *(Note 7)*	–	–	–	–	–	(3,354)	–	(3,354)
Disposals *(Note 40 (ii))*	(33,173)	(18,342)	(2,975)	(3,275)	(4,667)	–	(1,459)	(63,891)
Depreciation charge	(176,154)	(210,180)	(42,807)	(63,757)	(109,932)	–	(1,880)	(604,710)
Addition of provision for impairment *(Note 34)*	(4,127)	(690)	–	–	–	–	–	(4,817)
Transfer to investment properties *(Note 8)*	(9,174)	–	–	–	–	–	–	(9,174)
Transfer to Intangible Assets *(Note 10)*	–	–	–	–	–	(21,381)	–	(21,381)
Translation difference	(236)	(487)	(890)	31	57	–	–	(1,525)
Closing net book amount	3,012,284	1,778,669	105,405	168,237	423,022	1,308,126	404,946	7,200,689
At 31 December 2016								
Cost	4,656,423	3,333,516	340,626	606,354	1,093,389	1,311,295	407,806	11,749,409
Accumulated depreciation	(1,616,071)	(1,502,815)	(234,595)	(436,489)	(669,343)	–	(2,860)	(4,462,173)
Impairment	(28,068)	(52,032)	(626)	(1,628)	(1,024)	(3,169)	–	(86,547)
Net book amount	3,012,284	1,778,669	105,405	168,237	423,022	1,308,126	404,946	7,200,689

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 2017								
Opening net book amount	3,012,284	1,778,669	105,405	168,237	423,022	1,308,126	404,946	7,200,689
Additions	881,993	129,342	45,398	53,205	190,690	1,332,595	7,228	2,640,451
Acquisition of subsidiaries *(Note 44)*	351,773	16,706	11,859	6,252	8,778	–	–	395,368
Internal transfer	631,857	315,762	6,872	31,497	56,560	(1,042,548)	–	–
Transfer from investment properties *(Note 8)*	769	–	–	–	–	–	–	769
Transfer to land use rights *(Note 7)*	–	–	–	–	–	(10,770)	–	(10,770)
Disposals *(Note 40 (ii))*	(9,485)	(4,083)	(2,431)	(2,767)	(16,065)	–	–	(34,831)
Depreciation charge	(203,722)	(259,317)	(36,997)	(60,812)	(144,923)	–	(3,368)	(709,139)
Addition of provision for impairment *(Note 34)*	(15,268)	(6,863)	(2)	(95)	(1,066)	–	–	(23,294)
Transfer to investment properties *(Note 8)*	(11,059)	–	–	–	–	–	–	(11,059)
Transfer to Intangible Assets *(Note 10)*	–	–	–	–	–	(49,957)	–	(49,957)
Translation difference	(3,610)	(4,039)	(2,203)	(255)	(604)	–	–	(10,711)
Disposal of subsidiaries	(1,249)	–	–	(7)	–	–	–	(1,256)
Closing net book amount	4,634,283	1,966,177	127,901	195,255	516,392	1,537,446	408,806	9,386,260
At 31 December 2017								
Cost	6,467,008	3,714,049	378,250	651,000	1,282,874	1,540,615	415,034	14,448,830
Accumulated depreciation	(1,789,389)	(1,697,364)	(249,721)	(454,025)	(764,393)	–	(6,228)	(4,961,120)
Impairment	(43,336)	(50,508)	(628)	(1,720)	(2,089)	(3,169)	–	(101,450)
Net book amount	4,634,283	1,966,177	127,901	195,255	516,392	1,537,446	408,806	9,386,260

9 PROPERTY, PLANT AND EQUIPMENT (continued)

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Cost of sales *(Note 34)*	**345,783**	298,280
Distribution and selling expenses *(Note 34)*	**82,984**	76,995
General and administrative expenses *(Note 34)*	**280,372**	229,435
	709,139	604,710

(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	
	2017	2016
	RMB'000	*RMB'000*
Property, plant and equipment, pledged	**316,363**	247,627

(c) As at 31 December 2017, 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 RMB94,406,000 (2016: RMB86,127,000).

(d) During the year ended 31 December 2017, the Group did not capitalise borrowing costs (2016: Nil) on qualifying assets.

(e) Buildings includes the following amounts where the Group is a lessee under a finance lease:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Cost – capitalised finance leases	**41,413**	41,413
Accumulated depreciation	**(7,829)**	(4,866)
Net book amount	**33,584**	36,547

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.

10 INTANGIBLE ASSETS

	Goodwill	Business network	Trademarks, brands and patent rights	Know-how	Computer software	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016							
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
Year ended 31 December 2016							
Opening net book amount	4,815,618	514,687	78,909	97,870	115,633	62,052	5,684,769
Acquisition of subsidiaries *(Note 44)*	1,032,369	80,623	589,244	–	5,097	448	1,707,781
Transfer from PP&E *(Note 9)*	–	–	2,204	–	19,177	–	21,381
Additions	–	–	754	–	8,734	34,714	44,202
Disposal	–	–	–	–	(78)	(141)	(219)
Amortisation charge *(Note 34)*	–	(81,461)	(9,580)	(31,909)	(26,831)	(24,560)	(174,341)
Closing net book amount	5,847,987	513,849	661,531	65,961	121,732	72,513	7,283,573
At 31 December 2016							
Cost	5,961,371	869,776	728,067	255,833	219,172	156,391	8,190,610
Accumulated amortisation	–	(355,927)	(60,761)	(113,779)	(97,440)	(66,110)	(694,017)
Impairment	(113,384)	–	(5,775)	(76,093)	–	(17,768)	(213,020)
Net book amount	5,847,987	513,849	661,531	65,961	121,732	72,513	7,283,573
Year ended 31 December 2017							
Opening net book amount	**5,847,987**	**513,849**	**661,531**	**65,961**	**121,732**	**72,513**	**7,283,573**
Additions	**–**	**–**	**–**	**–**	**11,910**	**107,973**	**119,883**
Acquisition of subsidiaries *(Note 44)*	**797,975**	**71,550**	**–**	**–**	**112**	**3,181**	**872,818**
Transfer from PP&E *(Note 9)*	**–**	**–**	**–**	**–**	**49,957**	**–**	**49,957**
Others	**13,438**	**–**	**(20,165)**	**709**	**73**	**–**	**(5,945)**
Disposal	**–**	**–**	**–**	**–**	**(504)**	**–**	**(504)**
Impairment Charge *(Note 34)*	**(52,694)**	**–**	**–**	**–**	**–**	**–**	**(52,694)**
Amortisation Charge *(Note 34)*	**–**	**(81,924)**	**(9,359)**	**(20,270)**	**(34,229)**	**(29,226)**	**(175,008)**
Closing net book amount	**6,606,706**	**503,475**	**632,007**	**46,400**	**149,051**	**154,441**	**8,092,080**
At 31 December 2017							
Cost	**6,772,784**	**941,326**	**707,902**	**256,542**	**277,068**	**267,545**	**9,223,167**
Accumulated amortisation	**–**	**(437,851)**	**(70,120)**	**(134,049)**	**(128,017)**	**(95,336)**	**(865,373)**
Impairment	**(166,078)**	**–**	**(5,775)**	**(76,093)**	**–**	**(17,768)**	**(265,714)**
Net book amount	**6,606,706**	**503,475**	**632,007**	**46,400**	**149,051**	**154,441**	**8,092,080**

10 INTANGIBLE ASSETS (continued)

(a) Amortisation expenses were charged to the consolidated income statement as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Cost of sales	**11,138**	10,779
Distribution and selling expenses	**111,075**	101,091
General and administrative expenses	**52,795**	62,471
	175,008	174,341

(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	
	2017	2016
	RMB'000	*RMB'000*
Production segment	**1,828,102**	1,638,425
Distribution segment	**4,908,812**	4,287,076
Others	**35,870**	35,870
	6,772,784	5,961,371

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 within and 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.

10 INTANGIBLE ASSETS (continued)

(b) Impairment test for goodwill (continued)

The key assumptions used for value-in-use calculations in 2017 are as follows:

	Production segment	Distribution segment
Compound annual growth rate within the budget period	**13% – 24%**	4% – 9%
Growth rate to extrapolate cash flows beyond the budget period	**2.3%, 2.5%**	2.5%
Gross margin	**38% – 88%**	6% – 7%
Discount rate	**14% – 20%**	14% – 16%

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.

11 SUBSIDIARIES

In 2017 and 2016, the Company was mainly engaged in investment holding. Particulars of the Company's principal subsidiaries are set out in Note 49.

(a) Material non-controlling interests

As at 31 December 2017 and 2016, non-controlling interests presented in the consolidated balance sheets were approximately RMB5,645,005,000 and RMB5,211,908,000 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 2017

Summarised balance sheet	Current Assets RMB'000	Current Liabilities RMB'000	Total Net current assets RMB'000	Non-current Assets RMB'000	Non-current Liabilities RMB'000	Total Net non-current assets RMB'000	Net assets RMB'000	Carrying amount of non-controlling interest RMB'000
Changzhou Pharmaceutical Co., Ltd. And its subsidiaries	2,747,470	(1,863,627)	883,843	970,910	(52,223)	918,687	1,802,530	686,003
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	1,118,263	(245,564)	872,699	510,656	–	510,656	1,383,355	345,839
Zeus Investment Limited and its subsidiaries	437,604	(238,977)	198,627	1,680,933	(267,251)	1,413,682	1,612,309	651,147
	4,303,337	(2,348,168)	1,955,169	3,162,499	(319,474)	2,843,025	4,798,194	1,682,989

Notes to the Consolidated Financial Statements

11 SUBSIDIARIES (continued)

(a) Material non-controlling interests (continued)

Year ended 31 December 2017 (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*
Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	5,762,012	242,005	196,198	196,198	90,959	12,000
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	1,277,387	87,355	183,590	183,590	45,897	–
Zeus Investment Limited and its subsidiaries	973,630	(1,397)	7,369	12,920	5,218	–
	8,013,029	327,963	387,157	392,708	142,074	12,000

