上海医药
SHANGHAI PHARMA

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

Annual Report 2018

* 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 twenty-first meeting of the sixth session of the board of directors aimed at approving the Annual Result for the year ended 31 December 2018 and convened on 28 March 2019.**

III. **PricewaterhouseCoopers Zhong Tian LLP (special general partnership) 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 RMB4.10 (tax inclusive) for every ten shares based on the total share capital of the Company as at the record 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 2018.

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

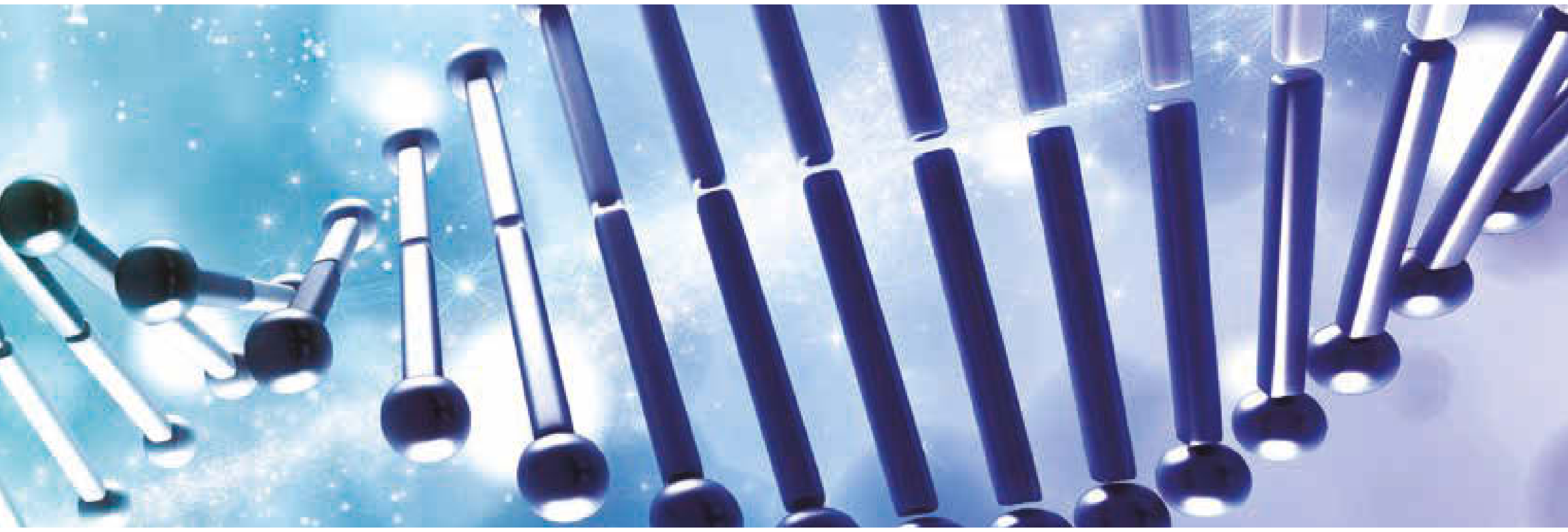
VIII. **Is there any instance of providing external guarantee that is in breach of the established decision making procedure?**

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 set out 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 2018 to 31 December 2018
"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$" or "HK dollars" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"US$"	US dollars, the lawful currency of the United States of America
"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 to 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 to 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
"NMPA"	National Medical Products Administration of the People's Republic of China (中華人民共和國國家藥品監督管理局)
"NHSA"	National Healthcare Security Administration of the People's Republic of China (中華人民共和國國家醫療保障局)
"CDE"	Center For Drug Evaluation of NMPA (中華人民共和國國家藥品監督管理局藥品評審中心)
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Shanghai SASAC"	Shanghai State-owned Assets Supervision and Administration Commission (上海市國有資產監督管理委員會)
"NHC"	National Health Commission of the People's Republic of China (中華人民共和國國家衛生健康委員會)
"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)
"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)

Definitions

"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.
"Mitsubishi Tanabe"	Mitsubishi Tanabe Pharma Corporation Japan
"Techpool"	Techpool Bio-pharma Co., Ltd
"SPHC"	Shanghai Pharma Health Commerce Co., Ltd
"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
"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	31/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, Securities Daily
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 (special general partnership)
	Office address	11/F, PricewaterhouseCoopers Center, No. 202 Hu Bin Road, Shanghai, the PRC
	Name of signing accountant	Liu Wei, 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	2018	2017	Change compared to the corresponding period of last year (%)	2016
Operating revenue	**159,084,396,948.33**	130,847,181,884.59	21.58	120,764,660,339.93
Net profit attributable to equity holders of listed company	**3,881,062,861.27**	3,520,645,566.99	10.24	3,196,394,644.62
Net profit after deduction of non-recurring profit or loss attributable to equity holders of listed company[Note]	**2,652,125,611.62**	2,845,661,282.15	-6.80	2,925,512,696.75
Net cash flows from operating activities	**3,135,113,763.53**	2,648,808,869.16	18.36	1,946,666,985.00

	End of 2018	End of 2017	Change compared to the end of the corresponding period of last year (%)	End of 2016
Net assets attributable to equity holders of listed Company	**39,013,570,426.62**	34,030,840,901.51	14.64	31,622,553,105.97
Total assets	**126,879,334,502.88**	94,344,475,177.12	34.49	82,742,718,053.46
Total share capital at the end of the Period	**2,842,089,322.00**	2,688,910,538.00	5.70	2,688,910,538.00

Note: During the Reporting Period, the net profit after deduction of non-recurring profit or loss attributable to equity holders of listed company decreased year-on-year, mainly due to the significant increase of investment in R&D and the provision for goodwill impairment. Net profit attributable to the parent company after deduction of non-recurring profit or loss after the reversal of R&D expenditure and the provision for goodwill impairment increased by 13.85% year-on-year.

(II) Major Financial Indicators

Major financial indicators	2018	2017	Change compared to the corresponding period of last year (%)	2016
Basic earnings per share (RMB per share)	**1.3717**	1.3093	4.77	1.1887
Diluted earnings per share (RMB per share)	**1.3717**	1.3093	4.77	1.1887
Basic earnings per share after deduction of non-recurring profit or loss (RMB per share)	**0.9374**	1.0583	-11.42	1.0880
Weighted average return on net assets (%)	**10.34**	10.73	-0.39 percentage point	10.39
Weighted average return on net assets after deduction of nonrecurring profit or loss (%)	**7.06**	8.67	-1.61 percentage points	9.51

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				
	2014	2015	2016	2017	**2018**
Revenue	92,398,894	105,516,587	120,764,660	130,847,179	**159,084,397**
Profit before income tax	3,799,734	4,171,854	4,638,996	5,204,808	**5,343,378**
Income tax expenses	(807,717)	(807,486)	(809,284)	(1,147,029)	**(887,117)**
Profit for the year	2,992,017	3,364,368	3,829,712	4,057,779	**4,456,261**
Attributable to:					
Owners of the Company	2,591,131	2,876,989	3,196,394	3,520,644	**3,881,063**
Non-controlling interest	400,886	487,379	633,318	537,135	**575,198**

(II) Assets and Liabilities

Unit: RMB'000

	For the year ended 31 December				
	2014	2015	2016	2017	**2018**
Total assets	64,340,559	74,344,211	82,742,717	94,344,475	**126,879,332**
Total liabilities	33,241,407	40,536,172	45,908,252	54,668,627	**80,446,061**
Total equity	31,099,152	33,808,039	36,834,465	39,675,848	**46,433,271**
Attributable to:					
Owners of the Company	27,822,133	29,930,314	31,622,557	34,030,843	**39,013,575**
Non-controlling interests	3,277,019	3,877,725	5,211,908	5,645,005	**7,419,696**

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

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

☐ Applicable ✓ Not applicable

(II) Discrepancies in the net profit and net assets attributed to shareholders of listing corporation disclosed in the financial reports prepared under both the Foreign Accounting Standards and the Chinese Accounting Standards for Business Enterprises

☐ 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 2018 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	36,386,104,395.22	39,492,588,598.23	41,722,890,300.01	41,482,813,654.87
Net profit attributable to equity holders of the listed company	1,020,041,998.27	1,013,264,348.26	1,338,581,982.09	509,174,532.65
Net profit after deduction of non-recurring profit or loss attributable to equity holders of listed company	995,783,313.86	897,590,172.57	673,287,405.00	85,464,720.19
Net cash flows from operating activities	95,684,858.71	984,832,635.10	652,748,389.49	1,401,847,880.23

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 2018	Amount in 2017	Amount in 2016
Profit or loss on disposal of non-current assets	**749,840,130.38**	327,746,254.47	179,009,218.46
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	**430,682,499.51**	300,795,412.69	265,193,947.36
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	**23,056,007.83**	43,488,895.28	9,135,150.50
Reversal of provisions on receivables assessed for impairment on an individual basis	**95,709,545.97**	367,724,223.97	51,845,256.13
Other non-operating income and expenses other than the aforesaid items	**-37,712,211.72**	-164,160,295.01	-24,727,260.65
Other profit or loss items that meet the definition of non-recurring profit or loss	**188,643,997.55**	68,228,401.38	/
Effect on minority interests	**-119,892,752.41**	-49,553,481.78	-96,512,359.09
Effect on income tax	**-101,389,967.46**	-219,285,126.16	-113,062,004.84
Total	**1,228,937,249.65**	674,984,284.84	270,881,947.87

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
Derivative financial assets	/	5,189,819.94	5,189,819.94	4,695,956.03
Derivative financial liabilities	/	458,319.61	458,319.61	1,893,660.47
Other equity instruments investment	/	162,312,493.32	162,312,493.32	/
Other non-current financial assets	/	119,649,126.36	119,649,126.36	9,304,128.48
Bank acceptance receivable	/	1,532,865,502.29	1,532,865,502.29	/
Total	/	1,820,475,261.52	1,820,475,261.52	15,893,744.98

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 2018, the structural reform of the pharmaceutical industry deepened, the reform of state institutions was in full swing and the growth rate of market slowed down. As important reforms such as stringent control of medical insurance expenditure, adjustment to the National Reimbursement Drug List and the National Essential Drugs List, consistency evaluation, medicine evaluation reform, and centralized drug procurement continued to deepen, the fruits of reform began to ripe.

(II) Industry Policies

On 13 March 2018, the Plan for Reform of Institutions under the State Council (《國務院機構改革方案》) was issued, pursuant to which, the former State Food and Drug Administration was integrated into the State Administration of Market Regulation to form the National Medical Products Administration (administered by the State Administration of Market Regulation), and the stand-alone National Healthcare Security Administration was established.

On 20 March 2018, the six ministries and commissions (bureaus/offices) jointly issued the Notice on Consolidating the Achievements of Cancelling Drug Markups and Deepening Comprehensive Reforms in Public Hospitals (《關於鞏固破除以藥補醫成果持續深化公立醫綜合改革的通知》), specifying that unreasonable growth of medical expenses would continue to be curbed in 2018 without imposing a single solution.

On 3 April 2018, the General Office of the State Council issued the "Opinions on Reforming and Improving the Policy for Supply Guarantee and Use of Generic Drugs" (《關於改革完善仿製藥供應保障及使用政策的意見》), proposing to accelerate the consistency evaluation of the quality and efficacy of generic drugs and refining the implementation of policies and measures to encourage companies to conduct consistency evaluation; it required that agencies responsible for centralized drug procurement must prepare procurement catalogs using common names of drugs.

On 11 July 2018, the National Medical Products Administration issued the Technical Guidelines on Accepting Overseas Clinical Trial Data (《接受藥品境外臨床試驗數據的技術指導原則》), setting forth the scope of application, basic principles, integrity requirements, technical requirements for data submission, and degree of acceptance for the acceptance of overseas clinical trial data.

On 31 August 2018, the National Medical Products Administration issued the "Work Plan for the Centralized Rectification of Quality of Traditional Chinese Medicine (TCM) Decoction Pieces", proposing to investigate and severely punish violations of TCM decoction pieces and accelerate the improvement of the technical management system suitable for the characteristics of TCM decoction pieces.

On 10 October 2018, the National Healthcare Security Administration issued the Notice on Incorporating 17 Drugs into Category B of the National Insurance Drug List for Basic Medical Insurance, Work-related Injury Insurance and Maternity Insurance (《關於將17種藥品納入國家基本醫療保險、工傷保險和生育保險藥品目錄乙類範圍的通知》).

On 25 October 2018, the National Health Commission and the State Administration of Traditional Chinese Medicine issued the Notice on Publication the National List of Essential Drug (2018 Edition (《關於印發國家基本藥物目錄(2018年版)的通知》)). The new list increased the number of drugs from 520 to 685, including 417 western drugs and 268 Chinese patent drugs (including ethnic drugs). Newly added varieties included 12 drugs for tumor and 22 children' s drugs for urgent clinical needs.

On 16 November 2018, the Medical Administration and Medical Control Bureau of the National Health Commission issued the Notice on Effectively Adopting the 17 Anti-cancer Drugs Priced by Negotiation for National Medical Insurance" (《關於做好17種國家醫保談判抗癌藥執行落實工作的通知》).

In December 2018, the National Healthcare Security Administration launched the pilot for purchasing with a target amount in "4+7" cities, carrying out purchase of 31 generic drugs passing consistency evaluation with a target amount in "4+7" cities such as Beijing, Shanghai, Guangzhou and Shenzhen. As a result, the average price of the drugs fell by 52%, with the highest drop of 96%.

(III) Company's business model, main business and the Company's 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 in the PRC, 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 nearly 700 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 nationwide, 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 2,000 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 896th in top 2,000 global enterprises of 2018 issued by Forbes;
- Ranking 64th in top 500 Chinese enterprises of 2018 issued by Fortune (Chinese Edition);
- Ranking 129th in top 500 Chinese enterprises of 2018 and 47th in top 500 Chinese Manufacturing Enterprises issued by the China Enterprise Confederation and China Enterprise Directors Association;
- Ranking 14th in top 100 Shanghai enterprises of 2018, 5th in top 100 enterprises in Shanghai manufacturing industry, jointly issued by Shanghai Enterprise Confederation, Shanghai Entrepreneur Association and Shanghai Federation of Economic Organizations;
- Ranking 3rd in top 10 enterprise groups in Chinese pharmaceutical industry in 2018, 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, ranking 5th in the outstanding corporate brands of listed companies in China' s chemical and pharmaceutical industry;
- Ranking 6th in top 100 Chinese Pharmaceutical Industrial Enterprises in 2017 issued by China National Pharmaceutical Industry Information Center and ranking 5th in top 20 best industrial companies in China's for pharmaceutical R&D product line in 2018.

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

✓ Applicable ☐ Not applicable

Unit: RMB

Main Assets	Consolidated on 31 December 2018	Consolidated on 31 December 2017	Changes in current amount as compared to last period (%)	Explanation of material changes (over 30%)
Long-term equity investment	4,366,604,777.77	4,694,168,133.68	-6.98	/
Fixed assets	8,596,168,427.30	7,154,186,829.71	20.16	/
Under construction	1,598,395,428.10	1,537,445,008.35	3.96	/
Intangible assets	4,117,466,261.06	2,640,503,113.62	55.93	Increase in acquisition of subsidiaries during the Reporting Period
Goodwill	11,345,286,075.81	6,606,706,225.89	71.72	Expansion of acquisition scope during the Reporting Period

Among which, overseas assets amounted to 2,609,341,553.76 (Unit: RMB), the proportion to the total assets is 2.06%.

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

1. 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 enables 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 nearly 700 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 system, 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 nationwide, 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 2,005 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.

2. 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".

3. 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.

4. 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

In 2018, the healthcare system in China underwent dramatic changes. The National Healthcare Security Administration officially initiated and quickly implemented the centralized drug procurement policy, which resulted in tighter control over drug quality and cost and faster substitution of imported drugs with cheaper alternatives to reduce healthcare insurance cost. In pharmaceutical distribution, the full implementation of the *two-invoice policy* reshaped the commercial landscape, with leading enterprises taking over an ever bigger share of the distribution business. In 2018, Shanghai Pharmaceuticals tackled challenges, overcame obstacles and steadfastly pursued the goals stated in our three-year plan. During the Reporting Period, by focusing on its four main strategic pillars (centralization, innovation, internationalization and the integration of industry & finance), Shanghai Pharmaceuticals successfully reached several goals: reinforcing core competencies, integrating pool efforts, implementing major strategies, optimizing the products structure, improving the drug pipeline, widening the distribution network across China and developing international businesses.

During the Reporting Period, Shanghai Pharmaceuticals recorded an operating revenue of RMB159.084 billion (a year-on-year growth of 21.58%). Revenue from pharmaceutical manufacturing was RMB19.462 billion (a sustained rapid year-on-year growth of 29.86%) and revenue from pharmaceutical services was RMB139.622 billion (a year-on-year growth of 20.51%).

The net profit attributable to shareholders was RMB3.881 billion (year-on-year growth of 10.24%). Pharmaceutical manufacturing contributed a profit of RMB1.667 billion, (year-on-year growth of 15.59%) and pharmaceutical services contributed RMB1.756 billion (year-on-year increase of 8.93%). All main business experienced stable growth. The profit from equity investments was RMB648 million (year-on-year increase of 17.38%). R&D expenditure was RMB1.061 billion (year-on-year increase of 34.22%). Net profit attributable to the shareholders after deducting non-recurring profit or loss was RMB2.652 billion (year-on-year decrease of 6.80%, mainly due to the significant increase in R&D investment and the provision for goodwill impairment). Net profit after deduction of nonrecurring profit or loss but excluding R&D expenditure and the provision for goodwill impairment had year-on-year increase of 13.85%.

Shanghai Pharmaceuticals remained profitable in 2018. The integrated gross profit margin rose by 1.38 percentage points compared with the same period last year – manufacturing grew by 3.77 percentage points and pharmaceutical distribution grew by 0.73 percentage point.

The Company recorded a net operating cash inflow of RMB3.135 billion (year-on-year growth of 18.36%). Manufacturing and services recorded a net operating cash inflow of RMB2.468 billion and RMB983 million respectively.

Performance drivers and operation highlights in 2018:

Pharmaceutical manufacturing

During the Reporting Period, Shanghai Pharmaceuticals' sales revenue from manufacturing was RMB19.462 billion (a year-on-year growth of 29.86%); its gross profit margin was 57.63% (a year-on-year growth of 3.77 percentage points).

Shanghai Pharmaceuticals established three major manufacturing sites and set up a platform to integrate sales, manufacturing and research efforts. The manufacturing sales revenue experienced rapid growth for seven consecutive quarters. In 2018, 31 products had sales revenues exceeding RMB100 million (3 more products compared to 2017). Newly developed products in the Company' s core therapeutic areas, coupled with expert marketing helped Shanghai Pharmaceuticals achieve an impressive increase of 28.52% in sales revenue for 60 of its key products.

Shanghai Pharmaceuticals took a controlling stake in Techpool by acquiring 26.34% of its shares. This acquisition brings us international talents who will be instrumental in our strategy to develop innovative biopharmaceuticals. Techpool's two core products, *Tianpuluoan* (ulinastatin for injection) and *Kailikang* (Urinary Kallidinogenase for injection) fill a gap in Shanghai Pharmaceuticals product portfolio regarding urine proteins. Techpool has been mandated to relaunch the world's first and China's only oncolytic virus, *Oncorine* (recombinant human adenovirus Type 5), thus expanding in the tumor therapy market. Shanghai Pharmaceuticals will expand Techpool's product line through M&A, to build Techpool into a "respected biopharmaceuticals leader for critical illnesses".

Medical R&D

In addition to optimizing its marketing system, Shanghai Pharmaceuticals heavily invested in R&D. During the Reporting Period, the Company invested RMB1.389 billion in R&D (including capitalized investment in construction and fixed assets). The R&D expense was RMB1.061 billion (a year-on-year growth of 34.22%), which was 5.45% of manufacturing revenue. Expense in innovative drugs R&D was 18.70%, generics R&D 19.93% and improvement of existing products 33.60% of total expense. The remaining 27.77% went towards evaluation of consistency between quality and therapeutic effects of generic drugs. Four products, Captopril Tablets, Fluoxetine Hydrochloride Capsules, Metformin Hydrochloride Sustained-release Tablets and Hydrochlorothiazide Tablets, successfully passed consistency evaluation, while 32 products and specifications (including Duloxetine Hydrochloride Enteric-coated Capsules, Levonorgestrel tablets, and Ibuprofen Sustained Release Capsules) completed BioEquivalency (BE) test and were submitted to the NMPA. Shanghai Pharmaceuticals has increased R&D investments aimed at consistency evaluations to fully take advantage of the newly regulated market and provide high-quality and cheap pharmaceutical alternatives to patients.

Internationalization is one of the core strategies at Shanghai Pharmaceuticals. In 2018, the Company established platforms for innovative R&D research inside and outside China: SPH Philadelphia Laboratory (SPH Phililab) was established through an acquisition. The lab researches and develops high-end preparations. It will also help Shanghai Pharmaceuticals in the application and registration of drugs to both the FDA, and NMPA, potentially developing new markets for our products. Shanghai Pharmaceuticals established a research lab in San Diego, U.S. for overseas cooperation and equity investment in biological drugs. This gives us access to state-of-the-art biopharmaceutical technologies and will greatly enhance our innovation capabilities. The Company established the SPH Biotherapeutics Center, which focuses on cellular therapy research on solid tumor CAR-T using mature hematoma CAR-T samples. Through an investment of USD17 million in the American company Oncternal, the Company will explore the field of hematoma and solid tumors, and promote the production and marketing of its products. Shanghai Pharmaceuticals, in cooperation with a high-end preparation R&D team established Shanghai Huiyong Pharmaceutical Research Co. Ltd for R&D focused on R&D of high-end preparations, medical equipment, drug delivery devices and pharmaceutical excipients.

Figure 1 Layout of Shanghai Pharmaceuticals' Innovation Platform

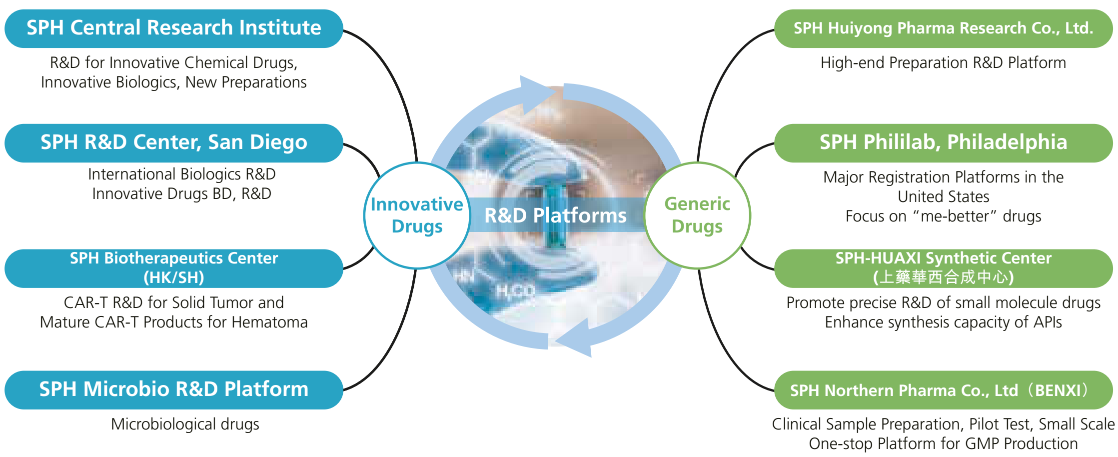


Figure 2 Shanghai Pharmaceuticals' Development Pipeline for Innovative Drugs

Therapeutic Area	Item	Registration Class	R&D Stage	Project Description
Anti-tumor	SPH1188-11	Innovative drug under type 1 chemical drug	Clinical phase I	New generation of target-oriented lung cancer drug. Effective for EGFR sensitive mutations, drug resistance mutations, some rare mutations and wild type, with the high concentration in lung tissues and brain tissues.
	Humanized CD20 antibody	Class 2 of biological drugs for treatment		Humanized antibody drugs with independent intellectual property rights. More effective and safer than foreign drugs with the same target. Used to treat hematological tumors and certain rare autoimmune diseases. Expected to remedy the current situation in China where this rare disease has no treatment, and become the first-tier standard therapeutic drug for the disease.
	Her2 compound antibody drugs for treatment	Class 1 of biological drugs for treatment		China's first compound antibody drug. Superior to foreign antibody drugs with the same target in terms of single drug efficacy. Has an unparalleled practical advantage compared with combined pharmacotherapy. After going to the market, it has an edge in market competition with antibody drugs with the same target whether in monotherapy or in combined pharmacotherapy.
	T-DM1	Class 2 of biological drugs for treatment		An antibody coupling drugs used in the anti-tumor field, targeting patients with refractory/recurrent tumors which develop antibody resistance during treatment. Its action mechanism determines that it will not cause secondary drug resistance. Expected to become a second-tier standard therapeutic drug.

Therapeutic Area	Item	Registration Class	R&D Stage	Project Description
	SPH3348	Innovative drug under type 1 chemical drug		New target-oriented lung cancer and gastric cancer drug. With best activity among the same kind, wide treatment window, and low toxicity.
	CD30-DM1	Class 1 of biological drugs for treatment		Antibody coupling drugs with independent intellectual property rights. Used in the field of hematology. With significant effect on rare diseases in the field. No similar product marketed in China.
Digestive metabolism	SPH4480	Innovative drug under type 1 chemical drug	Clinical acceptance	A new diabetes drug. Can reduce weight, lower blood sugar, increase sensitivity to insulin, and improve diabetes triad. No drugs for this target marketed in the world.
Immunosuppressants	Lei Teng Shu	Innovative drug under type 1 chemical drug	Clinical phase II	In respect of immune indication of rheumatoid arthritis and AIDS patients, studies of the same kind, either domestic or overseas, all stay in the clinical trial stage.
Cardiovascular and cerebrovascular	Salvianolic acid A for injection	Chinese medicine of class A new drug	Clinical phase I	A Chinese medicine of class A new drug. Preclinical pharmacology and toxicology studies show a broad and significant pharmacological effect. Notably superior to similar products in terms of safety range and the onset time.
	SPH3127	Innovative drug under type 1 chemical drug	Clinical phase II	A new antihypertensive drug. Significantly superior to others product with the same target in terms of efficacy, bioavailability and safety window. Shows good tolerance in phase I clinical trial. With potential to be best in class.