Summarised cashflows	Net cash generated from operating activities *RMB'000*	Net cash generated/ (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*
Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	85,824	55,939	(125,562)	16,201	895,669	911,870
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	173,750	(265,707)	–	(92,281)	364,076	271,795
Zeus Investment Limited and its subsidiaries	19,530	(41,199)	34,496	13,053	28,470	41,523
	279,104	(250,967)	(91,066)	(63,027)	1,288,215	1,225,188

11 SUBSIDIARIES (continued)

(a) Material non-controlling interests (continued)

Year ended 31 December 2016

Summarised balance sheet	Current Assets	Current Liabilities	Total Net current assets	Non-current Assets	Non-current Liabilities	Total Net non-current assets	Net assets	Carrying amount of non-controlling interest
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	2,484,985	(1,784,767)	700,218	995,645	(47,463)	948,182	1,648,400	614,293
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	1,084,007	(151,657)	932,350	267,415	–	267,415	1,199,765	299,941
Zeus Investment Limited and its subsidiaries	457,701	(193,218)	264,483	1,603,754	(278,660)	1,325,094	1,589,577	635,831
	4,026,693	(2,129,642)	1,897,051	2,866,814	(326,123)	2,540,691	4,437,742	1,550,065

Summarised income statement	Revenue	Profit before income tax	Profit for the year	Total comprehensive income	Total comprehensive income allocated to Non-Controlling Interests	Dividends to non-Controlling Interests
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	5,276,514	184,009	151,847	151,440	62,758	19,818
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	1,239,016	188,879	164,119	164,119	41,030	23,116
Zeus Investment Limited and its subsidiaries	–	–	–	–	–	–
	6,515,530	372,888	315,966	315,559	103,788	42,934

11 SUBSIDIARIES (continued)

(a) Material non-controlling interests (continued)

Year ended 31 December 2016 (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*
Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	97,756	(144,332)	62,120	15,543	880,126	895,669
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	135,963	(123,609)	(92,465)	(79,755)	443,830	364,075
Zeus Investment Limited and its subsidiaries	–	–	–	–	–	–
	233,719	(267,941)	(30,345)	(64,212)	1,323,956	1,259,744

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 49.

12 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Share of net assets, unlisted	**664,299**	722,419
Provision for impairment	**(1,748)**	(1,870)
	662,551	720,549
At 1 January	**720,549**	476,488
Additions	**8,511**	5,600
Share of profit for the year	**212,439**	425,225
Dividends declared	**(278,948)**	(186,764)
End of the year	**662,551**	720,549

Particulars of the Group's principal jointly controlled entities are set out in Note 49.

12 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

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. (上海和黃藥業有限公司)

Summarised balance sheet	**As at 31 December**	
	2017	2016
	RMB'000	*RMB'000*
Current		
Total current assets	**869,688**	999,090
Total current liabilities	**(616,751)**	(605,521)
Non-current		
Total non-current assets	**667,752**	701,807
Total non-current liabilities	**(50,689)**	(48,234)
Net assets	**870,000**	1,047,142

Summarised statement of comprehensive income	**For the year ended 31 December**	
	2017	2016
	RMB'000	*RMB'000*
Revenue	**1,694,508**	1,525,420
Profit before income tax expense	**449,313**	984,042
Income tax expense	**(73,271)**	(183,115)
Profit for the year	**376,042**	800,927
Total comprehensive income	**376,042**	800,927
Dividends declared by the jointly controlled entity to the Group	**276,593**	185,859

12 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

Shanghai Hutchison Pharmacy Co., Ltd. (上海和黃藥業有限公司) (continued)

Reconciliation of summarised financial information	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Opening net assets 1 January	**1,047,142**	617,933
Profit for the year	**376,042**	800,927
Dividends	**(553,184)**	(371,718)
Closing net assets	**870,000**	1,047,142
Interest in associates @ 50%	**435,000**	523,571
Unrealised profit	**(7,388)**	(6,143)
Carrying value	**427,612**	517,428

In addition to the interests in joint ventures disclosed above, the group also has interests in a number of individually immaterial joint ventures that are accounted for using the equity method.

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Aggregate carrying amount of individually immaterial joint ventures	**234,939**	203,121
Aggregate amounts of the group's share of:		
Profit from continuing operations	**25,663**	21,739
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**25,663**	21,739

13 INVESTMENTS IN ASSOCIATES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Share of net assets, listed	**199,899**	193,332
Share of net assets, unlisted	**3,907,744**	3,389,488
Provision for impairment	**(76,026)**	(76,163)
	4,031,617	3,506,657
Market value of listed shares *(HKD)*	**975,061**	1,349,746
At 1 January	**3,506,657**	3,160,418
Additions	**572,688**	98,000
Share of profit for the year	**339,353**	528,240
Share of other comprehensive income	**(426)**	381
Dividends declared	**(375,854)**	(280,382)
Disposals	**(12,063)**	–
Others	**1,262**	–
End of the year	**4,031,617**	3,506,657

Particulars of the Group's principal associates are set out in Note 49.

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**	
	2017	2016
	RMB'000	*RMB'000*
Current		
Total current assets	**7,032,323**	8,461,106
Total current liabilities	**(5,497,967)**	(6,801,771)
Non-current		
Total non-current assets	**2,744,649**	2,457,175
Total non-current liabilities	**(1,232,733)**	(1,233,732)
Net assets	**3,046,272**	2,882,778

Summarised statement of comprehensive income	**For the year ended 31 December**	
	2017	2016
	RMB'000	*RMB'000*
Revenue	**10,450,173**	11,044,303
Profit before income tax expense	**484,964**	641,823
Income tax expense	**(86,373)**	(163,271)
Profit for the year	**398,591**	478,552
Total comprehensive income	**398,591**	478,552
Dividends declared by the associate to the Group	**70,529**	78,919

Reconciliation of summarised financial information	**For the year ended 31 December**	
	2017	2016
	RMB'000	*RMB'000*
Opening net assets 1 January	**2,882,778**	2,667,289
Capital injection	**–**	–
Profit for the year	**398,591**	478,552
Dividends	**(235,097)**	(263,063)
Closing net assets	**3,046,272**	2,882,778
Interest in associates @ 30%	**913,882**	864,833
Unrealised profit	**(38,696)**	(35,848)
Carrying value	**875,186**	828,985

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	
	2017	2016
	RMB'000	*RMB'000*
Current		
Total current assets	**1,085,639**	1,360,562
Total current liabilities	**(281,028)**	(359,019)
Non-current		
Total non-current assets	**1,294,281**	1,175,159
Total non-current liabilities	**(40,980)**	(43,306)
Non-controlling interest	**2,938**	5,207
Net assets attributable to owners	**2,060,850**	2,138,603

Summarised statement of comprehensive income	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Revenue	**1,126,403**	1,453,136
Profit before income tax expense	**58,959**	252,310
Income tax expense	**(15,415)**	(49,469)
Profit for the year	**43,544**	202,841
Total comprehensive income	**42,667**	203,828
Dividends declared by the associate to the Group	**48,206**	50,127

Reconciliation of summarised financial information	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Opening net assets 1 January	**2,138,603**	2,055,936
Profit for the year attributable to owners of the Company	**41,275**	204,540
Other comprehensive income for the year	**(877)**	987
Dividends	**(118,151)**	(122,860)
Closing net assets	**2,060,850**	2,138,603
Interest in associates @ 40.8%	**840,827**	872,550
Unrealised profit	**(4,484)**	(4,387)
Goodwill	**63,033**	63,033
Carrying value	**899,376**	931,196

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	
	2017	2016
	RMB'000	*RMB'000*
Current		
Total current assets	**4,308,167**	1,834,723
Total current liabilities	**(4,123,752)**	(1,326,330)
Non-current		
Total non-current assets	**566,726**	580,764
Total non-current liabilities	**–**	–
Net assets attributable to owners	**751,141**	1,089,157

Summarised statement of comprehensive income	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Revenue	**5,127,197**	4,723,718
Profit before income tax expense	**390,339**	836,464
Income tax expense	**(106,372)**	(214,480)
Profit for the year	**283,967**	621,984
Total comprehensive income	**283,967**	621,984
Dividends declared by the associate to the Group	**186,595**	118,804

Reconciliation of summarised financial information	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Opening net assets 1 January	**1,089,157**	863,186
Profit for the year	**283,967**	621,984
Dividends	**(621,983)**	(396,013)
Closing net assets	**751,141**	1,089,157
Interest in associates @ 30%	**225,342**	326,747
Unrealised profit	**(6,190)**	(14,830)
Carrying value	**219,152**	311,917

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) (continued)

In addition to the interests in associates disclosed above, the group also has interests in a number of individually immaterial associates that are accounted for using the equity method.

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Aggregate carrying amount of individually immaterial associates	**2,037,903**	1,434,559
Aggregate amounts of the group's share of:		
Profit from continuing operations	**112,050**	119,413
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**(69)**	(21)
Total comprehensive income	**111,981**	119,392

14 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Listed equity investment, at fair value	**78,960**	149,694
Unlisted equity investment,		
– at fair value	**–**	62,526
– at cost	**90,369**	132,394
Provision for impairment of unlisted equity investment	**(60,248)**	(75,248)
Unlisted equity investment, net	**30,121**	119,672
	109,081	269,366

14 AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
At 1 January	**269,366**	278,484
Acquisition of subsidiaries	**11,400**	200
Additions	**93**	643
Fair value change recognised in equity	**13,493**	(9,961)
Disposal of available-for-sale financial assets	**(65,971)**	–
Disposal of subsidiaries	**(119,300)**	–
End of the year	**109,081**	269,366

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	
	2017	2016
	RMB'000	*RMB'000*
Prepayment of construction cost	**417,171**	885,215
Prepayment acquisition of subsidiaries	**291,727**	51,480
Others	**25,025**	4,114
	733,923	940,809

16 OTHER LONG-TERM RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Non-current receivables:		
– Long-term deposits *(a)*	**581,479**	425,362
Gross long-term receivables:		
No later than 1 year	**–**	–
Later than 1 year and no later than 5 years	**417,064**	424,868
Later than 5 years	**237,331**	36,500
	654,395	461,368
Unearned future finance income on long-term receivables	**(72,916)**	(36,006)
	581,479	425,362

16 OTHER LONG-TERM RECEIVABLES (continued)

(a) Long-term deposits

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Non-current portion:		
Long-term deposits – gross receivables	**654,395**	461,368
Unearned finance income	**(72,916)**	(36,006)
Long-term deposits, net	**581,479**	425,362

The net investment in long-term deposits may be analysed as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Later than 1 year and no later than 5 years	**378,617**	398,784
Later than 5 years	**202,862**	26,578
	581,479	425,362

Note:

Long-term deposits represented the guarantee deposits paid by the Group to certain customers with maturities between one year and eight years. The Group accounted for such long-term deposits using effective interest method.