Shanghai Pharmaceuticals optimized operations of its R&D Management Center resulting in a healthy drug pipeline. Notably, during the Reporting Period, SPH3127 entered Phase II of clinical trials. An agreement was reached with Mitsubishi Tanabe Pharma (Japan) which allows Shanghai Pharmaceuticals to develop and sell the drug in major worldwide markets, including the United States. Preclinical studies of SPH3127 (pharmacological and toxicological tests) show that as a renin inhibitor, it is superior to competing substances in efficacy, bioavailability and safety. It is therefore expected to obtain a market share in the broad cardiovascular medicine market. To further expand in overseas market, Shanghai Pharmaceuticals submitted applications for preparations and API: ANDA for Doxycycline Hydrochloride tablets; Japan DMF for *Pregabalin*; registration of *Valacyclovir Hydrochloride*, *Ciclopirox Olamine* and *Ciclopirox* in South Korea.

Shanghai Pharmaceuticals also focused on redeveloping existing products to revitalize old varieties, and promotes the stock market through synergy between R&D and marketing. The Company published a number of articles on *Yangxinshi* tablets which were included in four expert papers. A number of clinical trials studied the effect of *Yangxinshi* on improving exercise tolerance in patients with coronary heart disease. The tablets had a sales revenue of RMB165 million during the Reporting Period. *Hongyuanda Polysaccharide Iron Complex* won the top spot in market share and became the No. 1 brand in the orally-delivered iron segment. In May 2018, a successful press conference was held to introduce the results of a multi-center clinical trial for *Hongyuanda Polysaccharide Iron Complex*. The clinical data provided important information on the proper clinical application of the product for pregnant women and evidence-based method for the treatment of iron-deficiency anemia during gestation. Under the 2017 Shanghai" Science and Technology Innovation Action Plan", Shanghai Pharmaceuticals' R&D Management Center brought together Industry, Universities, Research Institutions and Hospitals to cooperate on biopharmaceutical projects. This cooperation involved hospitals of all levels in Shanghai and touched on clinical re-evaluation and indication expansion research for the following listed products: Astragalus Capsules, Aoyoujing (奥佑静), Polymyxin B for Injection and Oncorine. The products mentioned above have thus far been launched in Zhongshan Hospital, Huashan Hospital, No. 10 People's Hospital, Yangpu District Central Hospital, and Shanghai Hospital of Integrated Traditional Chinese With Western Medicine.

Pharmaceutical distribution

During the Reporting Period, the sales revenue from pharmaceutical distribution was RMB139.445 billion (a year-on-year growth of 20.06%). The gross profit margin was 6.85% (a year-on-year growth of 0.73 percentage point).

In February 2018, Shanghai Pharmaceuticals completed the acquisition of Cardinal Health's China business, in the largest ever pharmaceutical M&A deal in China. This acquisition solidified Shanghai Pharmaceutical's position as one of the leading companies in medicine distribution in China. SPHKDL had a net operating profit of RMB181 million in 2018 (a year-on-year growth of 15%). Its net profit margin increased from 0.5% to approximately 0.9%.

This acquisition also makes Shanghai Pharmaceuticals the largest distributor of imported drugs in China (in both number of imported drugs and total sales). SPHKDL provides first-class warehouse management and comprehensive, high quality logistics services in China, covering the complete product supply chain solutions. During the Reporting Period, Shanghai Pharmaceuticals also entered into strategic cooperation agreements with world-renowned pharmaceutical companies such as Roche, Merck, Gilead Science, GlaxoSmithKline, Bayer and Bristol-Myers Squibb to strengthen exchanges and cooperation and introduce new drugs. This not only provides Chinese patients with high quality drugs, but also helps us develop our import business. The CDE approved 20 imported drugs for sales through primary distributors in China in 2018. Shanghai Pharmaceuticals obtained 15 of those 20 approvals (including new PD-1 drugs, Opdivo and Keytruda, as well as Lenvima (Lenvatinib Mesylate), a first-tier treatment for liver cancer from Eisai Pharmaceuticals (Japan). In 2018, Shanghai Pharmaceuticals' imported drugs accounted for 55.04% of the Company's distribution revenue, becoming an important part of the Company's distribution business.

During the Reporting Period, the National Healthcare Security Administration implemented a pilot program for centralized drug procurement to improve drug quality and efficacy. The new policy results in a reduced bidding price, negatively affecting both income and gross profit. In Shanghai, our Company's sustained efforts, strategies and active participating in the bidding process have resulted in a 63% share of the winning bids, making us the leaders in this city. In the future, through innovative services and multiple sales channels, Shanghai Pharmaceuticals will be active in both bidding and non-bidding drug markets, and will offer a superior experience to patients.

During the Reporting Period, Shanghai Pharmaceuticals successfully navigated the changes in the distribution business caused by the implementation of the two-invoice policy and expanded its distribution network nationwide. The Company made inroads in three provinces (Liaoning, Guizhou and Hainan) through key acquisitions: Liaoning International Pharmaceutical Trading Co., Ltd. (遼寧省醫藥對外貿易有限公司), Shanghai Pharma Guizhou Co., Ltd. (上藥控股貴州有限公司), Shanghai Pharma Zunyi Co., Ltd. (上藥控股遵義有限公司) Hainan Tianrui Pharmaceutical Co. Ltd. (海南天瑞藥業有限公司). Furthermore, the Company continued to improve its national network in key provinces and expanded its commercial territory through mergers and acquisitions, acquiring Huizhou Shanghai Pharma Tongtai Pharmaceuticals Co., Ltd. (惠州市上藥同泰藥業有限公司), Jiangsu Dazhong Pharmaceutical Logistics Co., Ltd. (江蘇大眾醫藥物流有限公司) and Sichuan Ruide Pharmaceutical Co., Ltd. (四川瑞德藥業有限公司) to improve the network layout of key provinces and enhance the Company's competitiveness.

Pharmaceutical retail

During the Reporting Period, the company's sales revenue from the pharmaceutical retail business was RMB7.202 billion (a year-on-year growth of 27.70%); its gross profit margin was 14.84% (a year-on-year decrease of 1.52 percentage points).

Aiming to be the leader and innovator of "Internet + new retail of prescription drugs", under the brand name of "Yiyao", SPHC helped government agencies implement their new policies forbidding hospitals from selling medicine, managing and controlling prescriptions and value added for patients. By the end of 2018, Shanghai Pharmaceuticals had processed a total of 8,488,700 electronic prescriptions across China, covering 340 medical institutions and serving more than 3.6 million patients. The number of prescriptions in Shanghai's community hospitals doubled. With a market share of 70%, the Company now covers 160 of the 242 community hospitals in the city. SPHC launched a new innovative Internet + product of "Yiyao • Cloud Hospital + Yiyao•Cloud Pharmacy" in 2018. In July 2018, SPHC entered into a strategic cooperation agreement with Zhenjiang Municipal Government to set up a "Yiyao•Cloud Pharmacy" in Zhenjiang (the third such pharmacy following the ones in Shanghai and Guangzhou). In December 2018, SPHC entered into a strategic cooperation agreement with the Affiliated Hospital of Jiangsu University to jointly explore the development model of Internet hospitals and build China's first "Yiyao•Cloud Hospital-Online Jiangbin Hospital".

Capital Operation

Shanghai Pharmaceuticals relied on SIIC's domestic and overseas capital operations to give full play to the financing ability of its A Shares and H Shares, deepen financing & production integration and enhance capital operation. Since 2012, the Company has continued to distribute cash dividends to its shareholders for 6 consecutive years. The annual average of such cash dividends was 30% higher than the net profit attributable to the shareholders. The Company completed the placement of 153,178,784 new H Shares in January 2018, with HK$3.116 billion raised in net amount, and issued RMB3.0 billion of corporate bonds in November 2018.

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	159,084,396,948.33	130,847,181,884.59	21.58	Increase of sales revenue during the Reporting Period
Operating costs	136,521,468,592.50	114,122,683,234.72	19.63	Increase of sales during the Reporting Period
Sales costs	11,058,098,694.96	7,411,261,758.67	49.21	Increase of sales during the Reporting Period
Management expense	4,075,107,540.44	3,333,512,555.61	22.25	Increase of management expense resulting from the increase in the scale of operation during the Reporting Period
R&D expenditure	1,060,770,940.43	790,349,355.96	34.22	Increase of investment in R&D during the Reporting Period
Finance costs	1,230,455,431.11	676,662,264.62	81.84	Increase of interest expense during the Reporting Period
Losses from impaired assets	995,517,496.85	81,194,791.69	1,126.09	Increase of loss resulting from the provision for impairment of goodwill during the Reporting Period

Item	Amount for the Reporting Period	Amount for the same period of last year	Change (%)	Reasons for changes
Credit impairment loss	84,638,827.30	–	–	Impairment losses on financial assets reclassified into credit impairment loss during the Reporting Period
Other income	376,738,968.06	180,470,007.04	108.75	Increase of government grants during the Reporting Period
Investment income	1,263,087,315.24	892,506,198.12	41.52	Increase of gain on deemed disposal of investments in an associate during the Reporting Period
Gains arising from changes in fair value	15,893,744.98	-4,904,383.68	–	Increase of fair value of financial assets measured at fair value during the Reporting Period
Gains on assets disposal	3,299,747.59	120,923,112.11	-97.27	Increase of loss on disposal of assets during the Reporting Period
Non-operating income	258,856,056.08	165,857,786.45	56.07	Increase of relocation compensation during the Reporting Period
Non-operating expenses	123,810,501.94	189,205,957.50	-34.56	Decrease of loss on accrued liabilities during the Reporting Period
Net cash flow generated from operating activities	3,135,113,763.53	2,648,808,869.16	18.36	Increase in collection of loans during the Reporting Period
Net cash flow generated from investing activities	-7,692,739,980.40	-2,355,038,147.80	-226.65	Increase of receipt of cash paid by subsidiaries during the Reporting Period
Net cash flow generated from financing activities	7,526,320,902.67	2,314,677,734.13	225.16	Increase in bank borrowings due to issuance of H shares and corporate bonds 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	19,461,712,852.33	8,004,782,230.80	58.87	29.86	19.07	+3.73 percentage points
Distribution	139,444,563,456.48	129,665,209,144.73	7.01	20.06	19.10	+0.74 percentage points
Retail	7,202,071,565.42	6,111,368,784.43	15.14	27.70	30.07	-1.54 percentage points
Others	284,858,343.50	220,617,670.00	22.55	269.47	743.70	-43.53 percentage points
Offsetting	-7,847,057,352.95	-7,768,310,440.11	–	–	–	–

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	156,405,358,104.21	134,763,994,882.20	13.84	21.78	19.66	+1.53 percentage points
Overseas	2,140,790,760.57	1,469,672,507.65	31.35	11.83	16.19	-2.58 percentage points

Principal business by industry, product and region

✓ Applicable ☐ Not applicable

① Details for description of principal business by industry, product and region, see below "Basic Information about the Company's manufacturing businesses by therapeutic area".

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 in production volume over the previous year (%)	Increase or decrease in sales volume over the previous year (%)	Increase or decrease in inventory volume over the previous year (%)
Sodium tanshinone IIA silate injection (10,000 vials, 2ml/vial)	10,833	10,500	556	-6.69	-8.70	145.00
Calcium dibutyryladenosine cyclophosphate for injection (10,000 vials, 20mg/vials)	2,181	2,000	256	-17.73	-23.08	205.00
Hydroxychloroquine sulfate tablets (10,000 pieces, 0.1g/piece)	47,279	44,631	6,603	21.44	23.12	66.72
Cefotiam hydrochloride for injection (10,000 vials, 0.5g/vial)	3,845	3,573	1,227	18.92	5.90	27.24
Shenmai injection (10,000 vials, 20ml/vial)	3,063	3,147	454	-20.70	-19.68	10.19

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 cefotiam hydrochloride for injection and it is converted into 0.5g;

② Sodium tanshinone IIA silate injection: sales volume is estimated to increase significantly in 2019, thus to increase inventory accordingly;

③ Calcium dibutyryladenosine cyclophosphate for injection: sales volume is estimated to increase significantly in 2019, thus to increase inventory accordingly;

④ Hydroxychloroquine sulfate tablets: prepare goods before Spring Festival.

(3) Table of Analysis of Cost

Unit: RMB0'000

By industry	Cost composition	Amount for the Reporting Period	Proportion of the cost to the total cost of the Reporting Period (%)	Amount for the corresponding period of last year	Proportion of the cost to the total cost of the corresponding period of last year (%)	Change ratio 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	580,229.48	72.48	481,772.19	71.66	20.44	/
	Utilities and power expenses	29,429.39	3.68	25,235.59	3.75	16.62	/
	Depreciation expense	44,338.04	5.54	35,776.77	5.32	23.93	/
	Salaries	70,135.07	8.76	62,492.43	9.30	12.23	/
	Other manufacturing cost	76,346.24	9.54	66,992.90	9.97	13.96	/
	Total industrial cost	800,478.22	100	672,269.88	100.00	19.07	/
Commercial and others	Cost	13,643,481.04	/	11,383,905.81	/	19.85	/
Offsetting total cost		-791,812.40	/	-643,907.37	/	22.97	/
Total operating cost		13,652,146.86	/	11,412,268.32	/	19.63	/

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 RMB6,291,757,100, accounting for 3.95% of the total sales for the year; the sales to the related parties among the sales to the five largest customers was RMB2,061,761,200, accounting for 1.30% of the total sales for the year.

The aggregate purchase from the five largest suppliers was RMB12,856,628,300, accounting for 9.42% of the total purchase for the year; the purchase from the related parties among the purchase from the five largest suppliers was RMB0, accounting for 0% 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 chapter 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	106,077.09
Capitalized R&D investment for the current period	32,823.98
Total investment in R&D	138,901.07
Proportion of the total amount of R&D investment in operation income (%)	7.14
Number of R&D personnel of the Company	1,020
Proportion of the number of R&D personnel in the total number of personnel of the Company (%)	2.14
Proportion of capitalized R&D investment (%)	23.63

Note: Proportion 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. During the Reporting Period, the Company made further R&D investment, the proportion of which 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 RMB3,135 million during the Reporting Period, representing an increase of 18.36% 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-7,693 million; and the net amount of cash from generated from financing activities is RMB7,526 million. The net cash flow from operating activities accounted for 70.35% of net profit, representing an increase of 5.08 percentage points over the same period of last year; thus, there is no significant difference.

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

☐ Applicable ✓ Not applicable

(III) Analysis on Assets and Liabilities

✓ Applicable ☐ Not applicable

1. *Assets and Liabilities*

Unit: RMB

Items	Current Ending Amount	Proportion of Ending Amount to Total Assets (%)	Last Ending Amount	Proportion of Last Ending Amount to Total Assets (%)	Change ratio of Current Ending Amount to Last Ending Amount (%)	Description
Financial assets measured at fair value with changes recognized through current profit or loss	/	/	642,578.95	0.001	/	Reclassification under new financial instrument standards during the Reporting Period
Derivative financial assets	5,189,819.94	0.004	/	/	/	Reclassification under new financial instrument standards during the Reporting Period
Notes and accounts receivables	43,972,036,067.82	34.66	32,485,357,133.37	34.43	35.36	Changes of scope of consolidation during the Reporting Period
Prepayments	2,049,452,397.15	1.62	1,391,087,485.59	1.47	47.33	Increase of loan prepayment during the Reporting Period
Other Receivables	2,291,743,040.27	1.81	1,539,006,618.57	1.63	48.91	Increase in compensation receivable during the Reporting Period
Inventories	25,024,010,338.41	19.72	17,269,955,876.07	18.31	44.90	Changes of scope of consolidation during the Reporting Period
Assets classified as held for sale	6,304,430.07	0.005	/	/	/	Increase of assets classified as held for sale during the Reporting Period
Non-current assets due within one year	211,804,183.86	0.17	/	/	/	Increase of long-term receivables due within one year during the Reporting Period

Items	Current Ending Amount	Proportion of Ending Amount to Total Assets (%)	Last Ending Amount	Proportion of Last Ending Amount to Total Assets (%)	Change ratio of Current Ending Amount to Last Ending Amount (%)	Description
Available- for-sale financial assets	/	/	109,081,061.95	0.12	/	Reclassification under new financial instrument standards during the Reporting Period
Long-term receivables	315,975,386.01	0.25	581,478,958.13	0.62	-45.66	Decrease in long-term deposits receivable during the Reporting Period
Other equity instrument investments	162,312,493.32	0.13	/	/	/	Reclassification under new financial instrument standards during the Reporting Period
Other non-current financial assets	119,649,126.36	0.09	/	/	/	Reclassification under new financial instrument standards during the Reporting Period
Development expenditure	165,698,846.78	0.13	61,932,199.83	0.07	167.55	Increase in capitalized R&D investment during the Reporting Period
Long-term prepaid expenses	403,250,813.38	0.32	285,821,200.78	0.30	41.08	Changes of scope of consolidation during the Reporting Period
Deferred tax assets	1,037,925,332.24	0.82	566,264,413.08	0.60	83.29	Increase in accrued expenses during the Reporting Period
Short-term borrowings	19,340,296,750.06	15.24	13,745,925,305.56	14.57	40.70	Increase in bank borrowings during the Reporting Period
Financial liability measured at fair value with changes recognized through current profit or loss	/	/	2,433,604.67	0.003	/	Reclassification under new financial instrument standards during the Reporting Period
Derivative financial liabilities	458,319.61	0.0004	/	/	/	Reclassification under new financial instrument standards during the Reporting Period
Advances	/	/	1,032,469,501.56	1.09	/	Advances reclassified into contract liabilities during the Reporting Period
Contract liabilities	1,357,136,698.16	1.07	/	/	/	Advances reclassified into contract liabilities during the Reporting Period
Other payables	8,223,002,686.84	6.48	5,655,972,918.17	6.00	45.39	Increase in accrued expenses during the Reporting Period
Non-current liability due within one year	2,698,378,587.61	2.13	57,573,051.38	0.06	4,586.88	Increase of bonds payable due within one year during the Reporting Period
Long-term borrowings	6,622,991,700.16	5.22	959,542,046.17	1.02	590.22	Increase of bank borrowings during the Reporting Period
Bonds payable	2,997,305,559.91	2.36	1,999,256,567.89	2.12	49.92	Issue of new bonds during the Reporting Period
Long-term payables	471,674,422.96	0.37	697,135,270.21	0.74	-32.34	Decrease in equity investments payable during the Reporting Period
Deferred income tax liabilities	866,912,020.83	0.68	620,149,536.71	0.66	39.79	Increase of acquisition of subsidiaries during the Reporting Period

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

✓ Applicable ☐ Not applicable

As at 31 December 2018, the Company' s housing and buildings and machinery equipment with the book value of RMB204,704,681.57 (original cost: RMB253,502,605.80), and 11,950,143.03 square meters of land use right (original cost of RMB62,204,894.13 and book value of RMB53,689,449.06) were set as collateral for short-term borrowings of RMB427,088,434.67, long-term borrowings of RMB78,366,708.10 and long-term borrowings due within one year of RMB34,563,496.79.

As at 31 December 2018, accounts receivable of RMB1,367,456,773.00 was pledged to the bank as a guarantee for short-term borrowing of RMB1,027,445,226.08, and accounts receivables of RMB172,416,280.94 was pledged to the bank as a guarantee for long-term borrowing of RMB65,118,098.00 and long-term borrowing of RMB98,190,582.78 due within one year. As at 31 December 2018, the balance of the Group's restricted monetary funds was RMB2,089,114,276.64, which was mainly the margin deposit for security for applying to the bank for issuing bank acceptance bills and letters of credit.

3. *Other instructions*

☐ Applicable ✓ Not applicable

(IV) Industrial Operational Information Analysis

✓ Applicable ☐ Not applicable

Please refer to "Chapter 3 An Overview of Company Business" for details.

Pharmaceutical Manufacturing Industrial Operational Information Analysis

1. Basic information about the industry and major drugs (products)

(1) Basic information of the industry

✓ Applicable ☐ Not applicable

Please refer to "Chapter 3 An Overview of Company Business" 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	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
Cardiovascular system Disease	Calcium dibutyryladenosine cyclophosphate for injection	Chemical drug preparation	Adjuvant therapy of Coronary heart disease, and acute myocardial infarction, as well as myocarditis, cardiogenic shock, Subendocardial hemorrhage after surgery, and psoriasis	No	Yes	2014.12.24-2034.12.24	Chemical drug	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
Systemic anti-infective medicine	Cefotiam hydrochloride for injection	Chemical drug preparation	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
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

Note: There were no Provisions of Drug Registration 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	Procurement pattern	Impact of fluctuations in price
Cardiovascular system Disease	Shenmai injection	Red ginseng (55-80 ginseng, five-year-old)	With stable supply sources	Bidding	Price was stable, without impact.
		Radix Ophiopogonis (from Zhejiang)	Zhejiang radix ophiopogonis bases were established jointly, so the supply source was stable	Base bidding	Price was stable, without impact.
Cardiovascular system Disease	Trichosanthes Peel injection	Trichosanthes Peel	With stable supply sources	Outsourcing	Price was stable, without impact basically.
Musculoskeletal System	Wangbi tablets	Safflower, white paeony root, rehmannia, radix aconiti lateralis preparata, herba epimedii, radix clematidis, spina gleditsiae, lycopodium clavatum, rhizoma drynariae, radix angelicae pubescentis, etc.	With stable supply sources	Centralized procurement from the place of origins of medicinal materials; Bidding procurement by comparing the quality and price	The price of radix angelicae pubescentis, radix clematidis, rhizoma drynariae, 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 impact was little.
Cardiovascular system Disease	Ginkgo biloba extract	Ginkgo biloba leaves	With stable supply sources	Medicinal Chinese medicine resources division	Stable basically.
Cardiovascular system Disease	Salvia Tablet	Salvia	With stable supply sources	Centralized procurement from the place of origins of medicinal materials	Price was stable, without influence.

(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

Major drugs (products)	National essential drugs list	Directory of insured drugs	
		National level	Provincial level
Sodium Tanshinone IIA Silate Injection	Excluded	Included	Included
Calcium dibutyryladenosine cyclophosphate for injection	Excluded	Excluded	Included
Hydroxychloroquine Sulfate Tablets	Excluded	Included	Included
Cefotiam Hydrochloride for Injection	Excluded	Included	Included
Shenmai injection	Included	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 trademarks (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 gross profit (RMB0'000)
	Hydroxychloroquine Sulfate Tablets	62,093	42,206
诺新康	Sodium Tanshinone IIA Silate Injection	128,000	85,926
	Cefotiam Hydrochloride for Injection	60,388	47,761

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

(1) Overall R&D

✓ Applicable ☐ Not applicable

For details, see "Performance drivers and operation highlights in 2018" 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	Proportion of R&D investment in the operating income (%)	Proportion of R&D investment in operating costs (%)	The year-on-year percentage of the current amount (%)	Explanation
Sodium tanshinone IIA silate injection	145.00	145.00	0	0.30	0.54	20.59	/
Calcium dibutyryladenosine cyclophosphate for injection	160.00	160.00	0	0.12	0.21	23.00	/
Hydroxychloroquine Sulfate Tablets	368.29	0	368.29	0.90	1.82	62.14	2018 consistency evaluation subcontract BE stage payment.
Cefotiam Hydrochloride for Injection	374.00	336.00	38.00	0.26	0.74	61.43	Commenced the consistency evaluation for injection in 2018.
Shenmai injection	438.87	438.87	0	0.79	3.32	109.61	Contract payment for due 2018 subcontract.

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	Proportion of R&D investment in the operating income (%)	Proportion of R&D investment in net assets (%)
Humanwell Healthcare	60,252	3.90	4.46
HPGC	19,816	1.65	2.81
Fosun Pharma	152,929	8.25	6.04
NCPC	17,414	2.26	3.28
GYBYS	37,329	1.78	1.98
Average amount of R&D investment in the same industry			57,547.94
Amount of R&D investment of the Company during the Reporting Period			138,901.07
Proportion of R&D investment in the operation income of the Company during the Reporting Period (%)			7.14
Proportion of R&D investment in net assets of the Company during the Reporting Period (%)			6.28

Note: i The data of the above 5 comparable companies were from 2017 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 2017;

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

③ Description of major change of R&D investment and the reasonability of the proportion 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

① R&D project of new drugs

Unit: RMB0'000

No.	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 2019
1	SPH3127	Class 1 of chemical drugs, indications: Hypertension	clinical	phase II	10,648.50	0	0	Continue clinical phase II studies
2	SPH1188	Class 1 of chemical drugs, indications: Non-small-cell lung cancer	clinical	phase I	3,587.52	0	0	Continue clinical phase I studies
3	Recombinant anti CD20 humanized monoclonal antibody injection	Class 2 of biological drugs, indications: CD20 positive non-Hodgkin's lymphoma	clinical	phase I	10,782.15	0	0	Continue clinical phase I studies
4	Lei Teng Shu	Class 1.1 of chemical drugs, indications: Rheumatoid arthritis	clinical	Under the application of clinical phase II/III	3,652.67	0	0	clinical trial approval of phase II/III is obtained and start clinical phase II studies
5	Injectable recombinant anti-HER2 humanized monoclonal antibody composition	Class 1 of biological drugs, indications: Her2-positive breast cancer	clinical	phase I	11,187.57	0	0	Commence clinical phase I studies
6	Salvianolic acid A for injection	Class of Traditional Chinese Medicine: Cardiovascular and vascular system drug	Clinical	Phase I	7,003.90	0	0	Conducting clinical phase I study
7	T-DM I	Class 1 of biological drugs; indications: Breast cancer	Clinical	Phase I	5,336.80	0	0	Commenced clinical phase I study

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.