17. INVENTORIES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Raw materials	**1,241,625**	1,049,633
Work in progress	**419,252**	367,302
Finished goods	**15,609,079**	14,998,822
	17,269,956	16,415,757

The cost of inventories recognised as expenses and included in cost of sales are as follows:

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Cost of sales, distribution and selling expenses and general and administrative expenses *(Note 34)*	**111,726,075**	104,442,582

18. TRADE AND OTHER RECEIVABLES AND OTHER CURRENT ASSETS

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables from third parties		
Accounts receivable	**31,857,698**	27,944,795
Less: allowance for impairment	**(1,167,406)**	(1,171,721)
Accounts receivable – net	**30,690,292**	26,773,074
Notes receivable	**1,107,997**	1,586,533
Trade receivables – net	**31,798,289**	28,359,607
Other receivables from third parties	**1,981,712**	1,530,675
Less: allowance for impairment	**(582,441)**	(595,244)
Other receivables – net	**1,399,271**	935,431
Amounts due from related parties *(Note 45(c))*	**840,034**	552,656
Less: allowance for impairment	**(14,853)**	(14,102)
Amounts due from related parties – net	**825,181**	538,554
Prepayments *(b)*	**1,386,808**	1,145,988
Tax recoverable	**1,114,125**	898,150
Interest receivables	**3,089**	2,526
Dividends receivable	**2,813**	–
	36,529,576	31,880,256

(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 2017 and 2016, prepayments are in connection with:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Purchases of:		
– Raw materials and merchandise	**1,260,548**	1,049,928
– Prepaid expenses and others	**126,260**	96,060
	1,386,808	1,145,988

(c) The carrying amounts of trade and other receivables and other current assets are denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
RMB	**38,032,969**	33,378,774
HKD	**938**	44,312
USD	**79,021**	78,826
AUD	**112,460**	85,289
NZD	**42,208**	46,132
Other currencies	**26,680**	27,990
	38,294,276	33,661,323

(d) As of 31 December 2017, trade receivables of approximately RMB402,553,000 (2016: RMB215,033,000) have been factored by the Group for obtaining borrowings of approximately RMB360,389,000 (2016: RMB184,956,000) (Note 25).

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 ranging from 30 to 180 days is granted to the customers. At 31 December 2017 and 2016, 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	
	2017	2016
	RMB'000	*RMB'000*
Less than 3 months	**22,286,617**	21,499,782
3 months to 6 months	**6,685,273**	4,930,427
6 months to 12 months	**2,999,174**	2,160,049
1 year to 2 years	**382,603**	344,070
Over 2 years	**612,028**	597,000
	32,965,695	29,531,328

(f) As of 31 December 2017, trade receivables due from third parties of approximately RMB3,993,805,000 (2016: RMB3,101,119,000) 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	
	2017	2016
	RMB'000	*RMB'000*
6 months to 12 months	**2,999,174**	2,160,049
1 year to 2 years	**382,603**	344,070
Over 2 years	**612,028**	597,000
	3,993,805	3,101,119
Less: Expected recovery	**(2,969,727)**	(2,083,989)
Impairment	**1,024,078**	1,017,130

As of 31 December 2017, trade receivables due from third parties of approximately RMB28,971,890,000 (2016: RMB26,430,209,000) were within 180 days. The impairment of these trade receivables was approximately RMB143,328,000 (2016: RMB154,591,000).

The aging of notes receivable was normally within 6 months, which is within the credit term and accepted by banks and no impairment provision was provided during the year.

18. TRADE AND OTHER RECEIVABLES AND OTHER CURRENT ASSETS (continued)

(g) 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	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**1,781,067**	1,422,748
Provision for impairment *(Note 34)*	**(64,312)**	377,390
Write-off against uncollectible and other deductions	**(9,462)**	(24,529)
Others	**57,407**	5,458
At the end of year	**1,764,700**	1,781,067

The creation of provision for impairment of trade and other receivables have been included in 'general and administrative expenses'. Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

In 2017, the Group reversed previous impairment of receivables approximately RMB367,724,000 (2016: RMB51,845,000) due from its customers. The Group expected the amount will be recovered according to the agreements with its customers.

(h) The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

19 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Cash at bank	**14,831,007**	11,959,145
Cash on hand	**11,073**	7,679
	14,842,080	11,966,824
Less: restricted cash *(a)*	**(1,272,666)**	(987,080)
Cash and cash equivalents	**13,569,414**	10,979,744
Denominated in:		
– RMB	**13,851,265**	11,732,228
– HKD	**27,205**	9,775
– USD	**915,047**	187,082
– EUR	**5,944**	4,281
– AUD	**16,142**	13,418
– NZD	**24,372**	12,504
– Other currencies	**2,105**	7,536
	14,842,080	11,966,824

19 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (continued)

(a) As of 31 December 2017 and 2016, certain of the Group's bank deposits have been pledged for the following purposes:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Bank deposits pledged for:		
– issue of notes payable	**1,253,339**	973,997
– others	**19,327**	13,083
	1,272,666	987,080

(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	
	2017	2016
	% per annum	*% per annum*
Effective interest rate	**0.35%~4.37%**	0.35%~5.61%

Notes to the Consolidated Financial Statements

20 FINANCIAL INSTRUMENTS BY CATEGORY AND CREDIT QUALITY OF FINANCIAL ASSETS

(a) Financial instruments by category

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Assets per balance sheet:		
Derivative financial instruments	**643**	3,318
Financial assets at fair value through profit or loss	**–**	742
Available-for-sale financial assets *(Note 14)*	**109,081**	269,366
Loans and receivables		
– Accounts and notes receivables *(Note 18)*	**31,798,289**	28,359,607
– Amounts due from related parties *(Note 45(c))*	**820,902**	535,978
– Other receivables *(Note 18)*	**1,402,360**	1,533,201
– Cash and bank balances *(Note 19)*	**14,842,080**	11,966,824
– Other long-term receivables	**581,479**	425,362
	49,554,834	43,094,398
Liabilities per balance sheet:		
Derivative financial instruments	**2,434**	870
Other financial liabilities at amortised cost		
– Accounts and notes payables *(Note 24)*	**26,937,887**	25,422,992
– Amounts due to related parties *(Note 45(c))*	**1,077,761**	587,811
– Accrual and other payables	**4,941,178**	3,443,659
– Borrowings *(Note 25)*	**16,750,476**	12,477,046
– Other long-term payables *(Note 29)*	**697,135**	692,537
	50,406,871	42,624,915

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 2017, the Group's trade receivables due from third parties of approximately RMB28,971,890,000 (2016: RMB26,430,209,000) 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 2017.

(ii) *Cash and cash equivalents*

As at 31 December 2017 and 2016, 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 2016 and 2017	1,923,016	765,894	1,923,016	765,894	2,688,910

22 SHARE PREMIUM AND OTHER RESERVES

	Share premium	Statutory reserves *Note (a)*	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 2016	14,075,517	1,098,686	54,280	28,227	(27,337)	51,046	15,280,419
Share of other comprehensive income of associates	–	–	–	381	–	–	381
Appropriation to statutory reserves *((a), Note 23)*	–	117,151	–	–	–	–	117,151
Available-for-sale financial assets							
– Gross	–	–	(9,677)	–	–	–	(9,677)
– Tax	–	–	644	–	–	–	644
Changes in ownership interests in subsidiaries without change of control	47,711	–	–	–	–	–	47,711
Currency translation difference	–	–	–	–	(5,573)	–	(5,573)
Others	–	–	–	–	–	(635,831)	(635,831)
At 31 December 2016	14,123,228	1,215,837	45,247	28,608	(32,910)	(584,785)	14,795,225
Share of other comprehensive income of associates	**–**	**–**	**–**	**(426)**	**–**	**–**	**(426)**
Appropriation to statutory reserves *((a), Note 23)*	**–**	**105,788**	**–**	**–**	**–**	**–**	**105,788**
Fair value change of available-for-sale recognized in other comprehensive income							
– Gross	**–**	**–**	**14,983**	**–**	**–**	**–**	**14,983**
– Tax	**–**	**–**	**(13,761)**	**–**	**–**	**–**	**(13,761)**
Accumulated fair value change of available-for-sale reclassed to income statement on disposals							
– Gross	**–**	**–**	**(93,800)**	**–**	**–**	**–**	**(93,800)**
– Tax	**–**	**–**	**23,450**	**–**	**–**	**–**	**23,450**
Changes in ownership interests in subsidiaries without change of control *(Note 43)*	**(55,022)**	**–**	**–**	**–**	**–**	**–**	**(55,022)**
Currency translation difference	**–**	**–**	**–**	**–**	**(16,921)**	**–**	**(16,921)**
Others	**–**	**–**	**–**	**–**	**–**	**4,130**	**4,130**
At 31 December 2017	**14,068,206**	**1,321,625**	**(23,881)**	**28,182**	**(49,831)**	**(580,655)**	**14,763,646**

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.