② Consistency evaluation projects of major drugs

During the Reporting Period, the Company submitted 32 consistency evaluation projects (including different varieties and specifications, see below) to CDE for review, of which 4 were approved, 14 were accepted, and 14 were under application. Details are as below:

Unit: RMB0'000

No.	Consistency evaluation projects	Basic information of drug (product)	Stage of consistency evaluation	Progress	Cumulative R&D investment	Number of declared manufacturers	Number of approved domestic generic manufacturers
1	Metformin Hydrochloride Sustained-release Tablets	Chemicals drug; Indications: Hypoglycemic agent	Approved	Approved	651.15	11	4
2	Hydrochlorothiazide Tablets	Chemicals drug; Indications: Edema disease, hypertension, central or renal diabetes insipidus	Approved	Approved	404.71	1	1
3	Fluoxetine Hydrochloride Capsules	Chemicals drug; Indications: Antidepressants	Approved	Approved	398.24	1	1
4	Captopril Tablets 25mg	Chemicals drug; Indications: Hypertension, heart-failure	Approved	Approved	330.07	11	2
5	Captopril Tablets 12.5mg		Under CDE evaluation	Accepted		2	0
6	Ibuprofen Sustained Release Capsules	Chemicals drug; Indications: Fever and pain relievers	Under CDE evaluation	Accepted	526.14	2	0
7	Duloxetine Hydrochloride Enteric-coated Capsules	Chemicals drug; Indications: Antidepressants	Under CDE evaluation	Accepted	666.02	1	0
8	Pyridostigmine Bromide Tablets	Chemicals drug; Indications: Anticholinergic esterase	Under CDE evaluation	Accepted	64.75	1	0
9	Enalapril Maleate Tablets 5mg	Chemicals drug; Indications: Primary hypertension	Under CDE evaluation	Accepted	553.35	3	1
10	Enalapril Maleate Tablets 10mg						
11	Ketotifen Fumarate Tablets	Chemicals drug; Indications: Allergic rhinitis, allergic bronchial asthma	Under CDE evaluation	Accepted	427.24	2	0
12	Compound Reserpine Tablets	Chemicals drug; Indications: Early and mid-stage hypertension	Under CDE evaluation	Accepted	17.49	1	0
13	Cefalexin Capsules	Chemicals drug; Indications: Anti-infective medicine	Under CDE evaluation	Accepted	561.18	8	0
14	Amlodipine Besylate Tablets	Chemicals drug; Indications: Hypertension	Under CDE evaluation	Accepted	377.73	37	6
15	Alitazole Tablets 5mg	Chemicals drug; Indications: Anti-schizophrenia	Under CDE evaluation	Accepted	1,517.07 (series)	1	0
16	Betahistine Hydrochloride Tablets	Chemicals drug; Indications: Medicine for dizziness	Under CDE evaluation	Accepted	331.18	2	0
17	Thyroid Tablets	Chemicals drug; Indications: Endocrine system drug	Under CDE evaluation	Accepted	105.19	2	0
18	Metformin Hydrochloride Tablets 250mg	Chemicals drug; Indications: Hypoglycemic agents	Under CDE evaluation	Accepted	1,304.79	20	3
19	Metformin Hydrochloride Tablets 500mg			Under application		5	1
20	Simvastatin Tablets 10mg	Chemicals drug; Indications: Cardiovascular system Disease	Under CDE evaluation	Under application	908.77	4	0
21	Simvastatin Tablets 20mg					5	0

No.	Consistency evaluation projects	Basic information of drug (product)	Stage of consistency evaluation	Progress	Cumulative R&D investment	Number of declared manufacturers	Number of approved domestic generic manufacturers
22	Nifedipine Sustained Release Tablets	Chemicals drug; Indications: Drugs on cardiovascular system	Under CDE evaluation	Under application	404.93	2	0
23	Primoryl Phosphate Tablets	Chemicals drug; Indications: Antimalarial drugs	Under CDE evaluation	Under application	0	1	0
24	Amoxicillin Capsules	Chemicals drug; Indications: Anti-infective	Under CDE evaluation	Under application	461.34	29	4
25	Clindamycin Hydrochloride Capsules	Chemicals drug; Indications: Anti-infective	Under CDE evaluation	Under application	591.66	9(150mg) 2(75mg) 1(300mg)	2(150mg) 2(75mg)
26	Ambroxol Hydrochloride Capsules	Chemicals drug; Indications: Expectorant and antitussive drug	Under CDE evaluation	Under application	630.79	1	0
27	Diltiazem Hydrochloride Tablets	Chemicals drug; Indications: Cardiovascular system Disease	Under CDE evaluation	Under application	993.98	1	0
28	Zozopicone	Chemicals drug; Indications: Sedative-hypnotic drug	Under CDE evaluation	Under application	432.62	1	0
29	Metronidazole Tablets	Chemicals drug; Indications: Systemic anti-infective drug	Under CDE evaluation	Under application	218.54	9	1
30	Chloroquine Phosphate Tablets	Chemicals drug; Indications: Antimalarial drugs	Under CDE evaluation	Under application	0	1	0
31	Levonorgestrel Tablets 0.75mg	Chemicals drug; Indications: Contraceptive drug	Under CDE evaluation	Under application	2,160.04	1	0
32	Levonorgestrel Tablets 1.5mg					1	0

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.

Impacts 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 the Company to keep a stable and sustainable development and continuously enhanced the core competitiveness of the Company.

Demarcation of research phase and development phase:

i Preclinical studies (including all research work before declaring the record for clinical or bioequivalence test);

ii Declaration of clinical phase (including submitting clinical trial application until it is approved or the clinical record is approved);

iii 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);

iv 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 2018, it obtained several grants including, National Key R&D Plan Major Project "Study of Modernization of Traditional Chinese Medicine", and technology support programs and Industry-University-Research- Medicine Collaboration programs of Shanghai Municipal Science and Technology Commission with a total of RMB22.95 million.

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 submitting and approval
During the Reporting Period, a total of 13 drugs (including different varieties and specifications, see below) of the Company were submitted to the supervision department for approval, including 8 clinical trial approval application and 5 manufacturing approval application.

No.	Drugs (products) submitted to the state drug supervision department for approval	Examination and approval matters	Approval No.	Indications	Classification of registration
1	Injection recombinant Anti-CD30 Human-mouse Chimeric Monoclonal Antibody-MCC-DM1 Coupling Agent	Clinical trial application	CXSL1800026Guo	Intended for Anaplastic large-cell lymphoma (ALCL), Hodgkin lymphoma (HL), and Cutaneous T cell lymphoma (CTCL)	Class 1 of biological drugs for treatment
2	SPH4480 API and its tablets		CXHL1700287Hu	Intended for diabetes	Class 1 of chemicals drug
3			CXHL1700288Hu		
4			CXHL1700289Hu		
5	Hydroxy tripterygium glycol tablets		CXHB1800076Guo	Rheumatoid arthritis	Class 1 of chemicals drug
6			CXHB1800077Guo		
7	Sodium tetradecyl sulfate		CYHS1800482Guo	Treatment of varicose veins caused by vascular occlusion and lymphatic vascular malformations	Class 3 of chemicals drug
8			CYHS1800483Guo		
9	Bivalirudin for Injection	Manufacturing application	CYHS1800368Guo	Anticoagulation	Chemicals drug
10	Rosuvastatin Calcium Tablets		CYHS1800115Guo	For the primary hypercholesterolemia that could not been effectively controlled through dietary control and other non-drug treatments	Chemicals drug
11			CYHS1800116Guo		
12	Apixaban Tablets		CYHS1800282Guo	Prevention of stroke and thrombosis for patients with non-valvular atrial fibrillation	Chemicals drug
13	Amiodarone Hydrochloride Injection		CYHS1900070Guo	Use this product to treat severe arrhythmias when oral administration is not suitable	Chemicals drug

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

During the Reporting Period, the Company obtained clinical approvals for 6 new drugs and obtained production approvals for 2 drugs.

No.	Drugs (products) that obtained the clinical approval	Approved for	Approval No.	Indications	Classification of registration
1	MCC-DM1 Antibody-Drug Conjugates –Recombinant anti Her2 humanized monoclonal antibody for Injection	Clinical	2018L02103	Locally advanced HER2 positive or metastatic breast cancer	Class 2 of biological drugs for treatment
2	Injection recombinant Anti-CD30 Human-mouse Chimeric Monoclonal Antibody-MCC-DM1 Coupling Agent		2018L02789	Intended for Anaplastic large-cell lymphoma (ALCL), Hodgkin lymphoma (HL), and Cutaneous T cell lymphoma (CTCL)	Class 1 of biological drugs for treatment
3	SPH3348		2018L02326	Lung cancer, liver cancer, gastric cancer	Class 1 of chemicals drug
4			2018L02327		
5	Hydroxy tripterygium glycol tablets		2018L02065	Intended for the treatment of AIDS chronic abnormal immune activation)	Class 1 of chemicals drug
6			2018L02066		
7	Guanxinning Tablet	Production	2018B02321	Coronary heart disease with stable angina pectorisa I, heart blood stasis syndrome as determined by a Class II TCM doctor with symptoms of stethalgia and purple tongue and lips	Traditional Chinese medicine
8	Colistin Sulfate for Injection		2018B02391	Anti-gram-negative bacillus antibiotic	Chemicals drug

③ Information on international certification of drugs (products)

During the Reporting Period, the Company actively carried out international certification of drugs, having submitted ANDA for generic drugs for Doxycycline Hydrochloride Tablets in the United States and DMF for Pregabalin in Japan, and applied for registration of Valacyclovir Hydrochloride, Ciclopirox Olamine and Ciclopirox in South Korea.

(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

✓ Applicable ☐ Not applicable

The development of new drugs is an important means for an enterprise to achieve sustainable development. As the development of new drugs is characterized by high technology, high risk and high added value, and requires a long period of time and many procedures from preliminary R&D to clinical trial application and approval and to production, it is susceptible to some uncertainties which may result in failure of the R&D project.

Counter-measures: Controlling R&D decision-making and processes through internal control measures such as R&D strategies, management of project establishment approval and R&D budget, and progress tracking; actively keeping up with the requirements of policies and regulations and maintain communication with national drug review institutions; and carrying out cooperation with external parties to improve R&D ability and share risks with partners.

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 Disease	482,239	150,236	68.85	55.92	44.31	2.51	45.30%
Digestive and Metabolism	195,630	80,222	58.99	9.07	10.42	-0.50	39.09%
Systemic Anti-infection	202,770	86,500	57.34	45.35	25.10	6.90	33.62%
Neurological System	84,782	23,429	72.37	23.31	8.78	3.69	44.19%
Antineoplastic drug and immunomodulator	109,283	21,733	80.11	17.99	1.88	3.14	58.50%
Musculoskeletal System	94,625	22,365	76.36	15.96	1.38	3.40	/
Respiratory system	114,396	42,959	62.45	48.36	14.04	11.30	/
Others	662,445	373,034	43.69	20.34	15.22	2.51	/
Total	1,946,171	800,478	58.87	29.86	19.07	3.73	/

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 field, its gross profit margin data was sourced from the gross profit margin data recorded in 2017 annual report of HISUN.

② The data of gross profit margin of the same product in the same industry or field of the digestive tract and metabolism, systemic anti-infective, anti-tumour and immunomodulatory agents was sourced from the gross profit margin of "digestive system" "anti-infective" and "anti-tumour" products in the 2017 Annual Report of HPGC.

③ The data of gross profit margin of the same product in the same industry or field of the central nervous system was sourced from the gross profit rate of "nervous, circulatory system drugs" products in the 2017 Annual Report of NCPC.

④ The data of gross profit margin of the same product in the same industry or field of musculoskeletal system and the respiratory system 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, pharmaceuticals-related commercial companies and drug stores, etc. Mainly adopting the sales pattern of "self-running + 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 healthcare 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 by Medical Institutions
Sodium Tanshinone IIA Silate Injection	**15.60-18.26 (2ml: 10mg)**	68.536 million ampoules
Calcium dibutyryladenosine cyclophosphate for injection	**35.48-54.80 (20mg)**	23.622 million ampoules
Hydroxychloroquine Sulfate Tablets	**1.67-2.13 (Tablet, 0.1g)**	289.704 million pills
Cefotiam Hydrochloride for Injection	**14.56-16.07 (0.25g)**	2.626 million bottles
	24.96-29.00 (0.5g)	11.801 million bottles
	42.07-46.42 (1g)	6.425 million bottles
	71.30-78.94 (2g)	0.039 million bottles
Shenmai injection	**12.78-15.65 (10ml)**	2.055 million ampoules
	24.56-27.80 (20ml)	6.542 million ampoules
	54.18-67.32 (50ml)	3.868 million ampoules
	114.00-126.05 (100ml)	1.03 million ampoules

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

Explanation

✓ Applicable ☐ Not applicable

In 2018, the highest bid-winning price of some drugs have varying degree of decline, but no significant impact was made on overall sales.

(4) Sales Cost Analysis

Specific Compositions of Industrial Sales Cost

✓ Applicable ☐ Not applicable

Unit: RMB0'000

Specific item	The amount incurred in current period	Proportion of the amount incurred in current period accounting for total sales costs (%)
Employee Compensations and Relevant Welfares	87,720.14	12.73
Marketing Promotion and Advertising Costs	302,168.20	43.84
Travels and Conferences Costs	149,012.12	21.62
Transportation Costs	21,054.49	3.05
Rental Costs	5,837.18	0.85
Office Costs	8,081.14	1.17
Amortization of Intangible Assets	1,745.83	0.25
Depreciation of Fixed Assets	160.59	0.02
Others	113,536.04	16.47
Total	689,315.73	100.00

Comparison in the same industry

✓ Applicable ☐ Not applicable

Unit: RMB0'000

Comparable Companies in the Same Industry	Sales Costs	Proportion of sales costs accounting for operating income (%)
GYBYS	428,594.94	20.45
Fosun Pharma	579,053.56	31.24
Hengrui Medicine	518,892.34	37.50
CR Sanjiu	475,016.93	42.72
Livzon Group	326,516.97	38.27
Average Sales Costs in the Same Industry		465,614.95
Total Sales Costs of the Company During the Reporting Period		689,315.73
Proportion of Sales Costs Accounting for Operating Income During the Reporting Period (%)		35.42

Note: ① The data of the above five comparable companies is derived from their respective 2017 annual reports; The average sales costs of the same industries are the arithmetic average of the five comparable companies in 2017;

② The above "Total Sales Costs of the Company during the Reporting Period" means "Total Industrial Sales Costs of the Company during the Reporting Period"; "Proportion of Sales Costs Accounting for Operating Income During the Reporting Period" means "Proportion of Industrial Sales Costs Accounting for Industrial Operating Income During the Reporting Period".

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 RMB6,893.1573 million, accounting for 35.42% of the industrial operating income, increased by 7.37 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.

(V) Analysis on Investment Conditions

1. *Overall Analysis on External Equity Investments*

✓ Applicable ☐ Not applicable

Unit: RMB0'000

Amount of Investment during the Reporting Period	717,051.50
Increase or Decrease in Amount of Investment	417,101.34
Amount of Investment in the Same Period over Prior Year	299,950.16
Percentage of Increase or Decrease in Amount of Investments (%)	139.06

(1) Significant Equity Investments

✓ Applicable ☐ Not applicable

Acquiree	Time of acquisition	Purchasing cost (RMB100 million)	Principal business activities	Shareholding Percentage	Capital source	Partner	Income of acquiree from acquisition date to the year end (RMB100 million)	Net profit of acquiree from acquisition date to the year end (RMB100 million)	Whether involved in litigation
Cardinal Health (L) Co., Ltd.	2 February 2018	USD5.86	Sales of drugs	100.00%	External financing and borrowing	Third parties	202.46	1.81	No
Jiangsu Dazhong Pharmaceutical Logistics Co., Ltd. (江蘇大眾醫藥物流有限公司)	31 March 2018	3.00	Sales of drugs	100.00%	Own fund	Third parties	6.97	0.10	No
SPH Anhui Pharmaceutical Co., Ltd. (上藥控股安徽有限公司)	31 January 2018	2.30	Sales of drugs	51.00%	Own fund	Third parties	9.57	0.20	No
Techpool Bio-Pharma Co., Ltd. (廣東天普生化醫藥股份有限公司)	21 August 2018	14.89	Production and sales of drugs	67.14%	External financing and borrowing	Third parties	4.63	0.57	No
Liaoning International Pharmaceutical Trading Co., Ltd. (遼寧省醫藥對外貿易有限公司)	30 April 2018	2.48	Sales of drugs	51.74%	Own fund	Third parties	27.83	0.61	No
Zhejiang Jiuxu Pharmaceuticals Co., Ltd. (浙江九旭藥業有限公司)	15 March 2018	2.72	Production and sales of drugs	51.00%	Own fund	Third parties	1.84	0.30	No

Note: The net profit of acquiree from acquisition date to the year end of Cardinal Health (L) Co., Ltd. refers only to the net operating profit; The purchasing cost of Techpool Bio-Pharma Co., Ltd. and Liaoning International Pharmaceutical Trading Co., Ltd. refers only to investment in the additional equity investment for the year.

(2) Significant Equity Investments

☐ Applicable ✓ Not applicable

(3) Financial Assets Measured at Fair Value

✓ Applicable ☐ Not applicable

Unit: RMB0'000

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 Disposal during the Reporting Period
000931	ZHONGGUANCUN DEVELOPMENT GROUP	9.93	17.44	0.15	/	0.15	Own fund	No
600675	CHINA ENTERPRISE	39.00	439.21	-48.80	/	-48.80	Own fund	No
601328	BANK OF COMMUNICATIONS	472.01	332.04	-22.45	/	-24.09	Own fund	No
00455(HK)	Tianda Holdings	8,785.19	5,358.21	85.02	-1,676.41	-1,676.41	Own fund	No
01763(HK)	China Isotope	14,726.39	10,873.04	/	-3,853.35	-3,853.35	Own fund	Purchased
/	Derivative financial assets	/	518.98	469.60	/	469.60	/	Purchased
/	Other non-current financial assets (unlisted)	3,114.40	11,176.23	1,190.41	/	930.41	/	/
Total		27,146.92	28,715.15	1,673.93	-5,529.76	-4,202.49	/	/

(VI) Disposal of Major Assets and Equities

☐ Applicable ✓ Not applicable

(VII) 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	Operating Income	Net Profit
Shanghai Pharma Co., Ltd.	Sales of drugs	100%	50	492.35	112.18	817.89	13.79
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Sales of drugs	100%	13	222.09	48.77	333.49	4.19
SPH Sine Pharmaceutical Factory Co., Ltd.	Production and sales of drugs	100%	11.92	42.73	22.92	49.91	2.98
SPH No. 1 Biochemical & Pharmaceutical Co., Ltd.	Production and sales of drugs	100%	2.25	25.05	16.00	18.60	2.17
SPH New Asia Pharmaceutical Co., Ltd.	Production and sales of drugs	96.90%	10.52	18.68	11.89	23.37	1.08
Shanghai TCM Co., Ltd.	Production and sales of drugs	100%	10.08	57.12	29.69	49.51	5.24
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Production and sales of drugs	75%	1.29	17.46	14.58	11.33	0.75
SPH Changzhou Pharmaceutical Co., Ltd.	Production and sales of drugs	75.89%	0.79	37.02	19.80	50.14	2.17
SPH Zhongxi Sunve Pharmaceutical Co., Ltd.	Production and sales of drugs	100%	5.46	30.02	24.85	9.95	4.61
SPH Qingdao Guofeng Pharmaceutical Co., Ltd.	Production and sales of drugs	67.52%	0.93	9.75	6.43	11.81	0.75
Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Production and sales of drugs	51.01%	1.35	6.35	4.85	4.50	0.25
Xiamen TCM Factory Co., Ltd.	Production and sales of drugs	61.00%	0.84	3.79	2.94	3.94	0.62
Liaoning Herbpex Pharmaceutical (Group) Co., Ltd.	Production and sales of drugs	55.00%	0.51	7.75	4.32	5.93	0.38
Shanghai Zhonghua Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	0.94	4.54	3.08	4.02	0.39
SPH Materials Supply and Sales Co., Ltd.	Wholesale of Chemicals and APIs	100.00%	1.01	2.52	1.20	1.99	0.03
Shanghai Medical Instruments Co., Ltd.	Production and sales of medical devices	100.00%	1.27	6.28	2.89	2.34	0.32
SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd.	Production and sales of drugs	90.25%	1.41	5.50	3.68	3.30	0.55
Shanghai Pharma Sales Co., Ltd.	Sales of drugs	100.00%	0.50	7.24	1.75	14.26	0.45
Zeus Investment Limited	Production and sales of healthcare products	59.61%	AUD3.19	17.79	5.02	8.85	-1.68
Techpool Bio-Pharma	Production and sales of drugs	67.14%	1.00	15.73	11.71	4.63	0.82

(VIII) 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 ahead to 2019, driven by such factors as the aging population, rising living standards of the people, and increased public health awareness, the development of the pharmaceutical industry in China is still promising. However, under the combined effects of a number of reform policies in the pharmaceutical industry, it is expected that in 2019, the growth rate of the pharmaceutical market will further slow down, the structural adjustment will be deepened, and the technological innovation will be accelerated. The development model of China's pharmaceutical industry will enter a period of major transformation.

(II) Development Strategy of the Company

✓ Applicable ☐ Not applicable

Against the backdrop of the background of the reform and development of the pharmaceutical industry in China, the Company will actively seize the opportunities arising from national strategies, adapt to the industrial changes and accelerate transformation and development by promoting intensive development, innovative development and international development and financing-and- production integrated development to ensure its leading position in China's pharmaceutical industry, sparing no effort to build an internationally competitive Chinese pharmaceutical industry group.

For the pharmaceutical manufacturing sector: the Company will further implement the "intensive development" strategy, and establish and continuously improve the management system that efficiently and closely integrates marketing, manufacturing, research and development, and investment. Based on the construction of the planning system that combines "selling one generation, developing one generation, and exploring one generation", the Company will continuously optimize its product echelon and develop an advanced manufacturing system to achieve a virtuous circle where the enhanced competitiveness of products in the targeted therapeutic areas drives the scale development of the manufacturing sector. The Company will vigorously promote the strategy of "innovative development and international development" by promoting the upgrade of generic drugs and the development of innovative drugs simultaneously, increasing the development of characteristic TCM products and OTC products, expanding the brand of healthcare products, accelerating international R&D cooperation and platform layout, optimizing innovation, recruiting and cultivating high-calibre talents, thereby gradually transforming into a brand pharmaceutical company focusing on high-end generic drugs and innovative drugs in targeted main therapeutic fields.

For the pharmaceutical services sector, the Company will safeguard its status in the industry, further develop the commercial network, accelerate the downward extension of the terminal service network, and strengthen the expansion of characteristic business to upgrade from supply chain services to technology-based health services. Through the industrial upgrade essentially based on "technology + service", the Company aims to transform into a service-driven and technology-driven modern health service provider.

(III) Operating Plan

✓ Applicable ☐ Not applicable

In 2019, the Company will adhere to the reform and operational policy of "adapting to industrial changes, accelerating transformation and development, and striving for industry leadership". Under the leadership of the Board and the management, all employees will focus on improving the Company' s intensive development and international development, driving the consolidation and enhancement of the Company's core competitiveness through a combination of financing and production as well as innovations, thereby ensuring the completion of annual business objectives, achieving expected performance growth, and maintaining sound operational quality.

With "innovative development" as the core, the Company will further increase investment in research and development, accelerate the development of major R&D projects and secondary development of key products, use new systems and new mechanisms to build a new bio-pharmaceutical platform, and strengthen the construction and layout of innovation platforms at home and abroad. We will recruit high-calibre R&D technical talents and backbones in key disciplines and improve diversified distribution methods such as medium- and long-term incentives to provide strong supports for continuous innovative development. The Company will continue its efforts to enter the global innovation chain and value chain through joint ventures, cooperation or technology transfer with world-renowned pharmaceutical companies, and promote the construction of laboratories and the development of R&D projects for biotherapeutics in Shanghai, Hong Kong and the United States as planned. At the same time, the Company will actively promote cooperation with domestic colleges, research institutes and hospitals to jointly build an open platform for the research and development of chemical and TCM drugs, thereby continuing to enrich the product lines and enhance technical capabilities. In terms of service and model innovation of the pharmaceutical services sector, the Company will further strengthen the development of advantageous services such as drug import services, medical institution supply chain and prescription extension and outsourcing services, and supplier value-added services, and actively utilize modern information technologies such as cloud computing and big data to continuously innovate business models.

Based on "intensive development", the Company will improve the management system of the three centers (namely sales, manufacturing and R&D), strengthen the professional capability of integrated vertical management, and form a collaborative development mechanism for product development across therapeutics fields in the pharmaceutical service sector. In the pharmaceutical services sector, the Company vigorously promotes the construction of provincial platforms, expands regional network layout, emphasizes the improvement of regional advantages, and properly manages "one policy for one province" operation in key provinces, promotes warehouse and logistics improvement and renovation projects in an orderly manner, and strengthens business process optimization and resources sharing.

Focusing on "international development", the Company will accelerate the pace of international development, actively participate in international competition, and strengthen the systemic ability of Shanghai pharmaceuticals' preparation products in international registration and sales by exporting preparations passing the certification of European and the USA and reaching the internationally advanced level. The Company will carry out the global multi-center clinical trial for innovative drugs in an orderly manner, continue to strengthen overseas R&D cooperation with a global perspective, monitor overseas M&A projects with major markets, and seek opportunities for pharmaceutical investment and export in countries along the "Belt and Road".

Supported by "advanced manufacturing", the Company will closely focus on drug quality control, improve the quality management process throughout the entire life cycle, improve the function of technology conversion platform to promote the improvement of production technology and quality standards. It will promote the management of production bases by category as planned, strengthen the construction of industrial bases and the optimization of production capacity, steadily promote the integration and adjustment of production capacity, start a new round of innovation to build boutique factories, ensure that software and hardware are at an internationally advanced level, and continue to strengthen lean management and production safety management.

Driven by "financing-and-production integrated development", the Company will deepen the integration of financing and production, expand financing channels, and diversify investment channels to ensure that the Company maintain robust capital structure and enhance investment and financing efficiency.