23 RETAINED EARNINGS

	RMB'000
At 1 January 2016	11,960,985
Profit for the year	3,196,394
Dividends of the Company *(Note 39)*	(887,340)
Appropriation to statutory reserves *(Note 22)*	(117,151)
Others	(14,466)
At 31 December 2016	14,138,422
Profit for the year	**3,520,644**
Dividends of the Company *(Note 39)*	**(968,008)**
Appropriation to statutory reserves *(Note 22)*	**(105,788)**
Others	**(6,983)**
At 31 December 2017	**16,578,287**

24 TRADE AND OTHER PAYABLES AND OTHER CURRENT LIABILITIES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Accounts payable to third parties	**22,988,973**	21,745,034
Notes payable	**3,948,914**	3,677,958
Advances received from customers	**1,032,090**	737,803
Payables for purchase of PP&E and land use rights	**311,819**	241,971
Staff welfare and salary payables	**700,846**	636,940
Tax liabilities other than income tax	**418,990**	300,959
Amounts due to related parties *(Note 45(c))*	**1,078,140**	587,872
Accrued expenses	**2,036,150**	1,344,406
Deposits	**1,004,471**	594,847
Payables arising from acquisition of subsidiaries	**281,291**	395,499
Dividends payable	**43,636**	57,124
Others	**1,269,974**	809,812
	35,115,294	31,130,225

24 TRADE AND OTHER PAYABLES AND OTHER CURRENT LIABILITIES (continued)

(a) As at 31 December 2017 and 2016, ageing analysis of the accounts payables to third parties and notes payable is as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Less than 3 months	**20,515,509**	20,487,016
3 months to 6 months	**2,986,086**	3,188,374
6 months to 12 months	**2,258,213**	1,202,097
1 year to 2 years	**733,867**	300,159
Over 2 years	**444,212**	245,346
	26,937,887	25,422,992

(b) The Group's trade and other payables are denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
RMB	**33,921,988**	30,448,838
USD	**954,415**	378,065
EUR	**60,959**	9,992
HKD	**40,714**	147,042
AUD	**96,817**	68,794
NZD	**37,415**	62,827
Other currencies	**2,986**	14,667
	35,115,294	31,130,225

(c) The carrying amount of trade and other payables are considered to be the same as their fair value due to their short-term nature.

25 BORROWINGS

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Non-current		
Long-term bank borrowings		
– guaranteed *(a)*	**–**	700
– secured *(b)*	**147,143**	6,505
– unsecured	**812,399**	830,488
Debentures *(c)*	**1,999,257**	1,998,591
	2,958,799	2,836,284
Current		
Short-term bank borrowings		
– guaranteed *(a)*	**288,251**	182,550
– secured *(b)*	**740,850**	513,356
– unsecured	**12,701,138**	8,914,583
Other borrowings	**15,686**	17,310
	13,745,925	9,627,799
Current portion of long-term bank borrowings		
– guaranteed *(a)*	**700**	730
– secured *(b)*	**45,052**	9,000
Other borrowings	**–**	3,233
	13,791,677	9,640,762
Total borrowings	**16,750,476**	12,477,046

(a) As at 31 December 2017, the bank borrowings as guaranteed by the non-controlling interests of the Group's subsidiaries amounted to approximately RMB48,451,000 (2016: RMB57,550,000).

As at 31 December 2017, the bank borrowings as jointly guaranteed by the Group's subsidiary and one of the Group's non-controlling interests amounted to approximately RMB239,800,000 (2016: RMB125,000,000).

As at 31 December 2017, the bank borrowings as guaranteed by a related party amounted to approximately RMB700,000 (2016: RMB1,430,000) (Note 45(d)).

25 BORROWINGS (continued)

(b) Analysis of the secured borrowings are as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Secured by:		
– PP&E and land use rights *(Notes 7, 9)*	**572,656**	343,905
– Trade receivables *(Note 18)*	**360,389**	184,956
	933,045	528,861

(c) Debentures

On 26 January 2016, the Company received RMB1,980,000,000 from the issuance of 3-year-maturity-debentures, with an aggregate amount of RMB2,000,000,000 at a rate of 2.98% per annum.

(d) The carrying amounts of the Group's borrowings are denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
RMB	**16,470,739**	12,273,100
NZD	**279,737**	203,946
	16,750,476	12,477,046

(e) The weighted average effective interest rates of borrowings are set out as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Borrowings		
– RMB	**3.94%**	3.77%
– NZD	**3.24%**	2.92%

Interest rates of borrowings denominated in RMB are reset periodically according to the benchmark rates announced by the People's Bank of China.

25 BORROWINGS (continued)

(f) The maturities of the Group's total borrowings are set out as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Within 1 year	**13,791,677**	9,640,762
Between 1 and 2 years	**2,683,736**	210,646
Between 2 and 5 years	**263,521**	2,614,216
Wholly repayable within 5 years	**16,738,934**	12,465,624
Over 5 years	**11,542**	11,422
	16,750,476	12,477,046

(g) The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates are as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Within 6 months	**11,726,110**	7,767,315
Between 6 and 12 months	**2,027,109**	1,885,965
Between 1 – 5 years	**2,997,257**	2,823,766
	16,750,476	12,477,046

(h) The carrying amounts of short-term and current borrowings approximate their fair values, as the impact of discounting is not significant.

(i) 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 PROVISIONS

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Legal claims	**75,908**	–

27 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	
	2017	2016
	RMB'000	*RMB'000*
Deferred income tax assets		
– To be recovered after more than 12 months	**245,520**	172,687
– To be recovered within 12 months	**320,744**	295,629
	566,264	468,316
Deferred income tax liabilities		
– To be recovered after more than 12 months	**591,194**	462,468
– To be recovered within 12 months	**28,956**	29,593
	620,150	492,061
Deferred income tax liabilities – net	**(53,886)**	(23,745)

27 DEFERRED INCOME TAX (continued)

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

	For the year ended at 31 December	
	2017	2016
	RMB'000	*RMB'000*
At 1 January	**(23,745)**	(75,875)
Recognised in the consolidated income statements *(Note 37)*	**125,154**	138,151
Disposal of subsidiaries	**17,325**	–
Acquisition of subsidiaries	**(165,476)**	(86,736)
Recognised in equity	**(7,144)**	715
Deferred income tax liabilities – net	**(53,886)**	(23,745)

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 impairment of assets	Termination Benefit obligations	Accruals	Unrealised Profit	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	205,790	6,403	40,282	40,849	22,934	316,258
Acquisition of subsidiaries	11,596	–	–	–	–	11,596
Recognised in the consolidated income statements	81,429	99	4,335	41,814	12,785	140,462
At 31 December 2016	298,815	6,502	44,617	82,663	35,719	468,316
Acquisition of subsidiaries	**14,643**	**–**	**–**	**–**	**–**	**14,643**
Recognised in the consolidated income statements	**(73,706)**	**(3,503)**	**52,347**	**35,892**	**76,402**	**87,432**
Recognised in equity	**–**	**–**	**–**	**–**	**(1,055)**	**(1,055)**
Others	**(2,912)**	**–**	**–**	**–**	**(160)**	**(3,072)**
At 31 December 2017	**236,840**	**2,999**	**96,964**	**118,555**	**110,906**	**566,264**

27 DEFERRED INCOME TAX (continued)

Deferred income tax liabilities

	Fair value adjustments on assets in relation to business combination	Deemed disposal	Fair value gains from available-for-sale financial assets	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	210,281	154,887	11,747	15,218	392,133
Acquisition of subsidiaries	98,332	–	–	–	98,332
Recognised in the consolidated income statements	(24,352)	(3,485)	–	30,148	2,311
Recognised in equity	–	–	(715)	–	(715)
At 31 December 2016	284,261	151,402	11,032	45,366	492,061
Acquisition of subsidiaries	**174,481**	**–**	**–**	**–**	**174,481**
Disposal of subsidiaries	**–**	**–**	**(17,325)**	**–**	**(17,325)**
Recognised in the consolidated income statements	**(25,172)**	**(3,485)**	**–**	**(9,065)**	**(37,722)**
Recognised in equity	**–**	**–**	**7,144**	**–**	**7,144**
Others	**–**	**–**	**–**	**1,511**	**1,511**
At 31 December 2017	**433,570**	**147,917**	**851**	**37,812**	**620,150**

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 RMB343,935,000 (2016: RMB237,580,000) in respect of tax losses amounting to approximately RMB1,375,742,000 (2016: RMB950,320,000) that can be carried forward against future taxable income. Tax losses amounting to approximately RMB62,512,000, RMB162,196,000, RMB209,037,000, RMB304,106,000 and RMB637,890,000 will expire in 2018, 2019, 2020, 2021 and 2022 respectively.

28 OTHER NON-CURRENT LIABILITIES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Medical reserve funds *(a)*	**90,241**	80,641
Project research and development funds *(b)*	**171,841**	144,375
Office and plant relocation funds *(c)*	**323,981**	445,305
Others	**46,895**	42,489
	632,958	712,810

(a) During the years ended 31 December 2017 and 2016, 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 2017 and 2016 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.

29 OTHER LONG-TERM PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Finance lease payables	**28,605**	32,267
Long-term payables for land use rights	**28,585**	29,907
Long-term payables for acquisition of subsidiaries *(a)*	**645,604**	635,831
	702,794	698,005
Less: Long-term payables due within 1 year	**(5,659)**	(5,468)
	697,135	692,537

(a) The Group assumes an obligation of redemption of shares of a subsidiary due to a put option embedded in an agreement entered by the Group and certain shareholders of a subsidiary. The Group is obligated to purchase all or part of the shares held by certain shareholders in its subsidiary at the price specified in the put option. The long-term payables for redemption of shares of a subsidiary is calculated as the present value of the estimated redemption price.

30 TERMINATION BENEFIT OBLIGATIONS

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Termination benefit	**51,866**	61,204

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.

30 TERMINATION BENEFIT OBLIGATIONS (continued)

Movements of the net liability recognised in the consolidated financial statements are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
At beginning of year	**61,204**	64,159
Addition	**40,206**	34,888
Interest expenses	**3,377**	2,325
Benefits paid	**(52,921)**	(40,168)
At end of year	**51,866**	61,204

31 OTHER INCOME

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Government grants *(a)*	**180,470**	277,614
Dividend income from available-for-sale financial assets	**17,270**	16,238
	197,740	293,852

(a) Government grants mainly represented subsidy income received from various government organisations to support the operation of the Group.

32 OTHER GAINS – NET

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Loss of financial assets at fair value through profit or loss, net	**(4,349)**	(79)
Gain on disposals of property, plant and equipment and investment properties	**111,889**	179,346
Loss on disposals of financial assets at fair value through profit or loss	**(555)**	–
Gain on disposals of available-for-sale financial assets	**35,295**	–
Gain/(loss) on disposals of intangible assets and land use right	**10,569**	(337)
Foreign exchange gains/(losses)	**29,899**	(25,868)
Relocation gain *(Note 28 (c))*	**140,812**	4,961
Others – net	**(84,366)**	(20,596)
	239,194	137,427

33 GAINS ON DISPOSAL OF SUBSIDIARIES AND AN ASSOCIATE

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Disposal of subsidiaries	**199,928**	–
Disposal of an associate	**6,895**	–
	206,823	–

33 GAINS ON DISPOSAL OF SUBSIDIARIES AND AN ASSOCIATE (continued)

(a) On 27 December 2017, the Group disposed 100% equity interest in Huashi Asset Management Co., Ltd (上海華氏資產經營有限公司, "Huashi Asset"), one wholly owned subsidiary of the Group, at a consideration of approximately RMB218,100,000.

Net gain before taxation from the disposal of Huashi Asset is analysed as follows:

	RMB'000
Proceeds received from Shanghai Pharma Group	218,100
Less:	
Amounts recognised previously in comprehensive income in relation to Huashi Asset	69,300
Carrying amount of Huashi Asset	(229,980)
	(160,680)
Disposal gain	57,420

(b) On 4 December 2017, the Group disposed 100% equity interest in Chifeng Aijian Real Estate Co., Ltd. (赤峰艾建房地產開發有限公司,"Chifeng Real Estate"), one wholly owned subsidiary of the Group, at a consideration of approximately RMB109,008,000.

Net gain before taxation from the disposal of Chifeng Real Estate is analysed as follows:

	RMB'000
Proceeds received	109,008
Less:	
Carrying amount of Chifeng Real Estate	(24,685)
Disposal gain	84,323

34 EXPENSES BY NATURE

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Raw materials, merchandise and consumables used	**111,938,838**	105,262,621
Changes in inventories of finished goods and work in progress	**(212,763)**	(820,039)
Employee benefit expenses *(Note 35)*	**5,440,361**	4,723,145
Promotion and advertising costs	**1,953,030**	1,412,872
Travelling and meeting expenses	**1,502,169**	1,231,164
Depreciation of PP&E *(Note 9)*	**709,139**	604,710
Transportation costs	**622,652**	524,736
Real estate tax, stamp duties and other taxes	**392,974**	459,618
Operating lease rentals	**497,572**	424,630
(Reversal)/Provision for impairment of trade and other receivables, net *(Note 18)*	**(64,312)**	377,390
Provision for impairment of property, plant and equipment *(Note 9)*	**23,294**	4,817
Provision for impairment of investment properties *(Note 8)*	**575**	–
Provision for impairment of of goodwill *(Note 10)*	**52,694**	–
Energy and utilities	**299,691**	247,770
Repair and maintenance fee	**331,856**	251,754
Office expenditures	**214,837**	199,315
Amortisation of intangible assets *(Note 10)*	**175,008**	174,341
Write-down of inventories to net realisable value	**68,944**	64,137
Amortisation of land use rights *(Note 7)*	**38,059**	32,978
Auditor's remuneration		
– Audit services	**20,874**	20,874
– Non – Audit services	**8,260**	1,123
Depreciation of investment properties *(Note 8)*	**12,160**	12,015
Others	**2,143,700**	1,774,950
Total cost of sales, distribution and selling expenses and general and administrative expenses	**126,169,612**	116,984,921

35 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Wages and salaries	**4,019,089**	3,454,167
Contributions to pension plans *(Note (a))*	**503,831**	409,164
Housing fund, medical insurance and other social insurance *(Note (b))*	**542,439**	497,050
Others	**375,002**	362,764
Total including directors' emoluments	**5,440,361**	4,723,145

(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 12% to 20% 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 12% 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.

35 EMPLOYEE BENEFIT EXPENSES (continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2016: one) directors whose emoluments for the year have been included in Note 47. The emoluments payable to the five highest individuals for the year are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Salaries and fee	**4,998**	4,720
Bonuses	**8,774**	9,485
Employer's contribution to pension scheme and others	**390**	294
	14,162	14,499

The emoluments fell within the following bands:

	Year ended 31 December	
	2017	2016
	Number	*Number*
Emolument bands (in HKD)		
HKD2,500,001 – HKD3,000,000	**2**	1
HKD3,000,001 – HKD3,500,000	**–**	3
HKD3,500,001 – HKD4,000,000	**3**	1

(d) In 2017 and 2016, 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.

36 FINANCE INCOME AND COSTS

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Interest income	**161,393**	171,997
Total finance income	**161,393**	171,997
Interest expenses on borrowings	**(684,164)**	(506,324)
Interest expenses on notes and receivables discounted	**(191,579)**	(138,732)
Other gain/(loss)	**46,042**	(52,428)
Finance costs	**(829,701)**	(697,484)
Net finance costs	**(668,308)**	(525,487)

37 TAXATION

(a) Income tax expense

The amounts of income tax expenses charged to the consolidated income statements represent:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current income tax	**1,272,183**	947,435
Deferred income tax *(Note 27)*	**(125,154)**	(138,151)
	1,147,029	809,284

37 TAXATION (continued)

(a) Income tax expense (continued)

(i) Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the year.

Australia profits tax has been provided at the rate of 30% (2016: 30%) on the estimated assessable profit for the year.

New Zealand profits tax has been provided at the rate of 28% (2016: 28%) on the estimated assessable profit for the year.

(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 2017, 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 Pharmaceuatical Co., Ltd., Liaoning SPH Herbapex Pharmaceutical (group) Co., Ltd., Chiatai Qingchunbao Pharmaceuticals 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., Shanghai Changcheng Pharmacutical Co., Ltd., Shanghai Sine Tianping Pharmaceutical Co., Ltd., Shanghai Sine Jinzhu Pharmaceutical Co., Ltd.,Shanghai Medical Instrument Co.,Ltd., Shanghai Sine Yan'an Pharmaceutical Co., Ltd., Shanghai New Asiatic Medicine Industry Minhang Co., Ltd. were approved by relevant local tax authorities as the High-technological Enterprise, and enjoyed a preferential CIT rate of 15% for 2016 and 2017.

Notes to the Consolidated Financial Statements

37 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	
	2017	2016
	RMB'000	*RMB'000*
Profit before income tax	**5,204,808**	4,638,996
Tax calculated at the domestic CIT rate applicable	**1,301,202**	1,159,749
Income not subject to taxation	**(143,333)**	(245,259)
Cost not deductible for taxation purposes	**96,828**	54,845
Preferential tax rate of certain subsidiaries	**(220,662)**	(218,640)
Utilisation of tax losses for which no deferred income tax asset was recognised	**(46,478)**	(19,933)
Tax losses for which no deferred income tax asset was recognised	**159,472**	78,522
Income tax expenses	**1,147,029**	809,284
Effective tax rate	**22.0%**	17.4%

37 TAXATION (continued)

(a) Income tax expense (continued)

(iii) (continued)

The tax charge relating to component of other comprehensive income is as follows:

	Year ended 31 December					
	2017			2016		
	Before tax	**Tax charge**	**After tax**	Before tax	Tax charge	After tax
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale financial assets	**(80,784)**	**10,181**	**(70,603)**	(9,961)	715	(9,246)
Currency translation differences, net	**(21,506)**	**–**	**(21,506)**	(11,846)	–	(11,846)
Others	**(426)**	**–**	**(426)**	381	–	381
	(102,716)	**10,181**	**(92,535)**	(21,426)	715	(20,711)
Current tax		**–**			–	
Deferred tax *(Note 27)*		**10,181**			715	
		10,181			715	

(b) 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.

38 EARNINGS PER SHARE

For years ended 31 December 2017 and 2016, 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	
	2017	2016
Profit attributable to equity holders of the Company *(RMB'000)*	**3,520,644**	3,196,394
Number of ordinary shares *(thousands)*	**2,688,910**	2,688,910
Basic earnings per share *(RMB)*	**1.31**	1.19

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.

39 DIVIDENDS

The dividends paid in 2017 and 2016 were approximately RMB968,008,000 (RMB0.36 per share) and RMB887,340,000 (RMB0.33 per share) respectively. A dividend in respect of the year ended 31 December 2017 of RMB0.38 per share, amounting to a total dividend of approximately RMB1,079,994,000, 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	
	2017	2016
	RMB'000	*RMB'000*
Proposed final dividend of RMB0.38 (2016: RMB0.36) per share	**1,079,994**	968,008

40 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(i) Cash generated from operations

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit before income tax	**5,204,808**	4,638,996
Adjustments for:		
– Share of profit from associates	**(339,353)**	(528,240)
– Share of profit from jointly controlled entities	**(212,439)**	(425,225)
– Depreciation of PP&E and investment properties	**721,299**	616,725
– Amortisation of land use rights and intangible assets	**213,067**	207,319
– Financial assets at fair value through profit or loss	**4,349**	79
– Gain on disposals of financial assets at fair value	**555**	–
– Gain on disposals of		
– PP&E and investment properties	**(111,889)**	(179,346)
– land use rights and intangible assets	**(10,569)**	337
– investment in subsidiaries and an associate	**(206,823)**	–
– available-for-sale financial assets	**(35,295)**	–
– Provisions for impairment of		
– trade and other receivables	**(64,312)**	377,390
– inventories	**68,944**	64,137
– PP&E	**23,294**	4,817
– Goodwill	**52,694**	–
– Investment properties	**575**	–
– Dividend income on available-for-sale financial assets	**(17,270)**	(16,238)
– Financial cost – net	**714,350**	473,059
– Foreign exchange gain and loss – net	**18,779**	2,640
– Gain on relocation	**–**	(4,961)
– Other (gains)/losses – others, net	**(86,346)**	38,863
	5,938,418	5,270,352
Changes in working capital:		
– Inventories	**(422,992)**	(942,672)
– Trade and other receivables and other current assets	**(2,776,644)**	(3,093,521)
– Trade and other payables and other current liabilities	**656,185**	1,852,738
– Restricted cash	**(3,266)**	(304,449)
Cash generated from operations	**3,391,701**	2,782,448