(IV) Potential Risk Factors

✓ Applicable ☐ Not applicable

1. Risks in relation to industry policies. The promulgation of a series of policies and regulations including the continuous deepening of national healthcare reform, medical insurance cost control, drug price reduction caused by a new round of tendering and bidding, new policy on drug review, consistency evaluation of generic drugs, two-invoice system, and the replacement of the business tax with value-added tax has significant impacts on the future development of the entire pharmaceutical industry and exposed the Company the risk of changes in industry policies;

2. As some drugs are exposed to the risks arising from a new round of policy price cuts in various provinces and cities, price cuts in bidding, losing bids, second bargaining, and purchasing with a target amount, their prices may be further reduced, thereby eroding the Company's gross profit;

3. The fluctuations in prices of medicinal materials in bulk 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 production 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) Others

☐ Applicable ✓ Not applicable

IV. 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

V. 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

(I) Capital Structure

The asset-liability ratio (total liabilities/total assets) of Shanghai Pharmaceuticals was 63.40% as at 31 December 2018, representing an increase of 5.45 percentage points on a year-on-year basis. The interest coverage ratio (EBIT/Interest Expenses) was 5.44 times (2017: 6.94 times). The gearing ratio of the Company (net amount of debts divided by total capital) was 40.53%.

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 2018 were RMB26.654 billion and RMB4.997 billion (including those due within 1 year) respectively, of which the balance of loans in US Dollar amounted to RMB5.631 billion, the balance of loans in New Zealand Dollar amounted to RMB266 million, the balance of loans and bonds payable at a fixed interest rate amounted to RMB26.197 billion. The net amount of accounts receivable and notes receivable as at 31 December 2018 was RMB43.972 billion, representing an increase of 35.36% on a year-on-year basis. The increased receivable is mainly due to business expansion and the expanded scope of consolidation. As at 31 December 2018, the balance of accounts payable and notes payable was RMB35.148 billion, representing an increase of 28.77% 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.

(II) 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.

(III) 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 resulting 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
The Group	Chongqing Medicines Shanghai Sales Co., Ltd.	725.38	21 December 2018	21 March 2019
The Group	Chongqing Medicines Shanghai Sales Co., Ltd.	2,648.38	21 December 2018	21 June 2019

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

(IV) 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).

(V) 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 2018, the Company has not entered into any equity-linked agreement.

(VI) Permitted Indemnity Provisions Approved for Directors and Supervisors

The Company has appropriate insurance arrangement for proceedings against Directors, Supervisors and senior 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 remains effective.

(VII) Interest of Directors and Supervisors in Competing Business

As of 31 December 2018, 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.

(VIII) 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.

(IX) 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 the top five supplier of the Group was less than 10%, and total turnover from the top five customers was less than 5%.

(X) Environmental Policies and Performance

See the "2018 Social Accountability Report of Shanghai Pharmaceutical Group Co., Ltd." disclosed by the Company for details.

(XI) Charity and other Donations

See the "2018 Social Accountability Report of Shanghai Pharmaceutical Group Co., Ltd." disclosed by the Company for details.

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. Pursuant to the Articles of Association, the Company implements a consistent and stable profit distribution policy. The dividend may be distributed by the Company by way of cash, shares or the combination of both. The cumulative cash dividends of the Company for the latest three years shall not be less than 30% of the average annual distributable profit for the same three-year period. The detailed distribution plan will be determined by the shareholders' general meeting of the Company in accordance with the Company's actual operating results for the year. According to the resolution as resolved at the 21st meeting of the sixth session of the board of directors of Shanghai Pharmaceuticals, the 2018 annual profit distribution plan of the Company is to distribute to all shareholders a cash dividend of RMB4.10 (tax inclusive) for every 10 Shares on the basis of the total share capital as at the record date specified in the announcement regarding execution of profit distribution proposal, subject to approval by the annual general meeting of the Company for 2018. The profit distribution plan complied with the Articles of Association and approval procedures of the Company, fully protecting 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 2019.

2. 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 2018 was RMB1,814,725,000 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 2018 are set out in the Note 11 to the financial statements prepared under Accounting Standard for Business Enterprises of China and Note 43 to the financial statements prepared under the Hong Kong Financial Reporting Standards.

3. Tax concession (disclosed pursuant to the requirements of the Hong Kong Listing Rules) For investors of the Hong Kong Stock Exchange investing in the A shares of the Company listed on the Shanghai Stock Exchange (the "Northbound Trading of the Shanghai Stock Exchange"), the Company will withhold and pay income taxes at the rate of 10% on behalf of those investors and will report to the tax authorities for the withholding pursuant to the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法》) and its implementation guidelines and the Circular on Issues Relating to the Withholding of Enterprise Income Tax by PRC Resident Enterprise on Dividends Paid to Overseas Non-PRC Resident Enterprise Shareholders of H Shares (Guo Shui Han [2008] No. 897) (《關於中國居民企業向

境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》)(國稅函[2008]897號) issued by the State Taxation Administration on 6 November 2008. For investors of Northbound Trading who are tax residents of other countries and whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of lower than 10%, those enterprises and individuals may, or may entrust a withholding agent to, apply to the competent tax authorities of the Company for the entitlement of the rate under such tax treaty. Upon approval by the tax authorities, the paid amount in excess of the tax payable based on the tax rate according to such tax treaty will be refunded.

For investors of the Shanghai Stock Exchange investing in the H Shares of the Company listed on the Hong Kong Stock Exchange ("Southbound Trading of the Hong Kong Stock Exchange"), the Company will withhold and pay individual income taxes at the rate of 20% for individual mainland investors pursuant to Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (Cai Shui [2014] No. 81)(《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)). For securities investment funds from Mainland China, tax payable shall be the same as that for individual investors. For enterprise investors from Mainland China, the Company will not withhold and pay the income tax of dividends and such enterprise investors shall report and pay the relevant tax themselves.

For all investors investing the Shares of the Company through the Southbound Trading of Shenzhen Stock Exchange, tax on dividends shall be paid in accordance with tax policies under the Northbound Trading of Shanghai Stock Exchange and Southbound Trading of the Hong Kong Stock Exchange pursuant to the "Notice on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect" (Caishui [2016] No. 127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)).

(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 (%)
2018	0	4.10	0	1,165,256,622.02	3,881,062,861.27	30.02
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

(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 Carry Forward 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 year 2018.

(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) Completion of performance guarantee and its impact on impairment of good will

☐ Applicable ✓ 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

On 27 April 2018, in accordance with the new enterprise accounting standards and requirements issued by the Ministry of Finance in April 2017, the 15th meeting of the sixth session of the Board of Directors considered and approved the Proposal on Changes in Accounting Policies, deciding to implement the new accounting policies from 1 January 2018. Please refer to the Company's announcement Lin No. 2018-023.

(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	2,450
Number of years of service of the domestic accounting firm	8 years
Name of the overseas accounting firm	PricewaterhouseCoopers
Remuneration for the overseas accounting firm (including domestic) note	2,450
Number of years of service of the overseas accounting firm	8 years

	Name	Remuneration
Accounting firm for internal control audit	PricewaterhouseCoopers Zhong Tian LLP (special general partnership)	160

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 measures
☐ 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 Daily Related Transactions in 2018	Announcement Lin No. 2018-013
The Announcement regarding Renewal of the Commercial Factoring Services Framework Agreement with Shangshi Commercial Factoring Co., Ltd. and Daily Related Transactions/ Continuing Connected Transactions	Announcement Lin No. 2018-015
The Announcement regarding Amendment to the Agreement about the Daily Related Transactions/Continuing Connected Transactions of Leasing of Properties and Production Equipment	Announcement Lin No. 2017-020
The Announcement regarding the Entering into Property Leasing Framework Agreement and Daily Related Transactions	Announcement Lin No. 2017-037
The Announcement regarding the Renewal of the Financial Services Agreement with Shanghai Shangshi Group Finance Co., Ltd. and Related/Connected Transactions	Announcement Lin No. 2016-010
The Proposal regarding Renewal of the Daily Connected Transactions Framework Agreement with Jiangxi Nanhua Medicines Co., Ltd. and Daily Related Transactions/Continuing Connected Transactions	Announcement Lin No. 2016-016

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

Search Index	Search Index
Progress Announcement in Relation to Proposed Acquisition of 100% Equity Interest in Wholly-Owned Subsidiaries of a Controlling Shareholder and Related Transaction	Announcement Lin No. 2018-039

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

Search Index	Search Index
Announcement in Relation to Participation in the Initial Public Offering in Hong Kong of China Isotope & Radiation Corporation and Related Transaction	Announcement Lin No. 2018-032

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

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

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

✓ Applicable ☐ Not applicable

1. *Discloseable Continuing Connected Transaction under the Hong Kong Listing Rules*

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

The Company approved the Proposal on 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 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 of daily related transactions for 2018, 2019 and 2020 under this agreement were RMB100 million respectively.

In 2018, the actual amount of the continuing connected transaction between the Group and Shanghai Pharmaceutical (Group) and its subsidiaries under the Property Leasing Framework Agreement did not exceed the above-mentioned maximum amount approved by the Board of Directors, and the highest applicable percentage ratio corresponding to the actual amount was higher than 0.1% but less than 5%. Therefore, the transaction shall be subject to the reporting, annual review and announcement requirements and is exempt from the approval of the Independent Shareholders (as defined under Chapter 14A of the Hong Kong Listing Rules, the same below). Details are as follows:

Unit: RMB0'000

Date of transaction	Party of connected transaction	Types of connected transactions	Subject of connected transactions	Actual amount of the 2018 connected transaction	Annual cap for the 2018 connected transactions
During the period from January to December 2018	Shanghai Pharmaceutical (Group) and its subsidiaries	Leasing premises and production equipment from connected persons	Property and machinery leasing service	4,221.55	10,000.00

Note: Please refer to Company's announcements Lin No. 2017-037 and Lin No. 2019-020. As Shanghai Pharmaceutical (Group) is the controlling shareholder of the Company, Shanghai Pharmaceutical (Group) and its subsidiaries are connected persons of the Company, and the transaction constitutes a continuing connected transaction (as defined under Chapter 14A of the Listing Rules, the same as below).

(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 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 is 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.

In 2018, the actual amount of continuing connected transactions between the Group and the Finance Company under the Financial Services Agreement did not exceed the above-mentioned maximum amount approved by the annual general meeting, and the highest applicable percentage ratio corresponding the actual amount was higher than 5%. Therefore, the transaction shall be subject to reporting, annual review, announcement and independent shareholders' approval requirements. 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 highest applicable percentage ratio for actual settlement and financial services provided by connected company, calculated on an annual basis, were less than 0.1%. Details are as below:

Unit: RMB100 million

Date of transaction	Party of connected transaction	Types of connected transactions	Subject of connected transactions	Actual amount of the 2018 connected transaction	Annual cap for 2018 connected transactions
During the period from January to December 2018	Finance Company	Deposit service provided by connected company	Deposit service (daily cap)	19.92	20

Note: For details, please refer to Company's announcements Lin No. 2016-010, Lin No. 2016-043, Lin No. 2019-021; As the Company currently holds 30% of the equity interest in the Finance Company, and the shareholding in Finance Company by Shanghai Shangshi, the Controlling Shareholder of the Company, is more than 10%, the Financial Company is a commonly held entity and connected person of the Company. This transaction constitutes a continuing connected transaction.

(3) Commercial Factoring Services Framework Agreement renewed 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. On 23 March 2018, the fourteenth meeting of the sixth session of the Board of Directors convened by the Company considered and approved the Proposal on Renewing the Commercial Factoring Service Framework Agreement with Shangshi Commercial Factoring Co., Ltd. and Daily Related Transactions/Continuing Connected Transactions. The Factoring Company will provide factoring services for the Company. The agreement is effective from the date of the 2017 annual general meeting of the Company (at which it was approved) to 31 December 2020, 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 annually. The transaction amount of other commercial factoring services shall not exceed RMB100 million for each year.

In 2018, the actual amount of continuing connected transaction between the Group and the Factoring Company under the Commercial Factoring Service Framework Agreement did not exceed the above-mentioned maximum amount approved by the Board of Directors, and the highest applicable percentage ratio corresponding to the actual amount was higher than 0.1% but less than 5%. Therefore, the transaction is only subject to reporting, annual review and announcement requirements, and is exempt from independent shareholders' approval requirements. Details are as follows:

Unit: RMB100 million

Date of transaction	Party of connected transaction	Types of connected transactions	Subject of connected transactions	Actual amount of the 2018 connected transaction	Annual cap for 2018 connected transactions
During the period from January to December 2018	Factoring Company	Factoring services provided by connected company	the total amount of comprehensive credit to be obtained by the Group from the connected company in respect of the accounts receivable financing services	0.20	11
			Other commercial factoring services	/	1

Note: Please refer to Company's announcements Lin No. 2017-028, Lin No. 2018-015, As the Company currently holds 27.5% of the equity interest in the Factoring Company, and the shareholding in Factoring Company by Shanghai Shangshi, the Controlling Shareholders of the Company, through Shangshi Leasing is more than 10%, the Factoring Company is a commonly held entity and connected person of the Company. This transaction constitutes continuing connected transactions.

(4) Confirmation of continuing connected transactions

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

① entered into during ordinary course of business;

② entered into on normal commercial terms or better; and

③ conducted in compliance with the relevant agreements, and are fair and reasonable and in the interest of the shareholders as a whole.

Auditors of the Company has submitted an independent auditor's assurance report on continuing connected transactions to the board of directors for continuing connected transactions pursuant to Rule 14A.56 of the Hong Kong Listing Rules, and confirmed that the foregoing continuing connected transactions:

① no transactions were entered into without approval of the board of directors of the Company;

② no transactions that involved the provision goods of or services by the Group were entered into without in compliance with pricing policies of the Group;

③ no transactions were entered into without in compliance with relevant agreements in all material respects; and

③ no transactions exceeded caps.

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

2. *Other Discloseable Connected Transactions under the Hong Kong Listing Rules*

(1) Acquisition by Subsidiaries of the Group of 100% Equity Interests in Shanghai New Century Pharmaceutical Co., Ltd. ("New Century Pharmaceutical") and Shanghai Yide Pharmacy Chain Co., Ltd. ("Yide Pharmacy"), Wholly-Owned Subsidiaries of a Controlling Shareholder

In order to further expand and improve the terminal network layout in the field of pharmaceutical commercial sales, the Company's fourteenth meeting of the sixth session of the Board of Directors held on 23 March 2018 considered and approved the Proposal on Related/Connected Transaction of Proposed Acquisition of 100% Equity Interests in Wholly-Owned Subsidiaries of a Controlling Shareholder. Pursuant to the proposal, Shanghai Pharmaceutical Co., Ltd. and Shanghai Huashi Pharmacy Co., Ltd., each a subsidiary of the Company, entered into the Equity Transfer Agreement with Shanghai Pharmaceutical (Group) on 11 July 2018, which determined the above-mentioned two subsidiaries would acquire the 100% equity interest in each of New Century Pharmaceutical and Yide Pharmacy held by Shanghai Pharmaceutical (Group), and the amount of connected transaction totaled RMB281 million (please refer to Company's announcements Lin No. 2018-019, Lin No. 2018-021 and Lin No. 2018-039).

As Shanghai Pharmaceutical (Group) is a controlling shareholder of the Company, it is a connected person of the Company. As such, the transaction constitutes a connected transaction of the Company. As the highest applicable percentage ratio of the amount of the transaction is more than 0.1% but less than 5%, it is only subject to the reporting and announcement requirements but exempted from the independent shareholders' approval requirement.

(2) Joint Cornerstone Investment by Subsidiary of the Group and Sure Advance Holdings Co., Ltd. ("Sure Advance Holdings") in China Isotope & Radiation Corporation ("China Isotope")

To achieve the strategic layout of the Company in the field of nuclear medical of a higher barrier, the sixteenth meeting of the sixth session of the Board of Directors held on 13 June 2018 considered and approved the Proposal on Participating in the Initial Public Offering of China Isotope & Radiation Corporation in Hong Kong and Related Transactions. Pursuant to the proposal, Shanghai Pharmaceuticals (HK) Investment Limited ("Shanghai Pharmaceuticals (HK)"), a wholly-owned subsidiary of the Company, and Sure Advance Holdings and other parties entered into the Cornerstone Investment Agreement on 19 June 2018 to participate as cornerstone investors in the initial public offering of China Isotope in Hong Kong, in which the investment amount of Shanghai Pharmaceuticals (HK) will not exceed RMB160 million and the investment amount of Sure Advance Holdings will not exceed approximately RMB430 million (please refer to Company's announcement Lin No. 2018-032).

As Sure Advance Holdings is a subsidiary of SIIC, a controlling shareholder of the Company, Sure Advance Holdings is the connected person of the Company. As such, the transaction constitutes a connected transaction of the Company. As the highest applicable percentage ratio of the amount of the transaction is more than 0.1% but less than 5%, the transaction is only subject to the reporting and announcement requirement but exempted from the independent shareholders' approval requirement.

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 2018 was approved at the 14th Meeting of the Sixth Session of the Board of Directors and the 2017 annual general meeting, respectively (for details, please refer to the Company's announcements Lin No. 2018-014 and Lin No. 2018-036).

Unit: RMB

External guarantees provided by the Company (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)	Commencement date of guarantee	Expiry date of guarantee	Type of guarantee	Guarantee fully fulfilled	Guarantee overdue	Overdue amount of guarantee	Any counter Guarantee	Guarantee provided to related parties	Connected relationship
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	1,051,561.91		2017/10/24	2018/1/24	Joint guarantee	Yes	No	0	No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	1,124,716.48		2017/10/24	2018/4/24	Joint guarantee	Yes	No	0	No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	2,073,145.13		2017/12/21	2018/3/21	Joint guarantee	Yes	No	0	No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	1,213,458.89		2017/12/21	2018/6/21	Joint guarantee	Yes	No	0	No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	2,098,921.09		2018/3/23	2018/6/23	Joint guarantee	Yes	No	0	No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	1,012,105.23		2018/3/23	2018/9/23	Joint guarantee	Yes	No	0	No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	250,153.12		2018/5/25	2018/8/25	Joint guarantee	Yes	No	0	No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	630,122.90		2018/5/25	2018/11/25	Joint guarantee	Yes	No	0	No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	725,379.20		2018/12/21	2019/3/21	Joint guarantee	No	No	0	No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	2,648,381.96		2018/12/21	2019/6/21	Joint guarantee	No	No	0	No	No	Associate
Total value guaranteed during the Reporting Period (excluding those provided to its subsidiaries)													7,365,063.50
Total remaining balance guaranteed at the end of the Reporting Period (A) (excluding those provided to its subsidiaries)													3,373,761.16
Guarantees provided by the Company and its subsidiaries to its subsidiaries													
Total value guaranteed for its subsidiaries during the Reporting Period													11,664,364,732.75
Total remaining balance guaranteed for its subsidiaries at the end of the Reporting Period (B)													8,871,990,128.62
Total value guaranteed by the Company (including those provided to its subsidiaries)													
Total value guaranteed (A+B)													8,875,363,889.78
Proportion of total value guaranteed in the Company's net assets (%)													22.75%
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)													7,589,184,918.85
Amount of total value guaranteed exceeding 50% of net assets (E)													/
Total of value guaranteed for the above three items (C+D+E)													7,589,184,918.85
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
Public Fund Product	Self-owed fund	200,000,000.00	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	Yield 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 Found Company	Money fund	200,000,000.00	2018-2-13	2018-7-24	Self-owed fund	Products with lower risks and good liquidity	Interest paid pursuant to agreement	3.58%		2,087,648.31	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. Others

☐ Applicable ✓ Not applicable

(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, 8 January 2018 and 5 February 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. On 28 February 2018, Beijing Intellectual Property Court made the first instance judgement denying the plaintiff Pien Tze Huang's claims. On 11 April 2018, Xiamen Traditional Chinese Medicine received statement of claim submitted by Pien Tze Huang in respect of aforesaid judgment of the first instance, which was sent by Beijing Higher People's Court. On 30 July 2018, the Beijing Higher People's Court made a second-instance judgment which denied the appeal request of Pien Tze Huang and upheld the original judgment. On 15 March 2019, Xiamen Traditional Chinese Medicine received the"Notice of Appearance"sent by the Supreme People's Court and "Administrative Petition for Retrial" (行政再審申請書) for both trademark administrative cases of Pien Tze Huang above.

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. 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 judgment, 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 "2018 Social Responsibility Report of Shanghai Pharmaceuticals Holding Co., Ltd." disclosed by the Company.

(II) 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

   Details are set out in the "2018 Social Responsibility Report of Shanghai Pharmaceuticals Holding Co., Ltd." disclosed by the Company.

2. *Environmental information of companies other than those falling under key pollutant discharging units*

   ✓ Applicable ☐ Not applicable

   Details are set out in the "2018 Social Responsibility Report of Shanghai Pharmaceuticals Holding Co., Ltd." disclosed by the Company.

3. *Explanation of reasons for non-disclosure of environmental information of companies other than those falling under key sewage emission entities*

   ☐ Applicable ✓ Not applicable

4. *Description of the follow-up progress or changes in the disclosure of environmental information during the reporting period*

   ✓ Applicable ☐ Not applicable

   During the Reporting Period, in accordance with the relevant notices and regulations on environmental protection issued by the China Securities Regulatory Commission, the Company detailed the environmental protection condition of the entities newly included in the 2017 key pollutant discharging entities (please refer to Company's announcement Lin No. 2018-028).

   For the latest condition of the above-mentioned key pollutant discharging entities, please refer to the 2018 Social Responsibility of Shanghai Pharmaceuticals Holding Co., Ltd. disclosed by the Company.

(III) Others

☐ Applicable ✓ Not applicable

XVIII. CONVERTIBLE CORPORATE BONDS

(I) Conversion of debt and issuance

☐ Applicable ✓ Not applicable

Changes in Ordinary Shares and Information about Shareholders

I. CHANGES IN ORDINARY SHARE CAPITAL

(I) Table of changes in ordinary Shares

1. Table of changes in ordinary Shares

Unit: Share

	Before the change		Increase/decrease in the change (+,-)					After the change	
	Number of shares	Proportion (%)	New shares issued	Bonus issues	Conversion from reserves	Others	Sub-total	Number of shares	Proportion (%)
I. Trade restricted Shares	81,600							81,600	
1. State held shares									
2. Shares held by state-owned legal persons									
3. Other domestically-held shares	81,600							81,600	
Including: shares held by domestic non state-owned legal persons	81,600							81,600	
shares held by domestic natural persons									
4. Foreign-held shares									
II. Shares without trade restrictions	2,688,828,938		+153,178,784					2,842,007,722	
1. RMB ordinary shares	1,922,935,018							1,922,935,018	
2. Domestically listed foreign shares									
3. Overseas listed foreign shares	765,893,920		+153,178,784					919,072,704	
4. Others									
III. Total number of ordinary shares	2,688,910,538		+153,178,784					2,842,089,322	

2. Explanation of changes in Ordinary Shares

✓ Applicable ☐ Not applicable

Pursuant to the general mandate granted at the 2016 general meeting and approved by Zheng Jian Xu Ke [2017] No. 2424 of CSRC, in January 2018, the Company has successfully allotted and issued an aggregate of 153,178,784 new H shares with a nominal value of RMB1 each to no less than 6 and not more than 10 placees, who and whose ultimate beneficial owners are overseas third parties independent of the Company and not connected persons of the Company. 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 billion. After deducting the listing fees paid overseas, the net proceeds was HK$3,116 million (the net price raised per H Share was approximately HK$20.35). The funds are used for industrial manufacturing, distribution business expansion and supplementary working capital, which is in accordance with the previous announcement.

As at the end of the Reporting Period, the use of proceeds by the Company is as follows:

Unit: HK$ 100 million

Use of proceeds	Net proceeds	Utilization of proceeds as at the end of the reporting period	Proposed utilization of the remaining proceeds and expected timetable
Development of the pharmaceutical manufacturing and distribution businesses of the Company and replenish its working capital	31.16	31.16	All proceeds have been utilized

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

(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 2018, the total share capital of the Company was 2,842,089,322 shares, including 2,842,007,722 shares without trade restrictions, comprising 1,922,935,018 A shares and 919,072,704 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

Issue of securities during the Reporting Period

✓ Applicable ☐ Not applicable

For details, please refer to "(I) Table of changes in ordinary Shares" above and "Chapter 10 Relevant Information of Corporate Bonds" below

Explanation of issue of securities during the Reporting Period (separately explaining the securities with different rate during their lifetime):

✓ Applicable ☐ Not applicable

Save as "(I)/2 Explanation of changes in ordinary shares" above, please refer to "Chapter 10 Relevant information of the Corporate Bonds" for details of the issue of the corporate bonds during the Reporting Period.

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

✓ Applicable ☐ Not applicable

For details please refer to " (I) Table of changes in ordinary Shares" above.

(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	70,989
The total number of ordinary shareholders as at the end of the month prior to the disclosure date of the annual report	73,795
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 70,989 shareholders as at the end of the Reporting Period, 68,958 were A share holders and 2,031 were H share holders

Note 2: Among the total 73,795 shareholders as at the end of the month prior to the disclosure date of the annual report, 71,775 were A share holders and 2,020 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	153,549,404	883,252,624	31.08	0	Unknown		Foreign shareholder
Shanghai Pharmaceutical (Group)	0	716,516,039	25.21	0	Nil		State-owned legal person
SIIC and its wholly-owned subsidiaries and Shanghai Shangshi	0	238,586,198	8.39	0	Unknown		State-owned legal person and foreign shareholders
China Securities Finance Corporation Limited	-45,306,593	85,333,703	3.00	0	Nil		Unknown
Shanghai Guosheng and Shanghai Shengrui	0	43,100,900	1.52	0	Unknown		State-owned legal person
Hong Kong Securities Clearing Company Limited	22,446,929	35,448,137	1.25	0	Unknown		Foreign shareholder
NSSF 604 Combination	5,736,996	26,882,906	0.95	0	Nil		Unknown
Central Huijin Investment Ltd.	0	24,891,300	0.88	0	Nil		Unknown
Shenergy Group	0	23,199,520	0.82	0	Nil		State-owned legal person
NSSF 103 Combination	/	16,999,771	0.60	0	Nil		Unknown

Shareholdings of top 10 shareholders without trade restrictions			
	Number of shares without trade restrictions	Class and number of shares	
Name of shareholder		Class	Number of shares
HKSCC NOMINEES LIMITED[Note1]	883,252,624	Overseas listed foreign shares	883,252,624
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	85,333,703	RMB ordinary shares	85,333,703
Shanghai Guosheng and Shanghai Shengrui	43,100,900	RMB ordinary shares Overseas listed foreign shares	24,585,800 18,515,100
Hong Kong Securities Clearing Company Limited[Note2]	35,448,137	RMB ordinary shares	35,448,137
NSSF 604 Combination	26,882,906	RMB ordinary shares	26,882,906
Central Huijin Investment Ltd.	24,891,300	RMB ordinary shares	24,891,300
Shenergy Group	23,199,520	RMB ordinary shares	23,199,520
NSSF 103 Combination	16,999,771	RMB ordinary shares	16,999,771
Note on connected relations or concerted actions of the above Shareholder	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 affiliation among other shareholders or whether they are persons acting in concert as stipulated under the "Administrative Measures on Disclosure of Changes in Shareholders' Shareholdings in Listed Companies".		
Note on shareholders of Preference Shares with voting rights restored and number of shares held	/		

Note1: Shares held by HKSCC NOMINEES LIMITED are held on behalf of its clients and the number of Shares it holds as shown in the table above excludes the 16,284,400 H Shares held by SIIC and its wholly-owned subsidiaries 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.