40 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	
	2017	2016
	RMB'000	*RMB'000*
Net book amount *(Note 8 and 9)*	**36,188**	63,423
Gain on disposal *(Note 32)*	**111,889**	179,346
	148,077	242,769
Receivables in respect of disposal of PP&E and investment property	**–**	(32,516)
Cash receipt in prior year in respect of disposal of PP&E in current year	**(71,863)**	(145,815)
Receipt of proceeds from disposal of PP&E and investment properties in prior year	**32,516**	151,533
Proceeds from disposal	**108,730**	215,971

(iii) In the cash flow statements, proceeds from disposals of land use rights and intangible assets (excluding goodwill) comprise:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Net book amount *(Note 7 and 10)*	**62,536**	556
Gain on disposal *(Note 32)*	**10,569**	(337)
	73,105	219
Cash receipt in prior year in respect of land use right and intangible assets	**(62,051)**	–
Proceeds from disposal	**11,054**	219

40 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	
	2017	2016
	RMB'000	*RMB'000*
Net book amount *(Note 14)*	**65,971**	–
Gain on disposal	**10,778**	–
	76,749	–

(v) In the cash flow statements, proceeds from disposals of subsidiaries and an associate:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Net book amount *(Note 13)*	**202,656**	–
Gain on disposal *(Note 33)*	**206,823**	–
	409,479	–
Cash and cash equivalents in subsidiaries and an associate disposed	**(144,071)**	12,396
Receivable in respect of disposal of a subsidiary	**(24,920)**	–
Proceeds from disposal	**240,488**	12,396

40 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(vi) Total borrowings reconciliation

This section sets out an analysis of total borrowings and the movements in total borrowings for each of the periods presented.

Total borrowings	**Year ended 31 December**	
	2017	2016
	RMB'000	*RMB'000*
Other payables – Borrowings from other companies	**653,420**	–
Borrowings – repayable within one year	**13,791,677**	9,640,762
Borrowings – repayable after one year	**2,958,799**	2,836,284
Total borrowings	**17,403,896**	12,477,046

	Borrowings	**Interests bearing payables**
Total borrowings as at 31 December 2016	12,477,046	–
Cash flows	3,840,647	663,970
Foreign exchange adjustments		(10,550)
Other non-cash movements	432,783	–
Total borrowings as at 31 December 2017	16,750,476	653,420

41 CONTINGENCIES AND GUARANTEES

(a) As of 31 December 2017, the Group has no significant legal claims.

(b) Outstanding loan guarantees

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Outstanding loan guarantees provided to third parties	**–**	30,000
Outstanding loan guarantees provided to related parties	**5,463**	22,636
	5,463	52,636

As of 31 December 2017, outstanding loan guarantees of approximately RMB5,463,000 (2016: RMB23,126,000) are provided by the Group to certain related parties of the Group (Note 45(d)).

The directors of the Company consider that these related parties have sufficient finance to settle their obligations and thus has not made any provision for the outstanding balance of the guarantees.

42 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	
	2017	2016
	RMB'000	*RMB'000*
PP&E	**520,097**	484,513

(ii) *Acquisition of equity interests*

Pursuant to the agreement entered into between the Group and Cardinal Health Cayman Islands Ltd., a wholly owned subsidiary of Cardinal Health, Inc., on 15 November 2017, the Group will acquire 100% equity interest of Cardinal Health (L) Co., Ltd. at a consideration of approximate USD557,000,000. As at 31 December 2017, the Group had not paid any cash consideration in respect of the acquisition of Cardinal Health (L) Co., Ltd. As at 31 December 2017, the above-mentioned transaction was not completed.

42 COMMITMENTS (continued)

(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	
	2017	2016
	RMB'000	*RMB'000*
No later than 1 year	**293,565**	265,382
Later than 1 year and no later than 2 years	**217,335**	183,501
Later than 2 years and no later than 5 years	**266,043**	284,359
Later than 5 years	**172,652**	156,537
	949,595	889,779

(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	
	2017	2016
	RMB'000	*RMB'000*
No later than 1 year	**57,239**	60,103
Later than 1 year and no later than 2 years	**43,565**	36,892
Later than 2 years and no later than 5 years	**73,452**	53,585
Later than 5 years	**72,861**	51,057
	247,117	201,637

42 COMMITMENTS (continued)

(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 2017, the Company has already paid Fudan Zhangjiang research and development cost of approximately RMB170,613,000. As at 31 December 2017, the total amount of the research and development cost contracted but not yet incurred by the Group was up to approximately RMB9,387,000 according to the Agreement.

43 SIGNIFICANT TRANSACTIONS WITH NON-CONTROLLING INTERESTS

(a) Significant transactions with non-controlling shareholders of certain subsidiaries relate to acquisition of additional interest in subsidiaries as follows:

(i) Capital injection in SPH Guangdong Pharmaceutical Co., Ltd (上藥控股廣東有限公司, "SPH Guangdong")

In January 2017, the Group acquired additional 31.59% equity interests of SPH Guangdong at a purchase consideration of approximately RMB149,358,000 ("the Acquisition"). The carrying amount of the non-controlling interests in SPH Guangdong of the Acquisition was approximately RMB101,494,000. The Group recognised a decrease in non-controlling interests of approximately RMB101,494,000 and a decrease in equity attributable to owners of the SPH Guangdong of approximately RMB47,864,000. The effect of changes in ownership interests of SPH Guangdong on the equity attributable to owners of the SPH Guangdong during the year is summarised as follows:

	2017 ***RMB'000***
Consideration for acquisition of non-controlling interests	**149,358**
Carrying amount of non-controlling interests	**(101,494)**
Excess of consideration paid recognised within equity	**47,864**

(ii) Other transactions with non-controlling shareholders of certain subsidiaries

	2017 ***RMB'000***
Aggregate consideration for acquisition of non-controlling interests	**12,138**
Aggregate carrying amount of non-controlling interests	**(4,980)**
Excess of consideration paid recognised within equity	**7,158**

44 BUSINESS COMBINATION

Significant business combinations not under common control

(i) In February 2017, the Group acquired 99.546% equity interests in SPH Xuzhou Pharmaceutical Co., Ltd ("SPH Xuzhou") from an independent third party, and consequently the Group effectively obtained the right to control its pharmaceutical business and consolidated it into the consolidated financial statements.

As a result of the acquisition, the Group is expected to increase its market share. The goodwill of RMB337,434,000 arising from the acquisition is attributable to the acquired noncontractual customer relationship and economics of scale expected from combining the operations of the Group and SPH Xuzhou. 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 RMB579,480,000, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

Consideration	**SPH Xuzhou** *RMB'000*
Cash	579,480
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	83,605
Restricted Cash	103,100
PP&E	341,166
Land use rights	42,621
Intangible assets	22,004
Inventories	146,178
Deferred income tax assets	6,313
Trade and other receivables and other current assets	1,129,943
Available-for-sale financial assets	200
Long-term investment	22,463
Other non-current Assets	10,573
Deferred income tax liabilities	(51,070)
Trade and other payables and other current liabilities	(1,325,476)
Current income tax liabilities	(9,327)
Borrowings	(245,000)
Other non-current Liabilities	(34,144)
Total identifiable net assets	243,149
Non-controlling interests	(1,103)
Goodwill	337,434
	579,480

44 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 2017:

	RMB'000
Total cash consideration	**579,480**
Less: cash and cash equivalents in the subsidiaries acquired	**(83,605)**
Cash outflows from the acquisitions	**495,875**

The revenue and profit for the year included in the consolidated income statement since the acquisition date contributed by the above mentioned entities was approximately RMB1,809,703,000 and RMB36,920,000 respectively. Had the acquisitions occurred on 1 January 2017, the Group's revenue and profit for the year would have been increased by approximately RMB211,376,000 and RMB6,781,000 respectively.

44 BUSINESS COMBINATION (continued)

Significant business combinations not under common control (continued)

(ii) In July 2017, the Group acquired 51% equity interests in SPH Sichuan Pharmaceutical Co., Ltd ("SPH Sichuan") from an independent third party, and consequently the Group effectively obtained the right to control its pharmaceutical business and consolidated it into the consolidated financial statements.

As a result of the acquisition, the Group is expected to increase its market share. The goodwill of RMB97,087,000 arising from the acquisition is attributable to the acquired noncontractual customer relationship and economics of scale expected from combining the operations of the Group and SPH Sichuan. 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 RMB297,060,000, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

Consideration	**SPH Sichuan** *RMB'000*
Cash	297,060
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	307,119
Restricted Cash	861
PP&E	11,585
Intangible assets	26,960
Inventories	44,116
Deferred income tax assets	661
Trade and other receivables and other current assets	152,489
Deferred income tax liabilities	(7,618)
Trade and other payables and other current liabilities	(129,763)
Current income tax liabilities	(6,821)
Borrowings	(7,486)
Total identifiable net assets	392,103
Non-controlling interests	(192,130)
Goodwill	97,087
	297,060

44 BUSINESS COMBINATION (continued)

Significant business combinations not under common control (continued)

(ii) (continued)

The following table summarized the cash outflows from the above Acquisition for the year ended 31 December 2017:

	RMB'000
Total cash consideration	**297,060**
Less: cash and cash equivalents in the subsidiary acquired	**(307,119)**
Cash outflows from the acquisitions	**(10,059)**

The revenue and profit for the year included in the consolidated income statement since the acquisition date contributed by the above mentioned entities was approximately RMB250,324,000 and RMB9,758,000 respectively. Had the acquisitions occurred on 1 January 2017, the Group's revenue and profit for the year would have been increased by approximately RMB344,812,000 and RMB7,827,000 respectively.

45 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.