Note2: HONG KONG SECURITIES CLEARING COMPANY LIMITED is the nominee holder of the RMB ordinary shares under Shanghai-Hong Kong Stock Connect.

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 shareholders 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	To be confirmed	0	The consideration payable to Shanghai Pharmaceutical (Group) in the equity division reform remained outstanding.
Note on connected relations or concerted actions of the above Shareholder	/				

(III) Strategic investors or general legal person becoming top 10 shareholders because of new shares placing

☐ Applicable ✓ Not applicable

IV. DETAILS IN CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLER

(I) Controlling Shareholders

Legal person

✓ Applicable ☐ Not applicable

Name	Shanghai Industrial Investment (Holdings) Co., Ltd.
Person in charge of the Company or legal representative	Shen Xiaochu (沈曉初)
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 Hong Kong Stock Exchange and Singapore Exchange with stock codes 00807 and BHK, respectively) (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	Shen Xiaochu (沈曉初)
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

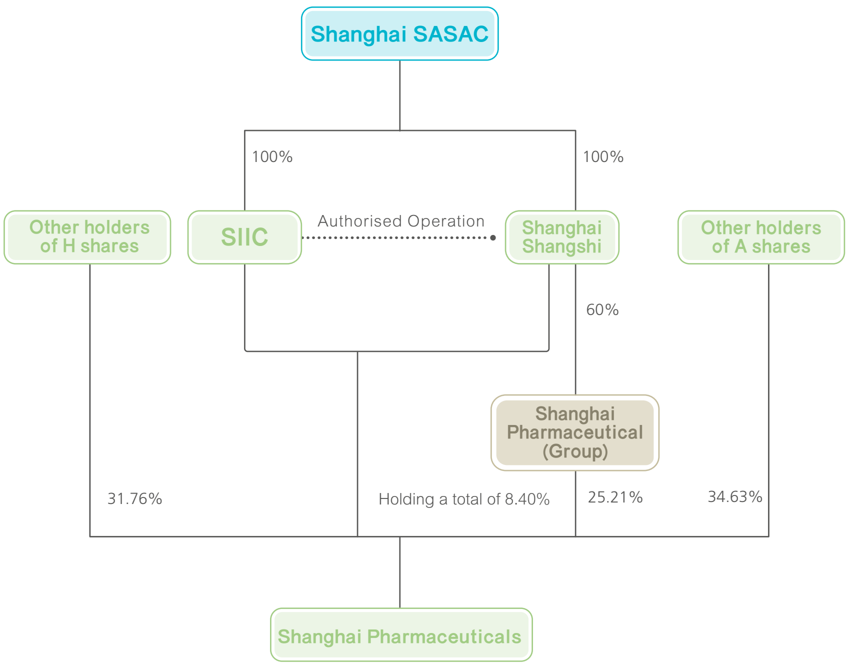
1 *Legal person*

✓ 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



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

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

As at 31 December 2018, 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	48.82 (A shares)/ 1.77 (H shares)	33.60
Shanghai Shangshi Group Note 1 (2)	A shares	Beneficial owner/Interests of controlled corporation	938,317,837	48.79	33.02
Shanghai Pharmaceutical (Group)	A shares	Beneficial owner	716,516,039 (L)	37.26	25.21
National Council for Social Security Fund	H shares	Beneficial owner	69,629,220 (L)	7.58	2.45
JPMorgan Chase & Co.	H shares	Beneficial owner/investment manager/custodian/approved lending agent	67,631,151 (L) 850,016 (S) 58,934,759 (P)	7.36 0.09 6.41	2.38 0.03 2.07
BlackRock, Inc.	H shares	Interests of controlled corporation	56,075,713 (L)	6.10	1.97
Citigroup Inc.	H shares	Person having a security interest in shares/Interests of controlled corporation/ approved lending agent	47,472,424(L) 128,300(S) 44,854,120(P)	5.17 0.01 4.88	1.67 0.00 1.58

(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 2018, 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 2018, 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

I. CHANGES IN SHAREHOLDINGS AND REMUNERATION

(I) Changes in shareholdings and remuneration of existing and resigned 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	50	20 October 2016	28 June 2019	0	0	0	/	0	Yes
Cho Man	Executive Director, President	Male	58	5 June 2013	28 June 2019	20,009 A Shares	20,009 A Shares	0	/	397.34	No
Li Yongzhong	Executive Director, Vice President	Male	49	28 June 2016	28 June 2019	0	0	0	/	394.28	No
Shen Bo	Executive Director, Vice President, Chief Financial Officer	Male	46	28 June 2016	28 June 2019	71,700 A Shares	71,700 A Shares	0	/	348.93	No
Li An	Non-Executive Director	Female	58	28 June 2016	28 June 2019	0	0	0	/	0	Yes
Wan Kam To	Independent Non-Executive Director	Male	66	5 June 2013	28 June 2019	0	0	0	/	25.00	No
Tse Cho Che, Edward	Independent Non-Executive Director	Male	63	5 June 2013	28 June 2019	0	0	0	/	23.00	No
Cai Jiangnan	Independent Non-Executive Director	Male	62	28 June 2016	28 June 2019	0	0	0	/	20.00	No
Hong Liang	Independent Non-Executive Director	Male	44	28 June 2016	28 June 2019	0	0	0	/	23.00	No
Xu Youli	Chief Supervisor	Male	45	28 June 2016	28 June 2019	0	0	0	/	0	Yes
Chen Xin	Supervisor	Female	56	31 March 2010	28 June 2019	10,000 A Shares	10,000 A Shares	0	/	0	Yes
Xin Keng	Supervisor	Male	52	5 June 2013	28 June 2019	0	0	0	/	0	Yes
Liu Yanjun	Vice President	Male	54	5 June 2013	28 June 2019	60,000 A Shares	60,000 A Shares	0	/	259.85	No
Mao Jianyi	Vice President	Male	51	19 November 2013	28 June 2019	0	0	0	/	233.93	No
Gu Haoliang	Vice President	Male	57	25 August 2016	28 June 2019	0	0	0	/	292.36	No
Liu Dawei	Vice President, Secretary of the board of directors and Joint Company Secretary	Male	39	28 June 2016	28 June 2019	0	0	0	/	294.31	No
Zhang Yaohua	Vice President	Male	46	15 June 2017	28 June 2019	0	0	0	/	151.91	No
Shu Chang	No longer as Vice President	Male	61	8 October 2012	28 March 2019	4,600 A Shares	4,600 A Shares	0	/	237.23	No
Total	/	/	/	/	/	166,309 A Shares	166,309 A Shares		/	2,701.14	/

Note: 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 independence and still considers each of them to be independent.

Name	Major Work Experience
Zhou Jun	Mr. Zhou Jun obtained a bachelor of Arts from Nanjing University and a master of Economics in International Finance from Fudan University. He is an economist. He is currently the chairman of the Board and a non-executive director of the Company. Mr. Zhou Jun has over 20 years of professional experience in securities, merger and acquisition, financial investment, real estate, project planning and corporate management. He is currently an executive director and a president of Shanghai Industrial Investment (Holdings) Co., Ltd. He is also the vice chairman, executive director and chief executive officer of Shanghai Industrial Holdings Limited (stock code 00363), which is listed on the Hong Kong Stock Exchange. He is also the executive chairman and non-executive director of SIIC Environment Holdings Ltd. (a company listed on the Hong Kong Stock Exchange and the Singapore Stock Exchange with stock codes of 00807 and BHK, respectively), and the chairman of SIIC Management (Shanghai) Ltd., Shanghai Shen-Yu Development Co., Ltd., Shanghai Galaxy Investments Co., Ltd., Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd. and Shanghai Luqiao Development Co., Ltd. Mr. Zhou Jun is also a member of the executive committee of the Chinese People's Political Consultative Conference in Shanghai, the chairman of Shanghai Shengtai Investment and Management Limited, an affiliate of Shanghai Charity Foundation and the chairman of Shanghai Young Entrepreneurs Association. Mr. Zhou Jun joined Shanghai Industrial Investment (Holdings) Co., Ltd. in April 1996 and held the positions of the executive director of Shanghai Industrial Urban Development Group Limited (a company listed on The of Hong Kong Stock Exchange with stock code of 00563); the independent non-executive director of Zhejiang Expressway Co., Ltd. (stock code 00576); vice president as well as general manager of investment planning department of Shanghai Industrial Investment (Holdings) Co., Ltd.; deputy general managers of SIIC Real Estate Holdings (Shanghai) Co., Ltd. and Shanghai United Industrial Co., Ltd.; deputy chief executive officer of Shanghai Industrial Holdings Limited; and managing director of Shanghai Galaxy Investments Co., Ltd., etc.
Cho Man	Mr. Cho Man 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, chairman and general manager of Sanjiu Economic Trading Co., Ltd. and Nine Stars Printing and Packaging Co., Ltd., vice director and head of sales department of Shenzhen South Pharmaceutical Factory, and head of transfusion medicine department, head of the drug injection department and pharmacist of Nanfang Hospital, First Military Medical University, Guangzhou, etc.

Name	Major Work Experience
Li Yongzhong	
Mr. Li Yongzhong is an executive master of business administration from the China Europe International Business School. He is qualified as a 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, general manager and deputy general manager of pharmaceutical distribution business department of Shanghai Pharmaceutical Co., Ltd; deputy general manager and general manager assistant of Shanghai Pharmaceutical Co., Ltd. and vice president of Shanghai Pharmaceuticals Holding Co., Ltd., etc.	
Shen Bo	
Mr. Shen Bo is a master of professional accountancy from Chinese University of Hong Kong and a Chinese Certified Public Accountant. He is currently the executive director, vice president and chief financial officer of the Company, and holds directorships in certain subsidiaries of the Company. Mr. Shen Bo is currently non-executive directors of companies listed on Hong Kong Stock Exchange including Tianda Pharmaceuticals Limited (stock code 00455) and Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (stock code 01349). 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 obtained a bachelor's degree in Engineering from Shanghai University of Science and Technology and is an engineer. She is currently the non-executive director of the Company. Ms. Li An is currently a director and the vice president of Shanghai Guosheng (Group) Co. Ltd., directors of companies listed on the Shanghai Stock Exchange including East China Construction Group Co., Ltd (華東建築集團股份有限公司) (stock code 600629), Shanghai Tunnel Engineering Co., Ltd (stock code 600820) and Shanghai Electric Group Company Limited (stock code 601727). She previously served as the director of the Property Rights Division of as well as the director of the Center of Property Rights of the State-owned Asset Supervision and Administration Commission of Shanghai Municipal Government.	

Name	Major Work Experience
Wan Kam To	
Mr. Wan Kam To graduated from the Accounting Department of Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) with a higher diploma. He is fellows of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and the Hong Kong Institute of Directors. He is currently the independent non-executive director of the Company. Mr. Wan Kam To has extensive experience in auditing, finance, advisory and management for over 30 years. He is currently the independent non-executive directors of companies listed on Hong Kong Stock Exchange including Haitong International Securities Group Limited (stock code 00665), A-LIVING SERVICES CO., LTD. (雅居樂雅生活服務股份有限公司) (stock code 03319), Target Insurance (Holdings) Limited (stock code 06161), Harbin Bank Co., Ltd. (stock code 06138), Kerry Logistics Network Limited (stock code 00636), KFM Kingdom Holdings Limited (stock code 03816), Huaneng Renewables Corporation Limited (stock code 00958), Fairwood Holdings Limited (stock code 00052), and China Resources Land Limited (stock code 01109). He is also an independent director of China World Trade Center Company Limited (stock code 600007), a company listed on Shanghai Stock Exchange. He once served as independent directors of US-listed companies including Mindray Medical International Limited (ticker symbol MR), RDA Microelectronics, Inc. (ticker symbol RDA); independent non-executive directors of companies listed on the Hong Kong Stock Exchange including Greater China Professional Services Limited (stock code 08193), S. Culture International Holdings Limited (stock code 01255), as well as a company listed both on Shanghai and Hong Kong, Dalian Port (PDA) Company Limited (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, 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. 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 currently holds the position of the independent non-executive director of China Travel International Investment Hong Kong Limited (a company listed on the Hong Kong Stock Exchange with stock code of 00308) and the Chairman in Gao Feng Advisory Company. He was the chairman of the board in Greater China region of Booz & Company, an independent director of a company listed on the Shanghai Stock Exchange, Baoshan Iron & Steel Co., Ltd. (stock code 600019), a director of Shanghai Automotive Industry Corporation (Group), business president of Greater China region of and executive vice president of corporate planning and development division 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 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 the independent non-executive director of the Company. Mr. Cai Jiangnan 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. He is currently the director of Health Management and Policy Center in and an adjunct professor of economics in China Europe International Business School. He is also independent directors of WuXi AppTec Co., Ltd. (stock codes: 02359 and 603259, respectively) (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange), Zhejiang Dian Diagnostics Co., Ltd (stock code 300244) a company listed on the Shenzhen Stock Exchange and Harmonicare Medical Holdings Limited, (stock code 01509) (a company listed on the Hong Kong Stock Exchange). He previously served as Senior Research Scientist of health policy of the Health & Social Services of Massachusetts, U.S.A (美國麻省衛生福利部), 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 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. Mr. Hong has extensive experience in corporate law, finance law, state assets and state-owned enterprises and other related law fields. He is currently a managing partner of Shanghai Everbright Law Firm, an independent director of Shanghai Winner Information Technology Co., Inc. (stock code 300609) (a company listed on the Shenzhen Stock Exchange) and external directors 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). Mr. Hong Liang is also a member of the Chinese People's Political Consultative Conference, Shanghai Committee, 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 Hong Kong Stock Exchange, etc.

Name	Major Work Experience
Xu Youli	Mr. Xu Youli 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. Mr. Xu currently serves as the vice president of Shanghai Industrial Investment (Holdings) Co. Ltd. and a director of Shanghai Industrial Development Co., Ltd. (stock code 600748) (a company listed on the Shanghai Stock Exchange). He was previously a manager of the supervision and audit department of East China Branch of China Huaneng Group.
Chen Xin	Ms. Chen Xin 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. 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 has a bachelor's degree and a master's degree in engineering from Shanghai Jiao Tong University. He is an engineer. He is currently the supervisor of the Company. He has served as principal of the finance management department of Shenergy (Group) Co., Ltd. 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.

Name	Major Work Experience
Liu Yanjun	
Mr. Liu Yanjun holds a bachelor's degree in Naval Medicine, a master's degree and a PhD in surgery from Second Military Medical University, and a visiting scholar at San Diego Sidney Kimmel Cancer Center in California, the United States. 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. (stock code 01349) (a company listed on the Hong Kong Stock Exchange), research director in cancer research office of molecular biology institute of Second Military Medical University and attending physician and lecturer in Eastern Hepatobiliary Surgery Hospital subordinated to Second Military Medical University, etc.	
Mao Jianyi	
Mr. Mao Jianyi graduated from medical faculty of Shanghai Second Medical University, and obtained an 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 a company listed on the Shenzhen Stock Exchange, Shenzhen Kondarl (Group) Co. Ltd. (stock code 000048), etc.	
Gu Haoliang	
Mr. Gu Haoliang 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 chairman 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 SPH Sine Pharmaceutical Factory 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.	

Name	Major Work Experience
Liu Dawei	Mr. Liu Dawei 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 of the Company, and also as the executive director and general manager of Shanghai Pharmaceuticals (HK) Investment Limited, a subsidiary of the Company. He previously served as general manager of the strategic operations department and deputy general manager of the investment development department of the Company; the chief financial officer, Investment Director and general manager of the headquarters finance department of Shanghai Pharmaceutical Co., Ltd.; the general manager of Shanghai Huashi Asset Management Co., Ltd.; the general manager, assistant to the department head and financial management officer of the headquarters finance department of Shanghai Pharmaceutical Co., Ltd.; and the chief financial officers of Ningbo Pharmaceutical Co., Ltd. and Ningbo Siming Pharmacy, etc.
Zhang Yaohua	Mr. Zhang Yaohua 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 engineer and 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 other situation

☐ Applicable ✓ Not applicable

(II) Equity incentives granted 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.	Executive director	May 2012	up to today
	Shanghai Industrial Investment (Holdings) Co., Ltd.	President	September 2016	up to today
	Shanghai Shangshi (Group) Co., Ltd.	Vice Chairman and president	September 2016	up to today
	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
	Shanghai Guosheng Group Co., Ltd.	Director	April 2017	up to today
	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
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 SPH Sine Pharmaceutical Laboratories Co., Ltd.	Chairman	June 2013	March 2018
Cho Man	Shanghai SPH No.1 Biochemical and Pharmaceutical Co., Ltd.	Chairman	June 2013	June 2018

Name	Name of other entities	Position held in the entity	Starting date of term of office	Expiry date of term of office
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	Zeus Investment Limited	Director	July 2016	up to today
Cho Man	Shanghai Pharmaceutical Co., Ltd.	Chairman	August 2016	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	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
Cho Man	Cardinal Health (L) Co., Ltd.	Director	January 2018	up to today
Cho Man	Shanghai SPH Tsumura Pharmaceutical Co., Ltd.	Director	July 2018	up to today
Cho Man	SPH PHILILAB, INC	Director	October 2018	up to today
Li Yongzhong	Shanghai Pharmaceutical Co., Ltd.	Director General manager	April 2010 October 2012	up to today up to today
Li Yongzhong	China International Pharmaceutical (Holding) Corporation Limited	Director	August 2014	up to today
Li Yongzhong	Zeus Investment Limited	Director	July 2016	up to today
Li Yongzhong	Shanghai Pharma Health Commerce Co., Ltd	Chairman	August 2016	up to today
Li Yongzhong	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Chairman Director	August 2016 April 2011	up to today up to today
Li Yongzhong	Shanghai Pharma Northern Investment Co., Ltd.	Chairman Director	August 2016 January 2012	up to today up to today
Li Yongzhong	Cardinal Health (L) Co., Ltd.	Director	January 2018	up to today
Shen Bo	Shanghai Pharmaceutical Co., Ltd.	Supervisor	April 2010	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
Shen Bo	Zeus Investment Limited	Director	July 2016	up to today
Shen Bo	Shanghai Pharma Health Commerce Co., Ltd	Director	August 2016	up to today
Shen Bo	SPH Changzhou Pharmaceutical Co., Ltd.	Chairman Director	August 2016 June 2007	up to today 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	Xiamen Traditional Chinese Medicine Co., Ltd.	Chairman	August 2016	up to today
Shen Bo	Shanghai Traditional Chinese Medicine Co., Ltd.	Chairman	December 2017	up to today
Liu Yanjun	Shanghai Jiaolian Drug Development Co., Ltd.	Chairman	February 2014	up to today
Liu Yanjun	SPH Laboratory Inc.	Director	May 2014	up to today
Liu Yanjun	Shanghai Pharmaceutical Group (Benxi) Northern Pharma Co., Ltd.	Executive director	November 2014	up to today
Liu Yanjun	Shanghai Sunway Biotech Co., Ltd.	Chairman	December 2017	up to today
Liu Yanjun	Techpool Bio-Pharma Co., Ltd. (廣東天普生化醫藥股份有限公司)	Director	July 2018	up to today
Liu Yanjun	Shanghai Huiyong Pharmaceutical Research Co., Ltd. (上海惠永藥物研究有限公司)	Director	August 2018	up to today
Liu Yanjun	SPH PHILILAB, INC	Director	October 2018	up to today
Mao Jianyi	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Director	June 2013	up to today
Gu Haoliang	Shanghai SPH New Asiatic Pharmaceutical Co., Ltd.	Chairman	June 2014	up to today
Gu Haoliang	Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Director	August 2016	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	SPH Qingdao Growful Pharmaceutical Co., Ltd.	Director	September 2016	up to today
Gu Haoliang	Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.	Chairman Director	January 2018 November 2010	up to today up to today
Liu Dawei	Shanghai Pharma Health Commerce Co., Ltd	Director	March 2015	up to today
Liu Dawei	Shanghai Healthcare Industry Equity Investment Fund	Member of the investment and decision-making committee	October 2015	up to today
Liu Dawei	Shanghai Lianyi Investment Center	Member of the investment committee	September 2016	up to today
Liu Dawei	Shanghai Ruijian Capital Management Co., Ltd.	Director	September 2016	up to today
Liu Dawei	Shanghai Pharmaceuticals (HK) Investment Limited	Director	August 2017	up to today
Liu Dawei	SPH Bio Therapeutics Co., LTD.	Director	June 2018	up to today
Zhang Yaohua	Shanghai Pharma Sales Co., Ltd.	Director	September 2016	November 2018
Zhang Yaohua	Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Chairman	May 2017	up to today
Zhang Yaohua	Shanghai SPH Tsumura Pharmaceutical Co., Ltd.	Chairman	December 2017	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
Zhang Yaohua	SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd.	Chairman Director	October 2018 July 2013	up to today up to today
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	RMB27.0114 million in total.

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

✓ Applicable ☐ Not applicable

Name	Position	Change situation	Reasons for changes
Shu Chang	Vice president	Resignation	Retirement

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

☐ Applicable ✓ Not applicable

None of the current and resigned (during the Reporting Period) directors, supervisor and senior management had been punished by securities regulators in the past three years.

VI. EMPLOYEES OF PARENT COMPANY AND MAJOR SUBSIDIARIES

(I) Employees

Number of in-service employees of the parent company	156
Number of in-service employees of the major subsidiaries	47,434
Total number of in-service employees	47,590
The number of retired employees whose expenses are borne by the parent company and the major subsidiaries	74
Composition of professions	
Type of profession	**Number of staff in the profession**
Production staff	14,806
Sales staff	19,810
Technical staff	5,290
Finance staff	1,834
Administrative staff	4,236
Others (Service staff)	1,614
Total	47,590

Education level	
Type of education level	**Number of persons**
PhD	73
Master	1,229
University graduate	10,616
College graduate	13,289
Specialized secondary school (high school) graduate	11,471
Below specialized secondary school graduate	10,912
Total	47,590

(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 in forms of expert forum, lectures on special topics, purpose-driven visiting and internal sharing. To improve its core soft power, the Company established a corporate university – Shanghai Medicine University, with function of "Five Platforms", including talent cultivation and management training platform, medical professional knowledge training platform, strategic consensus and transformation promotion platform, policies and corporate strategies research platform, and management model improvement and innovation platform. Through effective resource integration, Shanghai Medicine University accelerate the growth of talents to drive corporate development. The Company also organized and implemented the "Fourth Large Wild Goose" (new manager) learning project and Elite Wild Goose plan (reserve cadres) training project. In combination with implementation of the R&D project manager system, the Company carried out the capacity improvement training project for R&D project managers. The Company gives priority to quality management, and organized two sessions of management training for key employees for pharmaceutical producing enterprise in relation to hot issues such as drug administration system reform, new policies of medicines tendering, and disastrous quality events around the theme of "quality first, compliance operation". Around the constant development of the project of Lean Six Sigma, the Company organized 38 employees to participate in the project approval counselling and the black belt training courses; completed the sixth black and green examinations of 321 employees; and designed and implemented business English training to meet the requirements of internationalized development. The Company organized 198 new employees with an undergraduate degree or more to participate in the "Fledging Goose Fly High – New College Entrance Vocational Training" to strengthen the new employees' identification with our corporate culture and sense of belonging towards the Company. The Company has organized special training in such areas as ICHQ10 interpretations and the application of continuous synthesis and continuous reaction in pharmaceutical enterprises 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 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, and internal rules and regulations of the Company;

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 authority of general meetings to intervene the Company's decision-making and business activities. 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 sustainable 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 and regulations, and internal rules and regulations of the Company; in order for further standardization of information disclosure, the Company also formulated the Information Disclosure Management System, Management system of Relations with Investors and other information disclosure management systems and carry out strictly. 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 and Insider Management System (《內幕信息及知情人管理制度》) 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
2017 Annual General Meeting of Shanghai Pharmaceuticals Holding Co., Ltd	26 June 2018	Company's announcement Lin No. 2018-036	27 June 2018

Explanation of the General Meeting

☐ Applicable ✓ Not applicable

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	6	6	2	0	0	No	1
Cho Man	No	6	6	2	0	0	No	1
Li Yongzhong	No	6	6	2	0	0	No	1
Shen Bo	No	6	6	2	0	0	No	1
Li An	No	6	6	5	0	0	No	0
Wan Kam To	Yes	6	6	4	0	0	No	1
Tse Cho Che, Edward	Yes	6	6	2	0	0	No	1
Cai Jiangnan	Yes	6	6	4	0	0	No	1
Hong Liang	Yes	6	6	2	0	0	No	1

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

☐ Applicable ✓ Not applicable

Number of board meetings held in the year		6
Including:	Number of on-site meetings	1
	Number of meetings held by way of communication	2
	Number of meetings held on-site with attendance by way of communication available	3

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

☐ Applicable ✓ Not applicable

IV. SIGNIFICANT OPINIONS AND RECOMMENDATIONS PUT FORWARD BY THE SPECIALIZED 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.

(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 is responsible for the Company's policy, budget and financial accounts, significant transactions (especially for those involving the interest conflict), financial data, recruiting or dismissing senior management as well as other functions and powers as authorized by laws, administrative regulations, departmental rules, Articles of Associations or general meetings. The management is responsible for daily operations and implementation of relevant decisions.

(3) *Board meetings*

In accordance with code provisions A.1.1 and A.2.7 of the Corporate Governance Code, during the Reporting Period, the Board has held at least four regular meetings every year, which were convened by the chairman and notices of board meetings were served on all directors and supervisors as required by relevant requirements; independent non-executive directors met with the chairman individually at least once.

During the Reporting Period, the board of directors held a total of six 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, related/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.

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 non-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 and their remunerations.

During the Reporting Period, the remuneration and assessment committee held one meeting, 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 non-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 six 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.

In accordance with code provision C.3.3 of the Corporate Governance Code and the Rule 14A.55 of the Hong Kong Listing Rules, the audit committee met with the auditor without the presence of management at least once during the Reporting Period; 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.

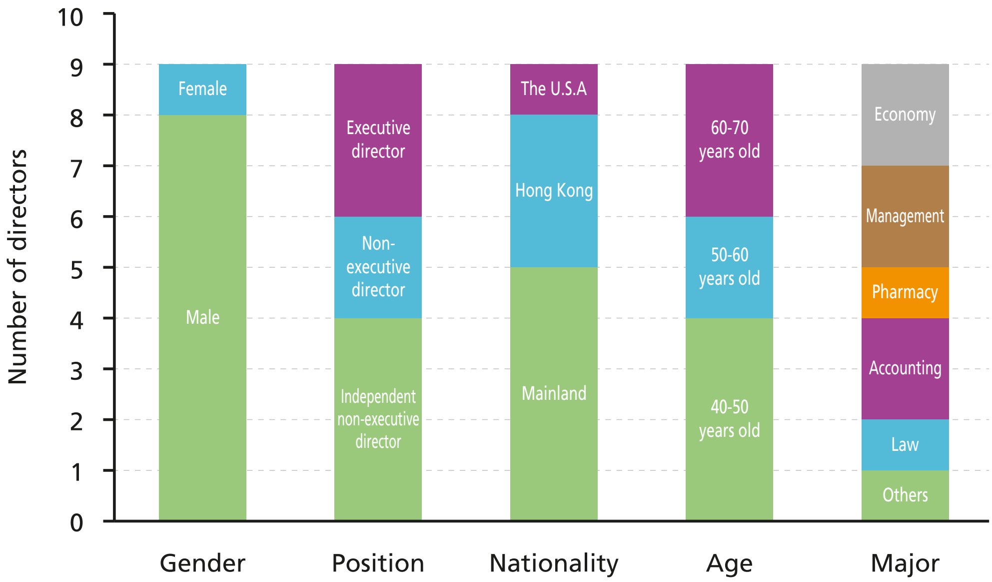
During the Reporting Period, the strategy committee held one meeting, at which proposal concerning review on the implementation of strategy of the Company for 2017 was discussed.

(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 nonexecutive 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 proposals discussed were mainly in relation to the structure, number of members, composition and diversity of members of the Board.

Pursuant to Rule 13.92 of the Hong Kong Listing Rules, the Company adopted the Board Diversity Policy in March 2014. When assessing candidates for the Board, the nomination committee will take into consideration the diversity perspective set out in this policy, including but not limited to gender, age, the highest academic degree, professional fields and term of service, so as to achieve a proper balance in the composition of the Board. The nomination committee considered that during the Reporting Period, the Board has met the expected goal of the member diversity policy and kept an appropriate balance of member structure. Details are as follow:



During the Reporting Period, all members of each committee have been present at committee meetings above and no absence.

4. Remuneration of Auditors

With reference to the Company's actual situation of business development, the audit fee payable to PricewaterhouseCoopers by Shanghai Pharmaceuticals for 2018 was set at RMB24.5 million (relevant disbursement and taxation expenses inclusive) while the audit fee for internal control was set at RMB1.6 million (relevant disbursement and taxation expenses inclusive) upon consultation and confirmation by the Company with the domestic auditor, PricewaterhouseCoopers Zhong Tian LLP (special general partnership), and the overseas auditor, PricewaterhouseCoopers.

In 2018, a non-audit service fee of approximately RMB0.56 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.

5. Accountability and Audit

Directors have confirmed their responsibility for preparation of financial statements of the Group for the year ended 31 December 2018.

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".

6. 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 completed the annual review on 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 employees 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 2018, 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.

7. Shareholder's Rights

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 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 3% or more of Shares may propose provisional proposals and submit them in writing to the convenor 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".

8. 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 investor's road show activities, actively participated in and received investors' survey. Meanwhile, the Company positively responded to and answered the investor's questions through the SSE "E interactive", investor hotline and e-mails.

9. 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. Leung Suet Wing (梁雪穎) of TMF Hong Kong Limited (external service provider) are the joint company secretaries of the Company and received relevant training not less than 15 hours in 2018, which is in conformity with Rule 3.29 of the Hong Kong Listing Rules. The main internal main contact person of the Company of Ms. Leung is the vice president and board secretary of the Company, Mr. Liu Dawei.

10. The Director's 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.

11. Articles of Association

The 2017 annual general meeting held on 26 June 2018 has reviewed and passed the "Proposal for Amendments to the Articles of Association and Rules of Procedure of the Board of Directors". For the details of the amendments, please refer to the Company's meeting document/circular for the 2017 general meeting dated 26 June 2018.

Relevant Information of the Corporate Bonds

✓ Applicable ☐ Not applicable

I. BASIC INFORMATION OF CORPORATE BONDS

Unit: RMB

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.SH	26 January 2016	26 January 2019	200,000,000	2.98	Interest paid annually, with the last installment of interest paid together with the principal	Shanghai Stock Exchange
Shanghai Pharmaceuticals Holding Co., Ltd. Public Issuance of 2018 Corporate Bonds (first tranche)	18 SPH 01	155006.SH	7 November 2018	7 November 2021	300,000,000	4.10	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

"16 SPH 01" are issued to eligible investors. The due date of the corporate bonds of this tranche is 26 January 2019, and the Company has completed the payment of the principal and interest of the bonds, which was RMB2,059.6 million in total.

"18 SPH 01" are issued to eligible investors. The value date of the corporate bonds of this tranche is 7 November 2018, and the next date of the payment of interest is 7 November 2019.

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	Zhao Liujun (趙留軍), Wang Zhuting (王竹亭), Zhang Qiao (張喬)
	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 the bonds of "16 SPH 01" 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.

The amount of the bonds of "18 SPH 01" of public offering was RMB3 billion. After deducting issuing expenses of RMB3 million, the net proceeds was RMB2.997 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 23 May 2018, 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 18 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" and "18 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 27 June 2018, it issued the custody "Report of Shanghai Pharmaceuticals Holding Co., Ltd. Public Issuance of 2016 Corporate Bonds (First Tranche) (2017)", and disclosed on the website of the Shanghai Stock Exchange (http://www.sse.com.cn/) on 29 June 2018.

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	2018	2017	Increase or decrease over the same period of the previous year (%)	Description
Profits before interest, tax, depreciation and amortization	7,850,019,207.00	7,014,917,321.37	11.90	/
Current ratio	1.36	1.38	-1.84	/
Quick ratio	0.98	1.01	-3.68	/
Asset-liability ratio (%)	63.40%	57.95%	+5.45 percentage points	/
Total debt to EBITDA ratio	10.25	7.79	31.58	Increase of a larger debt during the Reporting Period
Interest coverage ratio	5.44	6.94	-21.70	/
Cash interest coverage ratio	4.53	5.46	-16.88	/
EBITDA interest coverage ratio	6.52	8.01	-18.63	/
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 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 2018, the total amount of the Group's credit line from bank was RMB79.365 billion, of which RMB30.457 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: 28 March 2019

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 130 to 280, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

We 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 accounts receivables
- Inventory valuation and provisions
- Business combination – purchase price allocation

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment assessment Refer to notes 6 (Critical accounting estimates and judgements) and 11 (Intangible assets) to the consolidated financial statements. At 31 December 2018, the Group held goodwill amounted to RMB12,144 million, against which a provision of RMB798 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:	For the relevant CGUs, we compared the current year actual results with the year 2018 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 compared the input data used in the cash flow forecast against the historical figures, the approved budget and the Group's business plans. We considered management's key assumptions by: • Comparing the compound annual growth rates within the budget period with the Group's historical growth rates and industry historical data; • Comparing the growth rates to extrapolate cash flows beyond the budget period with our independent expectation based on economic data;

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
• Compound annual growth rate within the budget period; • growth rates to extrapolate cash flows 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.	• 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 supported by the evidence we gathered.

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of accounts receivables Refer to notes 6 (Critical accounting estimates and judgements) and 19 (Trade and other receivables and other current assets) to the consolidated financial statements. At 31 December 2018, the Group held accounts receivables amounted to RMB44,061 million, against which an impairment provision of RMB1,909 million was set aside. Accounts receivables are measured at amortised cost less allowance for impairment in the consolidated financial statements. Management applied expected credit loss ("ECL") model to measure the impairment provision against accounts receivables at the reporting date. Management estimated the loss allowance of accounts receivables based on the lifetime expected credit losses. For receivables with objective evidence of impairment, individual provision was made based on a probability-weighted estimate of the present value of the difference between the contractual cash flows that are due to the Group under the contract and the cash flows that the Group expects to receive. Receivables without objective evidence of impairment are grouped based on shared credit risk characteristics. The collective provision was determined based on the historical credit loss experience and aging analysis, taking into consideration of reasonable and supportable information, including information about both the current as well as the forecasts of future economic conditions. We focused on this area due to the magnitude of accounts receivables 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 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 receivable balances, focusing on balances where individual provision was made. 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 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. We assessed the forward-looking information used to determine the expected credit losses by considering economic factors applied by the management. We evaluated management's assessment of the sensitivity of the forward-looking information based on reasonable and possible changes of the related key assumptions. Based on the procedures performed, we considered management's judgments in assessing the impairment of accounts 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 6 (Critical accounting estimates and judgements) and 18 (Inventories) to the consolidated financial statements. At 31 December 2018, the Group held inventories amounted to RMB25,595 million, against which a provision of RMB571 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.

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Business combination - purchase price allocation Refer to note 48 (Business combination) to the consolidated financial statements. In 2018, the Group completed a number of acquisitions of certain subsidiaries. Upon the completion of the acquisitions, the Group performed purchase price allocation for these newly acquired subsidiaries. As a result of these valuations, goodwill, business networks, trademarks and brands, patent rights and know-how and other intangible assets of RMB5,416 million, RMB1,005 million, RMB102 million, RMB322 million, and RMB117 million, respectively, were recognised in the Group's consolidated financial statements. Management engaged independent professional valuers to assist in determining the fair values of the identifiable assets acquired (including intangible assets) and liabilities assumed as at the acquisition date. Such valuations included estimation about the future operating performance of the acquired business and the use of significant assumptions, including revenue growth rate, gross profit margin, royalty rate, remaining useful life and discount rate. We focused on this area as the assessment of purchase price allocation required significant judgements and estimates made by the management.	We assessed the competency, capability and objectivity of the independent professional valuers engaged by the management. We assessed the appropriateness of the valuation methodology by reference to market practices. We assessed management's rationale on identification of intangible assets by discussion with management and its independent professional valuers, considering the business models of the subsidiaries acquired and taking into consideration of industry practices. We assessed management's key assumptions by comparing the data inputs such as revenue growth rate, gross profit margin, royalty rate, and remaining useful life used in the valuation model with market data, historical financial data and our knowledge of the business and industry. We also assessed the discount rate by reference to external data, including the risk factor of comparable companies and market risk premium. We tested the mathematical accuracy of the calculations of the fair value. Based on our procedures performed, we considered management's judgements and estimates made in the purchase price allocation were supported by the evidence we 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.

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

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.

- 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.

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

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, 28 March 2019

Consolidated Balance Sheet

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
Assets			
Non-current assets			
Land use rights	*8*	**1,494,579**	1,284,041
Investment properties	*9*	**240,598**	254,924
Property, plant and equipment	*10*	**11,007,626**	9,386,260
Intangible assets	*11*	**14,199,103**	8,092,080
Investments in jointly controlled entities	*13*	**725,361**	662,551
Investments in associates	*14*	**3,641,244**	4,031,617
Deferred income tax assets	*30*	**1,037,925**	566,264
Available-for-sale financial assets	*15*	**—**	109,081
Financial assets at fair value through other comprehensive income	*20*	**162,312**	—
Financial asset at fair value through profit or loss	*23*	**119,649**	—
Other non-current assets	*16*	**657,079**	733,923
Other long-term receivables	*17*	**315,975**	581,479
		33,601,451	25,702,220
Current assets			
Inventories	*18*	**25,024,010**	17,269,956
Trade and other receivables and other current assets	*19*	**48,014,842**	36,529,576
Derivative financial instruments	*22*	**5,190**	643
Financial assets at fair value through other comprehensive income	*20*	**1,532,866**	—
Restricted cash	*21*	**2,089,114**	1,272,666
Cash and cash equivalents	*21*	**16,605,555**	13,569,414
		93,271,577	68,642,255
Assets classified as held for sale	*9*	**6,304**	–
		93,277,881	68,642,255
Total assets		**126,879,332**	94,344,475

Consolidated Balance Sheet

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	*24*	**2,842,089**	2,688,910
Share premium	*25*	**16,405,945**	14,068,206
Other reserves	*25*	**434,897**	695,440
Retained earnings	*26*	**19,330,644**	16,578,287
		39,013,575	34,030,843
Non-controlling interests		**7,419,696**	5,645,005
Total equity		**46,433,271**	39,675,848
Liabilities			
Non-current liabilities			
Borrowings	*28*	**9,620,298**	2,958,799
Provisions	*29*	**93,361**	75,908
Deferred income tax liabilities	*30*	**866,912**	620,150
Termination benefit obligations	*33*	**51,947**	51,866
Other non-current liabilities	*31*	**632,105**	632,958
Other long-term payables	*32*	**471,674**	697,135
		11,736,297	5,036,816
Current liabilities			
Trade and other payables and other current liabilities	*27*	**44,587,915**	35,115,294
Contract liabilities	*34*	**1,357,137**	—
Derivative financial instruments	*22*	**458**	2,434
Current income tax liabilities		**732,893**	722,406
Borrowings	*28*	**22,031,361**	13,791,677
		68,709,764	49,631,811
Total liabilities		**80,446,061**	54,668,627
Total equity and liabilities		**126,879,332**	94,344,475

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

The financial statements on pages 130 to 280 were approved by the Board of Directors on 28 March 2019 and were signed on its behalf.

Zhou Jun
Name of Director

Cho Man
Name of Director

Consolidated Income Statement

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	7	**159,084,397**	130,847,179
Cost of sales	38	**(137,390,362)**	(114,607,852)
Gross profit		**21,694,035**	16,239,327
Distribution and selling expenses	38	**(11,058,099)**	(7,411,262)
General and administrative expenses	38	**(5,234,338)**	(4,162,115)
Net impairment (losses)/gains on financial assets	38	**(84,639)**	64,311
Other income	35	**380,206**	197,740
Other gains – net	36	**38,051**	239,194
Impairment losses of goodwill	11	**(632,373)**	(52,694)
Gains on disposal of subsidiaries and associates	37	**600,608**	206,823
Operating profit		**5,703,451**	5,321,324
Finance income	40	**197,402**	161,393
Finance costs	40	**(1,205,186)**	(829,701)
Share of profit of jointly controlled entities	13	**231,605**	212,439
Share of profit of associates	14	**416,106**	339,353
Profit before income tax		**5,343,378**	5,204,808
Income tax expense	41	**(887,117)**	(1,147,029)
Profit for the year		**4,456,261**	4,057,779
Profit attributable to:			
Owners of the Company		**3,881,063**	3,520,644
Non-controlling interests		**575,198**	537,135
		4,456,261	4,057,779
Earnings per share attributable to owners of the Company (expressed in RMB per share)			
– Basic and diluted	42	**1.37**	1.31

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

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Profit for the year		**4,456,261**	4,057,779
Items that may be reclassified to profit or loss			
Financial assets at fair value through other comprehensive income (FVOCI)			
– Gross		**(59,265)**	—
– Tax	*30*	**–**	—
Loss allowance of debt investments at FVOCI			
– Gross	*25*	**1,287**	—
– Tax	*25*	**(322)**	—
Change in value of available-for sale financial assets			
– Gross	*15*	**—**	(80,784)
– Tax	*30*	**—**	10,181
Share of other comprehensive income of an associate accounted for using the equity method		**(2,942)**	(426)
Currency translation differences	*25*	**(413,906)**	(21,506)
Other comprehensive income for the year, net of tax		**(475,148)**	(92,535)
Total comprehensive income for the year		**3,981,113**	3,965,244
Attributable to:			
– Equity holders of the company		**3,453,897**	3,434,169
– Non-controlling interests		**527,216**	531,075
Total comprehensive income for the year		**3,981,113**	3,965,244

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 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	*15*	–	–	(78,817)	–	(78,817)	(1,967)	(80,784)
– Tax	*30*	–	–	9,689	–	9,689	492	10,181
Currency translation differences, net	*25*	–	–	(16,921)	–	(16,921)	(4,585)	(21,506)
Share of other comprehensive income of an associate accounted for using the equity method		–	–	(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		–	–	–	–	–	273,408	273,408
Transaction with non-controlling interests		–	(55,022)	–	–	(55,022)	(106,474)	(161,496)
Dividends	*26*	–	–	–	(968,008)	(968,008)	(302,348)	(1,270,356)
Appropriation to statutory reserves	*25,26*	–	–	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

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 31 December 2017		2,688,910	14,068,206	695,440	16,578,287	34,030,843	5,645,005	39,675,848
Change in accounting policy		–	–	96	126,776	126,872	5,059	131,931
Balance at 1 January 2018		2,688,910	14,068,206	695,536	16,705,063	34,157,715	5,650,064	39,807,779
Comprehensive income								
Profit for the year		–	–	–	3,881,063	3,881,063	575,198	4,456,261
Other comprehensive income								
Financial assets at fair value through other comprehensive income								
– Gross		–	–	(59,265)	–	(59,265)	–	(59,265)
– Tax		–	–	–	–	–	–	–
Loss allowance of debt investments at FVOCI								
– Gross		–	–	1,287	–	1,287	–	1,287
– Tax		–	–	(322)	–	(322)	–	(322)
Currency translation differences, net	*25*	–	–	(365,924)	–	(365,924)	(47,982)	(413,906)
Share of other comprehensive income of investments in an associate		–	–	(2,942)	–	(2,942)	–	(2,942)
Total other comprehensive income		–	–	(427,166)	–	(427,166)	(47,982)	(475,148)
Total comprehensive income/(loss) for the year		–	–	(427,166)	3,881,063	3,453,897	527,216	3,981,113
Transactions with owners in their capacity as owners								
Issuance of new H shares	*24,25*	153,179	2,376,125	–	–	2,529,304	–	2,529,304
Capital injections from non-controlling interests		–	–	–	–	–	169,176	169,176
Acquisitions of subsidiaries	*48*	–	–	–	–	–	1,413,889	1,413,889
Transaction with non-controlling interests	*47*	–	(44,388)	–	–	(44,388)	(21,998)	(66,386)
Appropriation to statutory reserves	*25,26*	–	–	166,527	(166,527)	–	–	–
Dividends	*26*	–	–	–	(1,079,994)	(1,079,994)	(309,528)	(1,389,522)
Others		–	6,002	–	(8,961)	(2,959)	(9,123)	(12,082)
Total transaction with owners		153,179	2,337,739	166,527	(1,255,482)	1,401,963	1,242,416	2,644,379
Balance at 31 December 2018		2,842,089	16,405,945	434,897	19,330,644	39,013,575	7,419,696	46,433,271

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

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations	*44(i)*	**4,304,698**	3,391,701
Interest paid		**(1,337,199)**	(846,295)
Income tax paid		**(1,371,420)**	(904,099)
Net cash generated from operating activities		**1,596,079**	1,641,307
Cash flows from investing activities			
Cash paid in respect of acquisition of subsidiaries	*48*	**(4,937,910)**	(572,937)
Cash paid in respect of acquisition of associates and a jointly controlled entity		**(364,125)**	(581,199)
Purchases of financial assets at fair value through other comprehensive income		**(147,264)**	–
Proceeds from redemption of treasury bills		**903,475**	4,464,868
Purchases of treasury bills		**(900,300)**	(4,450,000)
Purchases of property, plant and equipment ("PP&E") and investment properties		**(1,784,244)**	(1,874,145)
Purchases of land use rights and intangible assets		**(158,800)**	(133,127)
Proceeds from disposal of PP&E and investment properties	*44(ii)*	**40,556**	108,730
Proceeds from disposal of land use rights and intangible assets	*44(iii)*	**23,618**	11,054
Interest received		**201,836**	161,207
Dividends received		**423,392**	577,207
Proceeds from disposal of available-for-sale financial assets	*44(iv)*	**—**	76,749
Proceeds from disposal of subsidiaries, associates and a jointly controlled entity	*44(v)*	**104,557**	240,488
Proceeds from disposal of financial assets at fair value through profit or loss		**4,897**	565
Increase in term deposit		**(390,000)**	–
Other cash flows generated from investing activities		**(510,592)**	(223,291)
Net cash used in investing activities		**(7,490,904)**	(2,193,831)

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Cash flows from financing activities			
Cash injection from non-controlling interests		**95,447**	21,769
Issuance of H Shares		**2,529,303**	–
Proceeds from borrowings		**63,604,487**	26,807,105
Repayments of borrowings		**(55,843,776)**	(22,302,488)
Dividends paid by the Group		**(1,400,088)**	(1,245,328)
Acquisitions of non-controlling interests		**(114,235)**	(116,616)
Other cash flows generated from financing activities		**(7,618)**	(3,469)
Net cash generated from financing activities		**8,863,520**	3,160,973
Net increase in cash and cash equivalents		**2,968,695**	2,608,449
Cash and cash equivalents at the beginning of year		**13,569,414**	10,979,744
Exchange gains/(losses) on cash and cash equivalents		**67,446**	(18,779)
Cash and cash equivalents at end of year		**16,605,555**	13,569,414

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).

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 2017, the Company totally had 765,893,920 H Shares and 1,923,016,618 A Shares respectively. On 26 January 2018, the Company further issued 153,178,784 H shares. As at 31 December 2018, the Company totally had 919,072,704 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 28 March 2019.

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

(i) Compliance with HKFRS and HKCO

The consolidated financial statements of the Group has been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) and the disclosure requirements of the Hong Kong Company Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and derivative financial instruments.

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 6.

(ii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- HKFRS 9 Financial Instruments, and
- HKFRS 15 Revenue from Contracts with Customers.
- Classification and Measurement of Share-based Payment Transactions – Amendments to HKFRS 2

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Basis of preparation (continued)

(ii) *New and amended standards adopted by the Group (continued)*

- Annual Improvements 2014-2016 cycle
- Transfers to Investment Property – Amendments to HKAS 40
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

Adoption of HKFRS 9 and HKFRS 15 had certain impact on the Group's consolidated financial statements. Most of the other amendments listed above did not have any material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(iii) *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 2018 and have not been early adopted by the Group.*

		Effective for annual periods beginning on or after	*Note*
HKFRS 16 Leases	Leases	1 January 2019	*(a)*
HKFRS 17	Insurance contracts	1 January 2021	
(HK) Interpretation 23	Uncertainty over Income Tax Treatments	1 January 2019	
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019	
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019	
Amendments to HKFRS 3, HRFRS 11, HKAS 12 and HKAS 23	Annual Improvement of HKFRS Standards 2015-2017 Cycle	1 January 2019	
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement	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	

The Group's assessment of the impact of these new standards and interpretation is set out below:

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Basis of preparation (continued)

(iii) 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 2018 and have not been early adopted by the Group (continued)

(a) HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised 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 recognised. The only exceptions are short-term and low-value leases.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB1,861,370,000 (Note 46). Of these commitments, approximately RMB167,364,000 relate to short-term leases and RMB2,596,000 to low value leases which will both be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments the Group expects to recognise right-of-use assets of approximately RMB1,553,073,000 on 1 January 2019 and lease liabilities of RMB1,553,073,000. The Group expects no material impact to the consolidated income statement.

Operating cash flows will increase and financing cash flows will decrease by approximately RMB355,959,000 as repayment of the lease liabilities will be classified as cash flows from financing activities.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3.2 Changes in accounting policies and disclosures

(1) Impact on the financial statements

HKFRS 9 was generally adopted without restating comparative information. The Group used modified retrospective approach while adopting HKFRS 9. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet as at 1 January 2018.

The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Changes in accounting policies and disclosures (continued)

(1) *Impact on the financial statements (continued)*

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Balance sheet (extract)	31 December 2017 *RMB'000*	HKFRS 9 *RMB'000*	HKFRS 15 *RMB'000*	1 January 2018 *RMB'000*
Non-current assets				
Deferred tax assets	566,264	17,375	–	583,639
Financial assets at fair value through other comprehensive income (FVOCI)	–	70,346	–	70,346
Financial assets at fair value through profit or loss (FVPL)	–	234,241	–	234,241
Available-for-sale financial assets	109,081	(109,081)	–	—
Other long-term receivables	581,479	(2,907)	–	578,572
Intangible assets	8,092,080	–	(71,946)	8,020,134
Other non-current assets	733,923	–	71,946	805,869
Current assets				
Trade and other receivables and other current assets	36,529,576	(1,085,055)	–	35,444,521
Financial assets at fair value through other comprehensive income (FVOCI)	—	1,018,462	–	1,018,462
Total assets	94,344,475	143,381	–	94,487,856
Non-current liabilities				
Deferred income tax liabilities	620,150	11,450	–	631,600
Current liabilities				
Trade and other payables and other current liabilities	35,115,294	–	(1,032,470)	34,082,824
Contract liabilities	—	–	1,032,470	1,032,470
Total liabilities	54,668,627	11,450	–	54,680,077
Net assets	39,675,848	131,931	–	39,807,779
Reserves	695,440	96	–	695,536
Retained earnings	16,578,287	126,776	–	16,705,063
Non-controlling interests	5,645,005	5,059	–	5,650,064
Total equity	39,675,848	131,931	–	39,807,779

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Changes in accounting policies and disclosures (continued)

(2) HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated as the Group does not have any hedge instrument.