45 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

Name of related party	Nature of relationship
Shanghai Industrial Investment (Holding) Co., Ltd (上海實業(集團)有限公司)	Ultimate holding company
Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司)	Immediate holding company
Shanghai Shangshi (Group) Co., Ltd (上海上實(集團)有限公司)	Intermediate 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 Overseas United Investment Co., Ltd (上海海外聯合投資股份有限公司)	Controlled by Shanghai Industrial 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 Bracco Sine Pharmaceutical Corp., Ltd. (上海博萊科信誼藥業有限責任公司)	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 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
Hangzhou Huqingyutang Medicinal Planting Co., Ltd. (杭州胡慶餘堂藥材種植有限公司)	Associate
Chongqing Medicines Shanghai Pharma Sales Co., Ltd. (重慶醫藥上海藥品銷售有限責任公司)	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
Shanghai Deyi Pharmaceutical Co., Ltd. (上海得一醫藥有限公司)	Former associate

45 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 2017 and 2016, 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	
	2017	2016
	RMB'000	*RMB'000*
Sales of goods and render of services		
Jiangxi Nanhua Medicines Co., Ltd.	**2,121,350**	1,931,766
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	**91,679**	61,188
Shanghai Hutchison Pharmaceutical Co., Ltd.	**90,338**	80,757
Liaoning International Pharmaceutical Trading Co., Ltd.	**80,033**	92,804
Shanghai Luoda Pharmaceutical Co., Ltd.	**61,425**	136,930
Shanghai lvyuan Pharmacy Co., Ltd.	**24,389**	36,221
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	**14,871**	13,981
Shanghai Huaren Pharmaceutical Co., Ltd.	**6,398**	6,863
Shanghai Deyi Pharmaceutical Co., Ltd.	**–**	61,981
Others	**22,153**	14,261
	2,512,636	2,436,752

45 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(a) Significant transactions with related parties except for other government-related enterprises (continued)

	Year end 31 December	
	2017	2016
	RMB'000	*RMB'000*
Purchase of goods and services		
Shanghai Roche Pharmaceutical Co., Ltd.	**2,797,568**	2,689,391
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	**557,569**	877,485
TECHPOOL Bio-Pharma Co., Ltd.	**139,085**	122,023
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	**126,617**	64,668
Shanghai Hutchison Pharmaceutical Co., Ltd.	**69,756**	150,002
Shanghai Luoda Pharmaceutical Co., Ltd.	**31,630**	50,514
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	**25,667**	32,268
Shanghai Huaren Pharmaceutical Co., Ltd.	**25,337**	31,512
Hangzhou Huqingyutang Medicinal Planting Co., Ltd.	**13,905**	11,282
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	**13,037**	11,945
Shanghai Deyi Pharmaceutical Co., Ltd.	**–**	28,597
Others	**7,325**	3,716
	3,807,496	4,073,403

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Rental income		
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	**8,656**	10,424
Shanghai Hutchison Pharmaceutical Co., Ltd.	**2,034**	2,034
Shanghai Pharma Group	**2,028**	–
	12,718	12,458

45 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(a) Significant transactions with related parties except for other government-related enterprises (continued)

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Rental expense		
Shanghai Pharma Group	**20,507**	23,358
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	**13,346**	15,694
Shanghai Indu-Land Property Co., Ltd.	**7,283**	5,416
	41,136	44,468

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
R&D expenditure		
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	**13,609**	21,256

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 2017, the Company has paid Fudan Zhangjiang research and development cost of approximately RMB13,609,000. Up to 31 December 2017, the Group has cumulatively paid approximately RMB170,613,000 to Fudan Zhangjiang with respect to the Agreements.

45 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(a) Significant transactions with related parties except for other government-related enterprises (continued)

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Interest income		
Shanghai Industrial Group Finance Co., Ltd.	**3,811**	1,800
Interest expense		
Shanghai Industrial Group Finance Co., Ltd.	**61,157**	52,287
Shanghai Industrial Group	**2,409**	–
	63,566	52,287

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Net Increase of the deposit balance		
Shanghai Industrial Group Finance Co., Ltd.	**8,424**	1,007,891
Loan received from related parties		
Shanghai Industrial Group Finance Co., Ltd.	**1,706,749**	1,150,500
Shanghai Industrial Group	**663,970**	–
	2,370,719	1,150,500

45 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(a) Significant transactions with related parties except for other government-related enterprises (continued)

	Year ended 31 December	
	2017	2017
	RMB'000	*RMB'000*
Loan repayment to related parties		
Shanghai Industrial Group Finance Co., Ltd.	**(1,798,749)**	(1,217,200)
Discount of bank acceptance notes		
Shanghai Industrial Group Finance Co., Ltd.	**392,627**	169,173
Factoring of trade receivables		
Shanghai Industrial Group Finance Co., Ltd.	**101,751**	40,000

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Loan to related parties		
Shanghai Huaren Pharmaceutical Co., Ltd.	**1,500**	1,500
Repayment received from related parties		
Shanghai Huaren Pharmaceutical Co., Ltd.	**1,500**	1,500

Notes to the Consolidated Financial Statements

45 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(b) Key management compensation

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Salaries	**6,942**	5,351
Bonuses	**12,653**	7,918
Pensions and others	**856**	654
	20,451	13,923

(c) Significant balances with related parties except for other government-related enterprises

Amount due from related parties:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**694,530**	526,276
Other receivables	**46,477**	21,198
Prepayments	**4,279**	2,576
Dividends receivable	**94,748**	2,606
	840,034	552,656

45 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(c) Significant balances with related parties except for other government-related enterprises (continued)

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables due from		
Jiangxi Nanhua Medicines Co., Ltd.	**603,008**	407,746
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	**27,530**	16,493
Shanghai Hutchison Pharmaceutical Co., Ltd.	**21,727**	12,029
Liaoning International Pharmaceutical Trading Co., Ltd.	**18,838**	33,948
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	**8,788**	5,462
Shanghai Luoda Pharmaceutical Co., Ltd.	**3,702**	24,923
Shanghai lvyuan Pharmacy Co., Ltd.	**2,989**	5,150
Shanghai Huaren Pharmaceutical Co., Ltd.	**1,433**	1,371
Shanghai Deyi Pharmaceutical Co., Ltd.	**–**	12,421
Others	**6,515**	6,733
	694,530	526,276
Less: Provision for impairment	**(7,461)**	(6,595)
	687,069	519,681

45 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(c) Significant balances with related parties except for other government-related enterprises (continued)

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Other receivables due from		
Shanghai Roche Pharmaceutical Co., Ltd.	**23,689**	11,262
Shanghai Overseas United Investment Co., Ltd.	**13,297**	–
Shanghai Huaren Pharmaceutical Co., Ltd.	**1,500**	1,500
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd.	**1,461**	1,988
Others	**6,530**	6,448
	46,477	21,198
Less: Provision for impairment	**(7,391)**	(7,507)
	39,086	13,691

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	
	2017	2016
	RMB'000	*RMB'000*
Less than 3 months	**703,852**	523,165
3 months to 6 months	**12,564**	11,864
6 months to 12 months	**13,317**	873
1 year to 2 years	**9**	301
Over 2 years	**11,265**	11,271
	741,007	547,474

45 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(c) Significant balances with related parties except for other government-related enterprises (continued)

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Prepayments due from		
Jiangxi Nanhua Medicines Co., Ltd.	**2,318**	–
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	**–**	2,436
Others	**1,961**	140
	4,279	2,576

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Dividends receivable		
Sino-American Shanghai Squibb Pharmaceuticals Ltd	**93,298**	–
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	**1,450**	1,350
Shanghai Luoda Pharmaceutical Co., Ltd.	**–**	1,256
	94,748	2,606

Amount due to related parties:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade Payables	**357,307**	562,130
Other Payables	**708,495**	16,469
Advances	**379**	61
Dividends Payable	**8,079**	8,079
Interests Payable	**3,880**	1,133
	1,078,140	587,872

45 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(c) Significant balances with related parties except for other government-related enterprises (continued)

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade payables due to		
Shanghai Roche Pharmaceutical Co., Ltd.	**248,572**	365,420
TECHPOOL Bio-Pharma Co., Ltd.	**45,741**	67,094
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	**36,255**	54,956
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	**8,035**	6,582
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	**6,643**	2,269
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	**5,317**	11,661
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	**2,614**	2,203
Shanghai Luoda Pharmaceutical Co., Ltd.	**1,186**	10,913
Shanghai Huaren Pharmaceutical Co.,Ltd	**895**	9,605
Shanghai Hutchison Pharmaceutical Co., Ltd.	**255**	23,824
Shanghai Deyi Pharmaceutical Co., Ltd.	**–**	4,888
Others	**1,794**	2,715
	357,307	562,130

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Other payables due to		
Shanghai Industrial Group	**653,420**	–
Shanghai Shangshi (Group) Co., Ltd	**39,200**	–
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	**9,324**	9,066
Shanghai Pharma Group	**4,000**	3,928
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd.	**2,135**	2,135
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	**287**	291
Hangzhou Huqingyutang Medicinal Planting Co.,Ltd.	**–**	1,000
Others	**129**	49
	708,495	16,469

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.

45 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	
	2017	2016
	RMB'000	*RMB'000*
Less than 3 months	**1,004,777**	523,865
3 months to 6 months	**701**	37,909
6 months to 12 months	**42,222**	1,150
1 year to 2 years	**3,925**	2,800
Over 2 years	**14,177**	12,875
	1,065,802	578,599

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Advances due to		
Liaoning International Pharmaceutical Trading Co., Ltd.	**241**	–
Jilin Yatai Huashi Pharmaceutical Co. Ltd.	**99**	22
Others	**39**	39
	379	61

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Dividends payable		
Shanghai Pharma Group	**8,000**	8,000
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	**79**	79
	8,079	8,079

45 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(c) Significant balances with related parties except for other government-related enterprises (continued)

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Interests payable		
Shanghai Shangshi (Group) Co., Ltd.	**2,384**	–
Shanghai Industrial Group Finance Co., Ltd	**1,496**	1,133
	3,880	1,133

Cash at bank and borrowings due from/to related parties:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current borrowings		
Shanghai Industrial Group Finance Co., Ltd	**1,058,500**	1,150,500
Cash at bank		
Shanghai Industrial Group Finance Co., Ltd	**1,991,934**	1,983,510

(d) Significant guarantees with related parties except for other government-related enterprises

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Outstanding loan guarantees provided by the Group to		
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	**5,463**	8,126
Shanghai Luoda Pharmaceutical Co., Ltd.	**–**	15,000
	5,463	23,126

45 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(d) Significant guarantees with related parties except for other government-related enterprises (continued)

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Outstanding loan guarantees given to the Group by		
Shanghai Industrial Group Finance Co., Ltd	**12,000**	75,000
Shanghai Pharma Group	**700**	1,430
	12,700	76,430

(e) Other transactions with related party

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Subsidiary disposed by the Group to *(Note 33)*		
Shanghai Pharma Group	**218,100**	–

Notes to the Consolidated Financial Statements

46 SUBSEQUENT EVENTS

(a) Business Combination

On 2 February 2018, the Group acquired 100% equity interests in Cardinal Health (L) Co., Ltd., a group of companies specialising in the pharmaceutical distribution, from a wholly owned subsidiary of Cardinal Health, Inc. for cash consideration of approximately USD$557,000,000. The financial effects of this transaction have not been recognised at 31 December 2017. The operating results and assets and liabilities of the acquired company will be consolidated from 2 February 2018.