The total impact on the Group's retained earnings as at 1 January 2018 is as follows:

	Notes	*RMB'000*
Retained earnings as at 31 December 2017		16,578,287
Reclassify investments from available-for-sale to FVPL	*(i)*	2,105
Remeasure investments from available-for-sale to FVPL	*(i)*	195,506
Increase in provision for trade receivables and other receivables	*(ii)*	(66,593)
Increase in provision for other long-term receivables	*(ii)*	(2,907)
Increase in provision for debt investments at FVOCI	*(ii)*	(1,909)
Increase in deferred tax liabilities	*(ii)*	(11,450)
Increase in deferred tax assets	*(ii)*	17,375
Impact on non-controlling interest		(5,059)
Appropriation to statutory reserves		(292)
Adjustment to retained earnings from adoption of HKFRS 9 on 1 January 2018		126,776
Opening retained earnings as at 1 January 2018 – HKFRS 9 (before restatement for HKFRS 15)		16,705,063

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Changes in accounting policies and disclosures (continued)

(2) HKFRS 9 Financial Instruments (continued)

(i) Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

Financial assets – 1 January 2018	*Notes*	**FVPL** *RMB'000*	**FVOCI (Available-for-sale 2017)** *RMB'000*	**Cost Method (Available-for-sale 2017)** *RMB'000*
Closing balance 31 December 2017 – HKAS 39		–	78,960	30,121
Reclassify investments from available-for-sale to FVPL	*(a)*	38,735	(8,614)	(30,121)
Remeasurement of equity investments from cost method to fair value method	*(a)*	195,506	–	–
Opening balance 1 January 2018 – HKFRS 9		234,241	70,346	–

The impact of these changes on the Group's equity is as follows:

	Notes	**Effect on AFS reserves** *RMB'000*	**Effect on FVOCI reserve** *RMB'000*	**Effect on retained earnings** *RMB'000*	**Others** *RMB'000*
Closing balance 31 December 2017 – HKAS 39		(23,881)	–	–	–
Reclassify investments from available-for-sale to FVPL	*(a)*	(2,105)	–	2,105	–
Reclassify investments from available-for-sale to FVOCI	*(b)*	17,505	(17,505)	–	–
Remeasurement of equity investments from cost method to fair value method	*(a)*	–	–	195,506	–
Other		8,481	–	–	(8,481)
Total impact		23,881	(17,505)	197,611	(8,481)
Opening balance 1 January 2018 – HKFRS 9		—	(17,505)	197,611	(8,481)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Changes in accounting policies and disclosures (continued)

(2) HKFRS 9 Financial Instruments (continued)

(i) Classification and measurement (continued)

(a) Reclassification from available-for-sale to FVPL

Certain equity investments were reclassified from available-for-sale to financial assets at FVPL (approximately RMB234,241,000 as at 1 January 2018). They do not meet the HKFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest.

Related fair value gains of approximately RMB2,105,000 were transferred from the available-for-sale financial assets reserve to retained earnings and fair value gains of approximately RMB195,506,000 were recognised in retained earnings on 1 January 2018. In 2018, net fair value gains of RMB9,304,000 relating to these investments were recognised in profit or loss, along with deferred tax income of RMB2,551,000.

(b) Reclassify investments from available-for-sale to FVOCI

The Group elected to present in other comprehensive income ("OCI") changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of RMB70,346,000 were reclassified from available-for-sale financial assets to financial assets at FVOCI and fair value losses of RMB17,505,000 were reclassified from the available-for-sale financial assets reserve to the FVOCI reserve on 1 January 2018.

(ii) Impairment of financial assets

The Group has three types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- Trade receivables for sales;
- Other receivables and other long-term receivables, and
- Debt investments carried at FVOCI

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table in Note 3.2 (i).

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables for sales

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for trade receivables. This resulted in an increase of the loss allowance on 1 January 2018 by RMB62,473,000 for trade receivables.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Changes in accounting policies and disclosures (continued)

(2) HKFRS 9 Financial Instruments (continued)

(ii) Impairment of financial assets (continued)

Other receivables, other long-term receivables and debt investments at FVOCI

Other receivables, other long-term receivables and debt investments at FVOCI are mainly considered to have low credit risk, and the loss allowance recognized during the period was therefore limited to 12 months expected credit losses unless there has been objective evidence of impairment since initial recognition. Debt instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. For financial assets that have objective evidence of impairment, lifetime expected credit losses recognized.

(3) HKFRS 15 Revenue from Contracts with Customers

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in HKFRS 15, the Group has adopted the new rules using the modified retrospective approach which means the cumulative impact of the adoption were recognized in retained earnings as of 1 January 2018 as below:

	HKAS 18 carrying amount 31 December 2017	**Reclassification**	**HKFRS 15 carrying amount 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*
Trade and other payables *(i)*	35,115,294	(1,032,470)	34,082,824
Contract liabilities *(i)*	–	1,032,470	1,032,470
Intangible assets *(ii)*	8,092,080	(71,946)	8,020,134
Other non-current assets *(ii)*	733,923	71,946	805,869

(i) Presentation of assets and liabilities related to contracts with customers

The Group has changed the presentation of certain amounts in the balance sheet to reflect the terminology of HKFRS 15. Contract liabilities in relation to sales of goods and rendering of service were previously included in trade and other payables.

(ii) Accounting for costs to fulfil a contract

The Group recognised payments related directly to the contract with customers amounting to RMB71,946,000 as other non-current assets, the payments were previously included in intangible assets.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Subsidiaries, jointly controlled entities and associates

(a) Consolidation

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

(i) Business combination under common control

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

(ii) Business combination not under common control

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

Acquisition-related costs are expensed as incurred.

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.

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)

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 is recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

(c) Jointly controlled entities and associates

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

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

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

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

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

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

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

3.4 Segment reporting

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

3.5 Foreign currency translation

(a) *Functional and presentation currency*

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

(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 growing 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 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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Intangible assets (continued)

(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.

(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 Investments and other financial assets

(a) *Classification*

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

(c) *Measurement*

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Investments and other financial assets (continued)

(c) *Measurement (continued)*

Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The group subsequently measures all equity investments at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Investments and other financial assets (continued)

(d) *Impairment*

From 1 January 2018, the group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

For trade receivables, the group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 19 for further details.

Debt investments at amortized cost and FVOCI are mainly considered to have low credit risk, and the loss allowance recognized during the period was therefore limited to 12 months expected losses unless there has been objective evidence of impairment since initial recognition. Debt instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. For other financial assets that have objective evidence of impairment, lifetime expected credit losses recognized.

(e) *Accounting policies applied until 31 December 2017*

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

(i) Classification

Until 31 December 2017, 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.

(1) 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.

(2) 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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Investments and other financial assets (continued)

(e) Accounting policies applied until 31 December 2017 (continued)

(i) Classification (continued)

(3) 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.

(ii) 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.

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.

(iii) Impairment

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Investments and other financial assets (continued)

(e) Accounting policies applied until 31 December 2017 (continued)

(iii) Impairment (continued)

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.

(1) Assets carried at amortised cost

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.

(2) 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Investments and other financial assets (continued)

(e) Accounting policies applied until 31 December 2017 (continued)

(iii) Impairment (continued)

(2) Assets classified as available for sale (continued)

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.

If there was objective evidence of impairment for available-for-sale financial assets, 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 – was removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or were not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increased in a subsequent period and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed through profit or loss.

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 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)

3.16 Inventories

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

3.17 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.

3.18 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.

3.19 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.

3.20 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 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.

3.22 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.

(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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22 Current and deferred income tax (continued)

(b) *Deferred income tax (continued)*

(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.

3.23 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23 Employee benefits(continued)

(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.

3.24 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.

3.25 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.26 Revenue recognition

Sales are recognised when control of goods or service has been transferred.

(a) *Sales of goods*

Sales are recognised when the products have been shipped to the specific location in accordance with the sales contract and the customers have inspected and accepted the products. There is no significant financing component as the sales are made with a credit term varied by customers' credit risk characteristics, which is consistent with market practices. Advance received from customers is presented as contract liabilities in the balance sheet.

Any consideration payable to customers or third parties that no distinct good or service received from those customers, the consideration is recognised as a reduction of the revenue.

(b) *Rendering services*

Revenue from providing services to external parties is recognised over a period of time based on the stage of completion of such service, which is determined by the proportion of costs incurred to the estimated total costs. As at the balance sheet date, the Group reassesses the stage of completion so as to better reflect the changes in obligation performance.

Revenue is recognised by the stage of completion of the services. Trade receivables are recognised when the Group has an unconditional right to payment. For the remaining part of the services, a contract asset is recognised. The Group recognises the loss provision using the expected credit loss model for its trade receivables and contract assets. If the payments received or receivable exceed the services rendered, a contract liability is recognised for the excess. Contract assets and contract liabilities under the same contract are presented on a net basis.

3.27 Dividend income

Dividends are received from financial assets measured at fair value through profit or loss (FVPL) and at fair value through other comprehensive income (FVOCI) (2017 – from financial assets at FVPL and available-for-sale financial assets). Dividends are recognised as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in OCI if it relates to an investment measured at FVOCI. However, the investment may need to be tested for impairment as a consequence.

3.28 Leases (as a leasee)

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.28 Leases (as a leasee) (continued)

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

3.29 Dividend distribution

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

3.30 Financial guarantee contracts

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

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

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

3.31 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")), and details of which have been set out in Notes 19, 20, 27 and 28.

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 2018, if RMB had strengthened/weakened by 5% against the USD and HKD with all other variables held constant, the Group's profit before income tax for the year would have been higher/lower by approximately RMB152,036,000 (2017: higher/lower RMB31,231,000), mainly as a result of foreign exchange gains/losses arising from the translation of USD and HKD-denominated cash and cash equivalents, receivables and payables and borrowings balances.

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

As the Group has no significant interest-bearing assets (other than restricted cash and cash and cash equivalents), the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk primarily arises from 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 2018, the Group's borrowings at floating rate and fixed rate amounted to approximately RMB5,453,842,000 and RMB26,197,817,000 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 2018, 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 RMB8,615,000 (2017: lower/higher RMB10,216,000) respectively, mainly as a result of higher/lower interest expenses on borrowings.

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(c) *Credit risk*

Credit risk arises from cash and cash equivalents, contractual cash flows of debt instruments carried at amortised cost, at FVOCI and at FVPL, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

The Group has three types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- Trade receivables for sales
- Other receivables and other long-term receivables, and
- Debt investments carried at FVOCI

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 trade receivables for sales, 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.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(c) *Credit risk (continued)*

On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of HKFRS 9) was determined as follows for trade receivables:

	Less than 6 months	6 months to 12 months	Over 1 year	Total
Aging as at 31 December 2018				
Expected loss rate	**0.87%**	**7.76%**	**85.72%**	**4.31%**
Gross carrying amount	**38,264,333**	**4,665,780**	**1,419,864**	**44,349,977**
Loss allowance	**(331,532)**	**(362,232)**	**(1,217,043)**	**(1,910,807)**

	Less than 6 months	6 months to 12 months	Over 1 year	Total
Aging as at 1 January 2018				
Expected loss rate	0.68%	4.66%	90.60%	3.79%
Gross carrying amount	28,656,502	2,987,900	997,361	32,641,763
Loss allowance	(194,488)	(139,287)	(903,566)	(1,237,341)

The loss allowances for trade receivables as at 31 December 2017 are reconciled to the opening loss allowances on 1 January 2018 and to the closing loss allowance as at 31 December 2018 as follows:

	Trade receivables *RMB'000*
At 31 December 2017 – calculated under HKAS 39	1,174,867
Amounts restated through opening retained earnings	62,474
Opening loss allowance as at 1 January 2018 – calculated under HKFRS 9	1,237,341
Increase in the loss allowance recognised in profit or loss during the year	62,744
Receivables written off during the year as uncollectible	(20,369)
Others	631,091
Closing loss allowance as at 31 December 2018	1,910,807

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(c) *Credit risk (continued)*

For other receivables and other long-term receivables, the loss allowance as at 31 December 2017 reconciles to the opening loss allowance on 1 January 2018 and to the closing loss allowance as at 31 December 2018 as follows:

	Other receivables and other long-term receivables *RMB'000*
At 31 December 2017 – calculated under HKAS 39	589,833
Amounts restated through opening retained earnings	7,026
Opening loss allowance as at 1 January 2018 – calculated under HKFRS 9	596,859
Increase in the loss allowance recognised in profit or loss during the year	20,608
Others	52,077
Closing loss allowance as at 31 December 2018	669,544

Debt investments at FVOCI are bank's acceptance notes. The loss allowance for debt investments at FVOCI as at 31 December 2017 reconciles to the opening loss allowance on 1 January 2018 and to the closing loss allowance as at 31 December 2018 as follows:

	Debt investments at FVOCI *RMB'000*
Closing loss allowance as at 31 December 2017 (calculated under HKAS 39)	–
Amounts restated through opening retained earnings-gross	2,545
Opening loss allowance as at 1 January 2018 – calculated under HKFRS 9	2,545
Increase in the loss allowance recognised in other comprehensive income during the year	1,287
Closing loss allowance as at 31 December 2018	3,832

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 2018					
Borrowings *(Note 28)*	**22,031,419**	**885,865**	**8,722,352**	**14,775**	**31,654,411**
Interests payments on borrowings	**721,025**	**339,198**	**261,407**	**–**	**1,321,630**
Other Long-term payables	**–**	**7,451**	**18,500**	**1,889,557**	**1,915,508**
Financial liabilities as included in trade and other payables	**43,378,551**	**–**	**–**	**–**	**43,378,551**
	66,130,995	**1,232,514**	**9,002,259**	**1,904,332**	**78,270,100**
At 31 December 2017					
Borrowings *(Note 28)*	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	32,959,750	–	–	–	32,959,750
	47,075,868	2,784,053	2,028,013	263,305	52,151,239

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 2018 and 2017, 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 49(d).

4.2 Fair value estimation

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

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2018 and 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:

(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.

(iii) Financial instruments in level 3

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

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Fair value estimation (continued)

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

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
As at 31 December 2018				
Assets				
Derivative financial instruments	**–**	**5,190**	**–**	**5,190**
Financial assets at fair value through profit or loss	**7,887**	**–**	**111,762**	**119,649**
Debt instruments at fair value through other comprehensive income	**–**	**–**	**1,532,866**	**1,532,866**
Equity investments at fair value through other comprehensive income	**162,312**	**–**	**–**	**162,312**
	170,199	**5,190**	**1,644,628**	**1,820,017**
Liabilities				
Derivative financial instruments	**–**	**458**	**–**	**458**

	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*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

See Note 3.2 for reclassification following the adoption of HKFRS 9 Financial Instruments.

Fair value of the Group's investment properties has been disclosed in Note 9. The fair value is within level 3 of the fair value hierarchy.

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Fair value estimation (continued)

(b) Valuation techniques used to determine fair values

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.

(c) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the periods ended 31 December 2018 and 31 December 2017:

	Debt instruments at fair value through other comprehensive income *RMB'000*	**Financial assets at fair value through profit or loss** *RMB'000*
Opening balance 31 December 2017	–	–
Change in accounting policy	1,018,462	225,627
Opening balance 1 January 2018	**1,018,462**	**225,627**
Transfer from level 1		
Disposals	**(14,319,219)**	**(130,154)**
Acquisitions	**14,833,623**	**6,258**
Gains recognised in other income	**–**	**10,031**
Losses recognised in discontinued operations	**–**	**–**
(Losses)/gains recognised in other comprehensive income	**–**	**–**
Closing balance 31 December 2018	**1,532,866**	**111,762**

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Fair value estimation (continued)

(d) *Valuation inputs and relationships to fair value*

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

Description	Fair value at 31 December 2018 *RMB'000*	Unobservable inputs	Range of inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Debt instruments at fair value through other comprehensive income	1,532,866	Risk-adjusted discount rate	3.65%-5.87%	Negative correlation
Financial assets at fair value through profit or loss	111,762	EV/EBIT and EV/S	0.35-22.08	Positive correlation

(e) *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 2017 and 2018 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 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	
	2018	2017
	RMB'000	*RMB'000*
Borrowings	**31,651,659**	16,750,476
Interests bearing payables	**–**	653,420
Total borrowings	**31,651,659**	17,403,896
Total equity	**46,433,271**	39,675,848
Total capital	**78,084,930**	57,079,744
Gearing ratio (%)	**41%**	30%

6 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 11).

(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.

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(e) Impairment of accounts receivables

The loss allowances for accounts receivables are based on assumptions about risk of default and expected loss rates. The group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

(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.

7 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:

(i) Pharmaceutical business (Production segment) – research and development, manufacturing and sale of a broad range of pharmaceutical and healthcare products;

(ii) 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;

(iii) Pharmaceutical retail (Retail segment) – operation of a network of retail pharmacy stores; and

(iv) Other business operations (Others) – consulting service, assets management, investment holding, etc.

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

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

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

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

7 SEGMENT INFORMATION (continued)

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

For the year ended 31 December 2018

	Production segment *RMB'000*	Distribution segment *RMB'000*	Retail segment *RMB'000*	Others *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
External revenue	16,176,664	135,085,003	7,141,004	681,726	–	159,084,397
Inter-segment revenue	3,285,050	4,359,561	61,067	422,038	(8,127,716)	–
Segment revenue	19,461,714	139,444,564	7,202,071	1,103,764	(8,127,716)	159,084,397
Revenue less operating cost and expenses	1,622,075	3,871,074	35,413	(106,472)	(20,492)	5,401,598
Net impairment losses on financial assets						(84,639)
Other income						380,206
Other gains – net						38,051
Impairment losses of goodwill						(632,373)
Gains on disposal of subsidiaries and associates						600,608
Finance costs – net						(1,007,784)
Share of profit of jointly controlled entities	202,876	28,729	–	–	–	231,605
Share of profit of associates	335,871	55,447	–	24,788	–	416,106
Profit before income tax						5,343,378
Income tax expense						(887,117)
Profit for the year						4,456,261

7 SEGMENT INFORMATION (continued)

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 operating cost and expenses	1,532,583	3,046,340	78,249	27,985	(19,207)	4,665,950
Net impairment gains on financial assets						64,311
Other income						197,740
Other gains – net						239,194
Impairment losses of goodwill						(52,694)
Gains on disposal of subsidiaries and associates						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

7 SEGMENT INFORMATION (continued)

Other segment items included in the consolidated financial statements for the year ended 31 December 2018 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	**539,379**	**308,126**	**37,583**	**50,882**	**–**	**935,970**
Amortisation of intangible assets and land use rights	**88,120**	**237,178**	**1,181**	**39,756**	**–**	**366,235**
Capital expenditure	**1,111,339**	**707,584**	**37,851**	**192,520**	**–**	**2,049,294**

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

7 SEGMENT INFORMATION (continued)

The segment assets and liabilities as at 31 December 2018 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	478,234	247,127	–	–	–	725,361
Investment in associates	2,040,361	530,586	–	1,070,297	–	3,641,244
Other assets	27,902,399	91,071,041	2,199,123	33,679,583	1,037,925	155,890,071
Elimination						(33,377,344)
Total assets						126,879,332
Segment liabilities	8,312,417	67,992,351	1,593,014	16,508,799	1,599,805	96,006,386
Elimination						(15,560,325)
Total liabilities						80,446,061

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

	Assets *RMB'000*	Liabilities *RMB'000*
Segment assets/liabilities after elimination	125,841,407	78,846,256
Unallocated:		
Current income tax liabilities	–	732,893
Deferred tax assets/liabilities – net	1,037,925	866,912
Total	126,879,332	80,446,061

See Note 3.2 for details about restatements for changes in accounting policies.

7 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

8 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	
	2018	2017
	RMB'000	*RMB'000*
Opening net book amount	**1,284,041**	1,401,636
Additions	**126,435**	15,713
Transfer from PP&E *(Note 10)*	**18,259**	10,770
Acquisition of subsidiaries	**160,168**	40,407
Amortisation charge *(Note 38)*	**(40,886)**	(38,059)
Disposals	**(5,133)**	(62,032)
Disposal of subsidiaries	**(48,305)**	(84,394)
Closing net book amount	**1,494,579**	1,284,041

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cost of sales	**5,832**	5,229
Distribution and selling expenses	**4,906**	4,800
General and administrative expenses	**30,148**	28,030
	40,886	38,059

8 LAND USE RIGHTS (continued)

(b) The net book value of land use rights pledged as collateral for the Group's borrowings (Note 28) as of the respective balance sheet dates were as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
The carrying amount of the land use rights pledged	**53,689**	90,167

(c) As at 31 December 2018, 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 RMB4,314,000 (2017: RMB4,873,000).

9 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	
	2018	2017
	RMB'000	*RMB'000*
Cost	**441,065**	455,181
Accumulated depreciation	**(200,467)**	(199,682)
Impairment	**–**	(575)
Net book amount	**240,598**	254,924
Opening net book amount	**254,924**	258,863
Acquisition of subsidiaries	**3,893**	–
Transfer from owner-occupied PP&E *(Note 10)*	**1,057**	11,059
Transfer to assets held for sale	**(6,304)**	–
Depreciation *(Note 38)*	**(12,554)**	(12,160)
Impairment *(Note 38)*	**–**	(575)
Transfer to owner-occupied PP&E *(Note 10)*	**(309)**	(769)
Disposals	**(201)**	(1,357)
Translation difference	**92**	(137)
Closing net book amount	**240,598**	254,924

9 INVESTMENT PROPERTIES (continued)

(a) As at 31 December 2018, the fair values of the investment properties were approximately RMB1,013,680,000 (2017: RMB929,710,000). These estimates are made by the directors with reference to market transacted prices for similar properties in the vicinity of the relevant properties. In case where market transacted prices were not available, fair values were estimated using discounted cash flow projections based on reliable estimates of future rental income or market rents for similar properties in the same location and condition, where appropriate.

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Rental income	**58,914**	54,381

(c) Depreciation of investment properties has been charged to the consolidated income statements (Note 38) as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cost of sales	**12,554**	12,160

10 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 2017								
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
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 48)*	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 9)*	769	–	–	–	–	–	–	769
Transfer to land use rights *(Note 8)*	–	–	–	–	–	(10,770)	–	(10,770)
Disposals *(Note 44(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 38)*	(15,268)	(6,863)	(2)	(95)	(1,066)	–	–	(23,294)
Transfer to investment properties *(Note 9)*	(11,059)	–	–	–	–	–	–	(11,059)
Transfer to Intangible Assets *(Note 11)*	–	–	–	–	–	(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

10 PROPERTY, PLANT AND EQUIPMENT (continued)

	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
Year ended 31 December 2018								
Opening net book amount	4,634,283	1,966,177	127,901	195,255	516,392	1,537,446	408,806	9,386,260
Additions	70,260	224,725	38,631	50,320	195,259	1,195,955	7,659	1,782,809
Acquisition of subsidiaries *(Note 48)*	550,896	168,409	13,400	60,394	116,393	–	–	909,492
Internal transfer	623,330	320,283	1,569	56,169	58,965	(1,060,316)	–	–
Transfer from investment properties *(Note 9)*	309	–	–	–	–	–	–	309
Transfer to land use rights *(Note 8)*	–	–	–	–	–	(18,259)	–	(18,259)
Disposals *(Note 44(ii))*	(6,533)	(8,811)	(5,827)	(2,016)	(23,343)	–	(19)	(46,549)
Depreciation charge	(275,260)	(353,588)	(39,745)	(63,284)	(184,904)	–	(6,635)	(923,416)
Addition of provision for impairment *(Note 38)*	(231)	(3,595)	–	(17)	(200)	–	–	(4,043)
Transfer to investment properties *(Note 9)*	(1,057)	–	–	–	–	–	–	(1,057)
Transfer to Intangible Assets *(Note 11)*	–	–	–	–	–	(56,430)	–	(56,430)
Translation difference	(8,242)	(8,534)	(1,073)	(203)	(3,249)	–	–	(21,301)
Disposal of subsidiaries	–	–	(78)	(44)	(67)	–	–	(189)
Closing net book amount	5,587,755	2,305,066	134,778	296,574	675,246	1,598,396	409,811	11,007,626
At 31 December 2018								
Cost	7,691,312	4,331,358	396,654	770,086	1,618,989	1,598,396	422,673	16,829,468
Accumulated depreciation	(2,059,990)	(1,978,684)	(261,248)	(472,011)	(942,095)	–	(12,862)	(5,726,890)
Impairment	(43,567)	(47,608)	(628)	(1,501)	(1,648)	–	–	(94,952)
Net book amount	5,587,755	2,305,066	134,778	296,574	675,246	1,598,396	409,811	11,007,626

10 PROPERTY, PLANT AND EQUIPMENT (continued)

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cost of sales *(Note 38)*	**405,510**	345,783
Distribution and selling expenses *(Note 38)*	**153,943**	82,984
General and administrative expenses *(Note 38)*	**363,963**	280,372
	923,416	709,139

(b) The net book amount of property, plant and equipment pledged as collateral for the Group's borrowings (Note 28) as of the respective balance sheet dates were as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Property, plant and equipment, pledged	**204,705**	316,363

(c) As at 31 December 2018, 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 RMB381,723,000 (2017: RMB94,406,000).

(d) During the year ended 31 December 2018, the Group did not capitalise borrowing costs (2017: Nil) on qualifying assets.

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cost – capitalised finance leases	**36,600**	41,413
Accumulated depreciation	**(4,831)**	(7,829)
Net book amount	**31,769**	33,584

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.