At the time the financial statements were authorised for issue, the group had not yet completed the accounting for the acquisition of Cardinal Health (L) Co., Ltd.. The fair values of the assets and liabilities of Cardinal Health (L) Co., Ltd. have not been disclosed as the independent valuations have not been finalised. It is also not yet possible to provide detailed information about the acquisition-related costs and any contingent liabilities of the acquired entity.

(b) The issue of the placing shares

On January 2018, an aggregate of 153,178,784 new H Shares have been successfully allotted and issued by the Company at the Placing Price of HKD$20.43 per H Share to no less than six and no more than ten Placees, who and whose ultimate beneficial owners are third parties independent of and not connected with the Company.The aggregate gross proceeds from the Placing are approximately HK$3,129.44 million and the aggregate net proceeds (after deducting all applicable costs and expenses, including commission and legal fees) from the Placing are approximately HK$3,116.79 million. The number of total issued shares of the Company has increased from 2,688,910,538 shares to 2,842,089,322 shares as a result of the issue of the Placing Shares.

47 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

COMPANY BALANCE SHEET

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
Assets			
Non-current assets			
Land use rights		**25,730**	26,465
Property, plant and equipment		**88,154**	98,012
Intangible assets		**56,949**	29,495
Investments in subsidiaries		**17,873,094**	16,847,094
Investments in associates		**1,542,009**	1,049,912
Available-for-sale financial assets		**213**	20,805
		19,586,149	18,071,783
Current assets			
Trade and other receivables and other current assets		**7,339,806**	7,163,166
Cash and cash equivalents		**1,667,209**	2,559,202
		9,007,015	9,722,368
Total assets		**28,593,164**	27,794,151
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)*	**960,759**	869,378
Retained earnings	*Note (a)*	**1,325,652**	1,250,722
Total equity		**21,382,075**	21,215,764

47 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (continued)

COMPANY BALANCE SHEET (continued)

		As at 31 December	
	Note	**2017**	2016
		RMB'000	RMB'000
Liabilities			
Non-current liabilities			
Borrowings		**1,999,257**	1,998,592
Deferred income tax liabilities		**5,860**	10,661
Other non-current liabilities		**43,551**	30,481
		2,048,668	2,039,734
Current liabilities			
Trade and other payables and other current liabilities		**3,062,421**	2,938,653
Borrowings		**2,100,000**	1,600,000
		5,162,421	4,538,653
Total liabilities		**7,211,089**	6,578,387
Total equity and liabilities		**28,593,164**	27,794,151

47 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (continued)

(a) Share premium, other reserves and retained earnings

	Share premium RMB'000	Statutory reserves RMB'000	Available-for-sale financial Assets RMB'000	Others RMB'000	Retained earnings RMB'000
At 1 January 2016	16,406,754	717,471	20,004	17,579	1,245,886
Comprehensive income					
Profit for the year	–	–	–	–	1,009,327
Other comprehensive income					
Appropriation to statutory reserves	–	117,151	–	–	(117,151)
Available-for-sale financial assets					
– Gross	–	–	(3,769)	–	–
– Tax	–	–	942	–	–
Dividends	–	–	–	–	(887,340)
At 31 December 2016	16,406,754	834,622	17,177	17,579	1,250,722
Comprehensive income					
Profit for the year	**–**	**–**	**–**	**–**	**1,148,725**
Other comprehensive income					
Appropriation to statutory reserves	**–**	**105,787**	**–**	**–**	**(105,787)**
Available-for-sale financial assets	**–**				
– Gross	**–**	**–**	**(19,208)**	**–**	**–**
– Tax	**–**	**–**	**4,802**	**–**	**–**
Others	**–**	**–**	**–**	**–**	**–**
Dividends	**–**	**–**	**–**	**–**	**(968,008)**
At 31 December 2017	**16,406,754**	**940,409**	**2,771**	**17,579**	**1,325,652**

48 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 2017 is set out below:

Name	Salaries *RMB'000*	Bonuses *RMB'000*	Pensions *RMB'000*	Total *RMB'000*
Directors				
Mr. Zhou Jun	–	–	–	–
Mr. Cho Man (also the CEO)	**1,100**	**1,932**	**3**	**3,035**
Mr. Li Yongzhong	**950**	**1,983**	**98**	**3,031**
Mr. Shen Bo	**800**	**1,529**	**110**	**2,439**
Ms. Li An	–	–	–	–
Mr. Wan Kam To	**250**	–	–	**250**
Mr. Tse Cho Che	**230**	–	–	**230**
Mr. Cai Jiangnan	**200**	–	–	**200**
Mr. Hong Liang	**230**	–	–	**230**
Supervisors				
Mr. Xu Youli	–	–	–	–
Ms. Chen Xin	–	–	–	–
Mr. Xin Keng	–	–	–	–
	3,760	**5,444**	**211**	**9,415**

48 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 2016 is set out below:

Name	Salaries *RMB'000*	Bonuses *RMB'000*	Pensions *RMB'000*	Total *RMB'000*
Directors				
Mr. Zhou Jun *(a)*	–	–	–	–
Mr. Cho Man (also the CEO)	1,000	1,916	–	2,916
Mr. Li Yongzhong *(b)*	475	–	53	528
Mr. Shen Bo *(b)*	700	1,373	103	2,176
Ms. Li An *(b)*	–	–	–	–
Mr. Wan Kam To	250	–	–	250
Mr. Tse Cho Che	230	–	–	230
Mr. Cai Jiangnan *(b)*	100	–	–	100
Mr. Hong Liang *(b)*	115	–	–	115
Mr. Lou Dingbo *(c)*	–	–	–	–
Mr. Zhou Jie *(d)*	–	–	–	–
Mr. Hu Fengxiang *(e)*	–	–	–	–
Mr. Jiang Ming *(e)*	–	–	–	–
Mr. Chen Naiwei *(e)*	115	–	–	115
Mr. Li Zhenfu *(e)*	100	–	–	100
Supervisors				
Mr. Xu Youli *(b)*	–	–	–	–
Ms. Chen Xin	–	–	–	–
Mr. Xin Keng	–	–	–	–
Mr. He Chuan *(e)*	–	–	–	–
	3,085	3,289	156	6,530

(a) Appointed on 20 October 2016

(b) Appointed on 28 June 2016

(c) Retired on 5 May 2016

(d) Retired on 25 August 2016

(e) Retired on 28 June 2016

49 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

As at 31 December 2017, the Company has direct and indirect interests in the following subsidiaries:

Principal subsidiaries

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital *RMB'000*	Share percentage held by the Company *Direct %*	Share percentage held by the Company *Indirect %*	Principal activities and place of operations
Shanghai Pharmaceutical Co., Ltd. (上藥控股有限公司)	PRC, 26 April 2010	4,093,128	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	808,470	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

49 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 *RMB'000*	Share percentage held by the Company *Direct %*	Share percentage held by the Company *Indirect %*	Principal activities and place of operations
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	135,000	–	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	101,390	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	96.90	–	Medicine manufacture and trading in the PRC

49 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 *RMB'000*	Share percentage held by the Company *Direct %*	Share percentage held by the Company *Indirect %*	Principal activities and place of operations
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. (上藥鈴謙滬中(上海)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.

49 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 *RMB'000*	Share percentage held by the Company *Direct %*	Share percentage held by the Company *Indirect %*	Principal activities and place of operations
Shanghai Wai Gao Qiao Pharmaceutical Business and Distribution Center (上海外高橋醫藥分銷中心有限公司)	RPC, 9 August 2001	50,000	–	65	Distribution of pharmaceutical products in the PRC
Shanghai Sifu Pharmaceutical Co., Ltd. (上藥思富(上海)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	–	100	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	–	59.03	Medicine manufacture in the PRC
Shanghai Pharmaceutical Qingdao Huashi Growful Pharmaceutical Co., Ltd. (上藥控股青島有限公司)	PRC, 27 September 2003	76,667	–	67.39	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

49 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 *RMB'000*	Share percentage held by the Company *Direct %*	Share percentage held by the Company *Indirect %*	Principal activities and place of operations
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. (上藥控股廣東有限公司)	PRC, 8 January 1998	76,880	–	82.59	Pharmaceutical products trading in the PRC
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. (上藥控股江蘇股份有限公司)	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	–	72.75	Pharmaceutical products trading in the PRC

49 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 *RMB'000*	Share percentage held by the Company *Direct %*	Share percentage held by the Company *Indirect %*	Principal activities and place of operations
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	–	90.25	Pharmaceutical products manufacture and trading 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
Zeus Investment Limited	Hongkong, 24 Aug 2016	AUD316,920	–	59.61	Investment holding practices in Australia
SPH (benxi) North Pharmaceutical Co., Ltd. (上海醫藥集團(本溪)北方藥業有限公司)	PRC, 22 November 2014	333,500	100	–	Development, manufacture and distribution of medicine in the PRC

49 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

Principal jointly controlled entities and associates

As at 31 December 2017, 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 paid up capital/ registered capital *RMB'000*	Share percentage held by the Company *Direct %*	Share percentage held by the Company *Indirect %*	Principal activities and place of operations
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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