11 INTANGIBLE ASSETS

	Goodwill	Business network	Trademarks and brands	Know-how and patent rights	Computer software	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017							
Cost	5,961,371	869,776	622,074	357,590	219,172	160,627	8,190,610
Accumulated amortisation	–	(355,927)	(13,038)	(156,878)	(97,440)	(70,734)	(694,017)
Impairment	(113,384)	–	–	(81,868)	–	(17,768)	(213,020)
Net book amount	5,847,987	513,849	609,036	118,844	121,732	72,125	7,283,573
Year ended 31 December 2017							
Opening net book amount	5,847,987	513,849	609,036	118,844	121,732	72,125	7,283,573
Additions	–	–	–	–	11,910	107,973	119,883
Acquisition of subsidiaries *(Note 48)*	797,975	71,550	–	–	112	3,181	872,818
Transfer from PP&E *(Note 10)*	–	–	–	–	49,957	–	49,957
Others	13,438	–	(20,165)	709	73	–	(5,945)
Disposal	–	–	–	–	(504)	–	(504)
Impairment Charge *(Note 38)*	(52,694)	–	–	–	–	–	(52,694)
Amortisation charge *(Note 38)*	–	(81,924)	(1,154)	(28,473)	(34,229)	(29,228)	(175,008)
Closing net book amount	6,606,706	503,475	587,717	91,080	149,051	154,051	8,092,080
At 31 December 2017							
Cost	6,772,784	941,326	601,909	358,299	277,068	271,781	9,223,167
Accumulated amortisation	–	(437,851)	(14,192)	(185,351)	(128,017)	(99,962)	(865,373)
Impairment	(166,078)	–	–	(81,868)	–	(17,768)	(265,714)
Net book amount	6,606,706	503,475	587,717	91,080	149,051	154,051	8,092,080

11 INTANGIBLE ASSETS (continued)

	Goodwill *RMB'000*	Business network *RMB'000*	Trademarks and brands *RMB'000*	Know-how and patent rights *RMB'000*	Computer software *RMB'000*	Others *RMB'000*	Total *RMB'000*
Year ended 31 December 2018							
Opening net book amount at 31 December 2017	6,606,706	503,475	587,717	91,080	149,051	154,051	8,092,080
change in accounting policy	–	–	–	–	–	(71,946)	(71,946)
Opening net book amount at 1 January 2018	6,606,706	503,475	587,717	91,080	149,051	82,105	8,020,134
Additions	–	–	–	69,638	30,391	107,145	207,174
Acquisition of subsidiaries *(Note 48)*	5,416,345	1,004,765	102,015	321,725	116,654	–	6,961,504
Transfer from PP&E *(Note 10)*	–	–	–	–	53,801	2,629	56,430
Exchange difference	(45,261)	(3,743)	(31,808)	–	(122)	–	(80,934)
Disposal	–	–	–	–	(909)	(2,078)	(2,987)
Disposal of subsidiaries	(131)	–	–	–	(1)	–	(132)
Impairment Charge *(Note 38)*	(632,373)	(2,854)	–	–	–	(1,510)	(636,737)
Amortisation Charge *(Note 38)*	–	(199,320)	(9,220)	(34,736)	(75,763)	(6,310)	(325,349)
Closing net book amount	11,345,286	1,302,323	648,704	447,707	273,102	181,981	14,199,103
At 31 December 2018							
Cost	12,143,737	1,942,348	672,116	749,662	475,905	228,883	16,212,651
Accumulated amortisation	–	(637,171)	(23,412)	(220,087)	(202,803)	(27,624)	(1,111,097)
Impairment	(798,451)	(2,854)	–	(81,868)	–	(19,278)	(902,451)
Net book amount	11,345,286	1,302,323	648,704	447,707	273,102	181,981	14,199,103

11 INTANGIBLE ASSETS (continued)

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cost of sales	**15,691**	11,138
Distribution and selling expenses	**213,368**	111,075
General and administrative expenses	**96,290**	52,795
	325,349	175,008

(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	
	2018	2017
	RMB'000	*RMB'000*
Production segment	**3,513,061**	1,848,803
Distribution segment	**8,308,038**	4,829,532
Others	**322,638**	94,449
	12,143,737	6,772,784

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.

11 INTANGIBLE ASSETS (continued)

(b) Impairment test for goodwill (continued)

The key assumptions used for value-in-use calculations in 2018 are as follows:

	Production segment	Distribution segment
Compound annual growth rate within the budget period	7%-18%	7%-9%
Growth rate to extrapolate cash flows beyond the budget period	2%-3%	2%-3%
Gross margin	30%-88%	6%-7%
Discount rate	13%-21%	13%-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.

12 SUBSIDIARIES

In 2018 and 2017, the Company was mainly engaged in investment holding. Particulars of the Company's principal subsidiaries are set out in Note 52.

12 SUBSIDIARIES (continued)

(a) Material non-controlling interests

As at 31 December 2018 and 2017, non-controlling interests presented in the consolidated balance sheets were approximately RMB7,419,696,000 and RMB5,645,005,000 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 2018

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	2,699,274	(1,598,287)	1,100,987	1,002,974	(123,871)	879,103	1,980,090	764,054
TECHPOOL Bio-Pharma Co., Ltd. and its subsidiaries	1,308,313	(338,392)	969,921	593,163	(63,361)	529,802	1,499,723	487,430
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	920,225	(271,906)	648,319	807,794	(1,314)	806,480	1,454,799	363,700
	4,927,812	(2,208,585)	2,719,227	2,403,931	(188,546)	2,215,385	4,934,612	1,615,184

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	5,013,524	252,928	216,797	216,797	99,350	21,299
TECHPOOL Bio-Pharma Co., Ltd. and its subsidiaries	462,873	73,246	57,319	57,319	16,820	–
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	1,133,113	80,036	71,445	71,445	17,861	–
	6,609,510	406,210	345,561	345,561	134,031	21,299

12 SUBSIDIARIES (continued)

(a) Material non-controlling interests (continued)

Year ended 31 December 2018 (continued)

Summarised cashflows	Net cash generated from operating activities *RMB'000*	Net cash generated/(used) in investing activities *RMB'000*	Net cash used in financing activities *RMB'000*	Net increase 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	**140,325**	**33,381**	**(126,225)**	**47,481**	**911,870**	**959,351**
TECHPOOL Bio-Pharma Co., Ltd. and its subsidiaries	**211,268**	**(3,200)**	**–**	**207,985**	**248,902**	**456,887**
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	**11,335**	**17,368**	**–**	**29,001**	**271,795**	**300,796**
	362,928	**47,549**	**(126,225)**	**284,467**	**1,432,567**	**1,717,034**

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
	3,865,733	(2,109,191)	1,756,542	1,481,566	(52,223)	1,429,343	3,185,885	1,031,842

12 SUBSIDIARIES (continued)

(a) Material non-controlling interests (continued)

Year ended 31 December 2017 (continued)

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	5,762,012	242,005	196,198	196,198	90,959	12,000
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	1,277,387	212,794	183,590	183,590	45,897	–
	7,039,399	454,799	379,788	379,788	136,856	12,000

Summarised cash flows	Net cash generated from operating activities	Net cash used in investing activities	Net cash used in financing activities	Net increase/ (decrease) in cash and cash equivalents	Cash, cash equivalents at beginning of year	Cash and cash equivalents at end of year
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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
	259,574	(209,768)	(125,562)	(76,080)	1,259,745	1,183,665

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 52.

13 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Share of net assets, unlisted	**727,109**	664,299
Provision for impairment	**(1,748)**	(1,748)
	725,361	662,551
At 1 January	**662,551**	720,549
Additions	**22,896**	8,511
Share of profit for the year	**231,605**	212,439
Dividends declared	**(184,064)**	(278,948)
Disposal	**(7,627)**	–
End of the year	**725,361**	662,551

Particulars of the Group's principal jointly controlled entities are set out in Note 52.

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	
	2018	2017
	RMB'000	*RMB'000*
Current		
Total current assets	**875,428**	869,688
Total current liabilities	**(597,332)**	(616,751)
Non-current		
Total non-current assets	**666,379**	667,752
Total non-current liabilities	**(42,840)**	(50,689)
Net assets	**901,635**	870,000

13 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

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

Summarised statement of comprehensive income	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Revenue	**1,867,619**	1,694,508
Profit before income tax expense	**452,573**	449,313
Income tax expense	**(60,938)**	(73,271)
Profit for the year	**391,635**	376,042
Total comprehensive income	**391,635**	376,042
Dividends declared by the jointly controlled entity to the Group	**180,000**	276,593

Reconciliation of summarised financial information	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Opening net assets 1 January	**870,000**	1,047,142
Profit for the year	**391,635**	376,042
Dividends	**(360,000)**	(553,184)
Closing net assets	**901,635**	870,000
Interest in associates @ 50%	**450,818**	435,000
Unrealised profit	**(1,860)**	(7,388)
Carrying value	**448,958**	427,612

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	
	2018	2017
	RMB'000	*RMB'000*
Aggregate carrying amount of individually immaterial joint ventures	**276,403**	234,939
Aggregate amounts of the group's share of:		
Profit from continuing operations	**30,259**	25,663
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**30,259**	25,663

14 INVESTMENTS IN ASSOCIATES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Share of net assets, listed	**224,875**	199,899
Share of net assets, unlisted	**3,495,672**	3,907,744
Provision for impairment	**(79,303)**	(76,026)
	3,641,244	4,031,617
Market value of listed shares (HKD)	**821,657**	975,061
At 1 January	**4,031,617**	3,506,657
Additions	**607,647**	572,688
Share of profit for the year	**416,106**	339,353
Share of other comprehensive income	**(3,125)**	(426)
Dividends declared	**(192,048)**	(375,854)
Transferred to subsidiaries	**(1,219,883)**	–
Disposals	**–**	(12,063)
Provision for impairment	**(3,277)**	–
Others	**4,207**	1,262
End of the year	**3,641,244**	4,031,617

Particulars of the Group's principal associates are set out in Note 52.

14 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	
	2018	2017
	RMB'000	*RMB'000*
Current		
Total current assets	**8,170,862**	7,032,323
Total current liabilities	**(6,234,679)**	(5,497,967)
Non-current		
Total non-current assets	**2,621,069**	2,744,649
Total non-current liabilities	**(1,077,635)**	(1,232,733)
Net assets	**3,479,617**	3,046,272

Summarised statement of comprehensive income	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Revenue	**11,678,344**	10,450,173
Profit before income tax expense	**719,014**	484,964
Income tax expense	**(86,372)**	(86,373)
Profit for the year	**632,642**	398,591
Total comprehensive income	**632,642**	398,591
Dividends declared by the associate to the Group	**59,789**	70,529

Reconciliation of summarised financial information	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Opening net assets 1 January	**3,046,272**	2,882,778
Capital injection	**–**	–
Profit for the year	**632,642**	398,591
Dividends	**(199,297)**	(235,097)
Closing net assets	**3,479,617**	3,046,272
Interest in associates @ 30%	**1,043,885**	913,882
Unrealised profit	**(18,941)**	(38,696)
Carrying value	**1,024,944**	875,186

14 INVESTMENTS IN ASSOCIATES (continued)

(b) 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	
	2018	2017
	RMB'000	*RMB'000*
Current		
Total current assets	**1,868,451**	4,308,167
Total current liabilities	**(1,837,645)**	(4,123,752)
Non-current		
Total non-current assets	**625,309**	566,726
Total non-current liabilities	**–**	–
Net assets attributable to owners	**656,115**	751,141

Summarised statement of comprehensive income	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Revenue	**6,848,086**	5,127,197
Profit before income tax expense	**258,396**	390,339
Income tax expense	**(69,455)**	(106,372)
Profit for the year	**188,941**	283,967
Total comprehensive income	**188,941**	283,967
Dividends declared by the associate to the Group	**85,190**	186,595

14 INVESTMENTS IN ASSOCIATES (continued)

(b) Sino-American Shanghai Squibb Pharmaceuticals Ltd. (中美上海施貴寶製藥有限公司) (continued)

Reconciliation of summarised financial information	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Opening net assets 1 January	**751,141**	1,089,157
Profit for the year	**188,941**	283,967
Dividends	**(283,967)**	(621,983)
Closing net assets	**656,115**	751,141
Interest in associates @ 30%	**196,835**	225,342
Unrealised profit	**(5,971)**	(6,190)
Carrying value	**190,864**	219,152

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	
	2018	2017
	RMB'000	*RMB'000*
Aggregate carrying amount of individually immaterial associates	**2,425,436**	2,937,279
Aggregate amounts of the group's share of:		
Profit from continuing operations	**149,657**	128,793
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**(3,125)**	(426)
Total comprehensive income	**146,532**	128,367

15 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Listed equity investment, at fair value	–	78,960
Unlisted equity investment,		
– at fair value	–	–
– at cost	–	90,369
Provision for impairment of unlisted equity investment	–	(60,248)
Unlisted equity investment, net	–	30,121
	–	109,081

As at 31 December 2017, 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.

16 OTHER NON-CURRENT ASSETS

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Prepayment of construction cost	**377,379**	417,171
Prepayment acquisition of subsidiaries	–	291,727
Others	**279,700**	25,025
	657,079	733,923

17 OTHER LONG-TERM RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Non-current receivables:		
– Long-term deposits mature over 1 year *(a)*	**317,563**	581,479
Less: provision for impairment	**(1,588)**	–
Long-term receivables mature over 1 year - net	**315,975**	581,479

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current receivables:		
– Long-term deposits mature within 1 year *(a)*	**212,868**	–
Less: provision for impairment	**(1,064)**	–
Long-term receivables-net	**211,804**	–

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Gross long-term receivables:		
No later than 1 year	**219,872**	–
Later than 1 year and no later than 5 years	**190,694**	417,064
Later than 5 years	**250,000**	237,331
	660,566	654,395
Unrealized future finance income on long-term receivables	**(130,135)**	(72,916)
Less: provision for impairment	**(2,652)**	–
Net investment	**527,779**	581,479

17 OTHER LONG-TERM RECEIVABLES (continued)

(a) Long-term deposits

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Non-current portion:		
Long-term deposits – gross receivables	**440,694**	654,395
Unrealized finance income	**(123,131)**	(72,916)
	317,563	581,479
Less: provision for impairment	**(1,588)**	–
Finance leases receivables - net	**315,975**	581,479

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current portion:		
Long-term deposits mature within 1 year – gross receivables	**219,872**	–
Unrealized finance income	**(7,004)**	–
	212,868	–
Less: provision for impairment	**(1,064)**	–
Finance leases receivables-net	**211,804**	–

17 OTHER LONG-TERM RECEIVABLES (continued)

(a) Long-term deposits (continued)

Aging analysis of long-term deposits before impairment are as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
No later than 1 year	**212,868**	–
Later than 1 year and no later than 5 years	**169,404**	378,617
Later than 5 years	**148,159**	202,862
	530,431	581,479

18 INVENTORIES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Raw materials	**1,718,561**	1,241,625
Work in progress	**579,201**	419,252
Finished goods	**22,726,248**	15,609,079
	25,024,010	17,269,956

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

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cost of sales, distribution and selling expenses and general and administrative expenses *(Note 38)*	**133,758,322**	111,726,075

19 TRADE AND OTHER RECEIVABLES AND OTHER CURRENT ASSETS

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables from third parties		
Accounts receivable	**43,496,519**	31,857,698
Less: allowance for impairment	**(1,901,898)**	(1,167,406)
Accounts receivable – net	**41,594,621**	30,690,292
Notes receivable	**288,965**	1,107,997
Less: allowance for impairment	**(1,907)**	–
Notes receivable – net	**287,058**	1,107,997
Trade receivables – net	**41,881,679**	31,798,289
Other receivables from third parties		
Other receivables	**2,867,884**	1,981,712
Less: provision for impairment of other receivables	**(659,285)**	(582,441)
Other receivables – net	**2,208,599**	1,399,271
Amounts due from related parties *(Note 49(c))*	**679,872**	840,034
Less: Provision	**(14,602)**	(14,853)
Amounts due from related parties – net	**665,270**	825,181
Prepayments *(b)*	**2,022,025**	1,386,808
Tax recoverable	**1,022,673**	1,114,125
Interest receivables	**2,799**	3,089
Less: Provision	**(7)**	–
Interest receivables – net	**2,792**	3,089
Dividends receivable	**–**	2,813
Other long-term receivables current portion	**212,868**	–
Less: Provision	**(1,064)**	–
Other long-term receivables current portion – net	**211,804**	–
	48,014,842	36,529,576

19 TRADE AND OTHER RECEIVABLES AND OTHER CURRENT ASSETS (continued)

(a) The fair values of trade, other receivables and other current assets approximate to their carrying amounts due to the short maturities.

(b) As of 31 December 2018 and 2017, prepayments are in connection with:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Purchases of:		
– Raw materials and merchandise	**1,791,847**	1,260,548
– Prepaid expenses and others	**230,178**	126,260
	2,022,025	1,386,808

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
RMB	**50,328,185**	38,032,969
HKD	**74,175**	938
USD	**44,439**	79,021
AUD	**84,403**	112,460
NZD	**42,137**	42,208
Other currencies	**20,266**	26,680
	50,593,605	38,294,276

19 TRADE AND OTHER RECEIVABLES AND OTHER CURRENT ASSETS (continued)

(d) As of 31 December 2018, trade receivables of approximately RMB1,367,457,000 (2017: RMB237,038,000 have been factored by the Group for obtaining borrowings of approximately RMB1,027,445,000 (2017: RMB203,150,000) (Note 28).

(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 depending on the customers' credit quality. At 31 December 2018 and 2017, aging 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	
	2018	2017
	RMB'000	*RMB'000*
Less than 3 months	**28,725,896**	22,286,617
3 months to 6 months	**8,977,254**	6,685,273
6 months to 12 months	**4,665,765**	2,999,174
1 year to 2 years	**626,016**	382,603
Over 2 years	**790,553**	612,028
	43,785,484	32,965,695

(f) The aging of notes receivable was normally mature within 6 months, which is within the credit term, as at 31 December 2018, the impairment of these notes receivables calculated using expected credit losses model is RMB1,907,000 (2017: Nil)

19 TRADE AND OTHER RECEIVABLES AND OTHER CURRENT ASSETS (continued)

(g) Movements on the allowance for impairment of trade and other receivables, other current assets from third parties and related parties are as follows:

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
As at 31 December 2017		
– calculated under HKAS 39	**1,764,700**	1,781,067
Adoption of HKFRS 9	**66,593**	–
Opening loss allowance as at 1 January 2018		
– calculated under HKFRS 9	**1,831,293**	1,781,067
Provision for impairment	**83,607**	(64,311)
Provision of impairment transferred from of other long-term receivables	**1,064**	–
Write-off against uncollectible and other deductions	**(20,369)**	(9,462)
Others	**683,168**	57,406
At the end of year	**2,578,763**	1,764,700

The 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 2018, the Group reversed previous impairment of receivables approximately RMB95,710,000 (2017: RMB367,724,000) 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.

(i) Fair values of trade receivables
Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(a) Classification of financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income (FVOCI) comprise:

Equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant.

Debt instruments where the contractual cash flows are solely principal and the objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets.

(b) Equity investments at fair value through other comprehensive income

Equity investments at FVOCI comprise the following individual investments:

	2018 ***RMB'000***	2017 *RMB'000*
Non-current assets		
Listed shares	**162,312**	–

These investments were classified as available-for-sale in 2017, see Note 3.2.

On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings.

In the prior financial year, the Group had designated equity investments as available-for-sale where management intended to hold them for the medium to long-term.

Note 3.2 explains the change of accounting policy and the reclassification of certain equity investments from available-for-sale to at fair value through profit or loss. Note 3.13 sets out the remaining accounting policies.

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

(c) Debt instruments at fair value through other comprehensive income

Debt investments at FVOCI comprise the following investments in bank's acceptance notes:

	2018 ***RMB'000***	2017 *RMB'000*
Current assets		
Bank's acceptance notes	**1,532,866**	–

These investments were classified as trade and other receivables and other current assets in 2017, see Note 3.2.

Bank acceptance notes are classified as current assets due to its short maturity

On disposal of these debt investments, any related balance within the FVOCI reserve is reclassified to profit or loss.

21 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	As at 31 December	
	2018 ***RMB'000***	2017 *RMB'000*
Cash at bank	**18,688,245**	14,831,007
Cash on hand	**6,424**	11,073
	18,694,669	14,842,080
Less: restricted cash *(a)*	**(2,089,114)**	(1,272,666)
Cash and cash equivalents	**16,605,555**	13,569,414
Denominated in:		
– RMB	**18,115,762**	13,851,265
– HKD	**85,072**	27,205
– USD	**447,108**	915,047
– EUR	**2,874**	5,944
– AUD	**22,587**	16,142
– NZD	**896**	24,372
– Other currencies	**20,370**	2,105
	18,694,669	14,842,080

21 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (continued)

(a) As of 31 December 2018 and 2017, certain of the Group's bank deposits have been pledged and restricted for the following purposes:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Restricted bank deposit:		
– Term deposit *(i)*	**390,000**	–
Bank deposits pledged for:		
– issue of Notes payable	**1,683,312**	1,253,339
– others	**15,802**	19,327
	2,089,114	1,272,666

(i) The above mentioned restricted bank deposits are all interest-bearing and with maturity dates of more than three months.

(b) 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.

(c) The effective interest rates of cash at banks are as follows:

	As at 31 December	
	2018	2017
	% per annum	*% per annum*
Effective interest rate	**0.35%~2.73%**	0.35%~4.37%

22 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Assets per balance sheet:		
Derivative financial instruments	**5,190**	643
Financial assets at fair value through profit or loss (FVPL)	**119,649**	–
Financial assets at fair value through other comprehensive income (FVOCI)	**162,312**	—
Available-for-sale financial assets *(Note 15)*	**—**	109,081
Loans and receivables		
– Accounts and notes receivables *(Note 19)*	**41,881,679**	31,798,289
– Amounts due from related parties *(Note 49(c))*	**637,843**	820,902
– Other receivables *(Note 19)*	**2,208,599**	1,399,271
– Interest receivables *(Note 19)*	**2,792**	3,089
– Cash and bank balances and restricted cash *(Note 21)*	**18,694,669**	14,842,080
– Other long-term receivables-current	**211,804**	–
– Other long-term receivables-non current	**315,975**	581,479
	64,240,512	49,554,834
Liabilities per balance sheet:		
Derivative financial instruments	**458**	2,434
Other financial liabilities at amortised cost		
– Accounts and Notes payables *(Note 27)*	**34,835,990**	26,937,887
– Amounts due to related parties *(Note 49(c))*	**561,486**	1,077,761
– Accrual and other payables	**7,979,867**	4,941,178
– Borrowings *(Note 28)*	**31,651,659**	16,750,476
– Other long-term payables *(Note 32)*	**471,674**	697,135
	75,501,134	50,406,871

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets mandatorily measured at FVPL include the following:

	2018 *RMB'000*	2017 *RMB'000*
Non-current assets		
Listed common shares	**7,887**	—
Unlisted common shares	**111,762**	—
	119,649	—

See Note 3.2 for explanations regarding the change in accounting policy and the reclassification of certain investments from available-for-sale to financial assets at FVPL following the adoption of HKFRS 9, and Note 3.13 for the remaining relevant accounting policies.

(i) Amounts recognised in profit or loss

During the year of 2018 and 2017, the following gains/(losses) were recognised in profit or loss:

	2018 *RMB'000*	2017 *RMB'000*
Fair value gains on equity investments at FVPL recognised in other gains (see *Note 36*)	**9,304**	–

24 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 1 January 2018	**1,923,016**	**765,894**	**1,923,016**	**765,894**	**2,688,910**
Issue of Shares	**–**	**153,179**	**–**	**153,179**	**153,179**
At 31 December 2018	**1,923,016**	**919,073**	**1,923,016**	**919,073**	**2,842,089**
At 1 January 2017	1,923,016	765,894	1,923,016	765,894	2,688,910
Issue of Shares	–	–	–	–	–
At 31 December 2017	1,923,016	765,894	1,923,016	765,894	2,688,910

25 SHARE PREMIUM AND OTHER RESERVES

	Share premium	Statutory reserves *Note (b)*	Available-for-sale financial Assets *Note (d)*	Financial assets at FVOCI	Revaluation surplus	Translation difference	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	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 *((b), Note 26)*	–	105,788	–	–	–	–	–	105,788
Available-for-sale financial assets								
– 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	(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
Reclassification on adoption of HKFRS 9	–	292	23,881	(15,596)	–	–	(8,481)	96
At 1 January 2018	14,068,206	1,321,917	—	(15,596)	28,182	(49,831)	(589,136)	14,763,742

25 SHARE PREMIUM AND OTHER RESERVES (continued)

	Share premium *Note (a)* *RMB'000*	Statutory reserves *Note (b)* *RMB'000*	Financial assets at FVOCI *Note (c)* *RMB'000*	Revaluation surplus *RMB'000*	Translation difference *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2018	**14,068,206**	**1,321,917**	**(15,596)**	**28,182**	**(49,831)**	**(589,136)**	**14,763,742**
Issue of Shares	**2,376,125**	–	–	–	–	–	**2,376,125**
Financial assets at fair value through other comprehensive income							
– Gross	–	–	**(59,265)**	–	–	–	**(59,265)**
– Tax	–	–	–	–	–	–	–
Loss allowance of debt investments at FVOCI							
– Gross	–	–	**1,287**	–	–	–	**1,287**
– Tax	–	–	**(322)**	–	–	–	**(322)**
Appropriation to statutory reserves	–	**166,527**	–	–	–	–	**166,527**
Share of other comprehensive income of investments in an associate	–	–	–	**(2,942)**	–	–	**(2,942)**
Currency translation difference	–	–	–	–	**(365,924)**	–	**(365,924)**
Transaction with Non-controlling interests	**(44,388)**	–	–	–	–	–	**(44,388)**
Others	**6,002**	–	–	–	–	–	**6,002**
At 31 December 2018	**16,405,945**	**1,488,444**	**(73,896)**	**25,240**	**(415,755)**	**(589,136)**	**16,840,842**

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:

25 SHARE PREMIUM AND OTHER RESERVES (continued)

(a) On 26 January 2018, the Company completed the issuance of 153,178,784 new H Shares at a price of HKD20.43 per share to certain investors, who and whose ultimate beneficial owners are third parties independent of and not connected with the Company. Excess of total proceeds over the notional amount of share capital and issue costs directly related to the issuance amounting to approximately RMB2,376,125,000 has been recognised as share premium in the consolidated statements of changes in equity.

(b) 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.

(c) Financial assets at FVOCI
The Group has elected to recognise changes in the fair value of certain investments in equity securities in other comprehensive income (OCI), as explained in Note 3.13. These changes are accumulated within the FVOCI reserve within equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised. The Group also has certain debt investments measured at FVOCI, as explained in Note 20. For these investments, changes in fair value are accumulated within the FVOCI reserve within equity. The accumulated changes in fair value are transferred to profit or loss when the investment is derecognised or impaired.

(d) Available-for-sale financial assets – until 31 December 2017
Changes in the fair value and exchange differences arising on translation of investments that were classified as available-for-sale financial assets (eg equities), were recognised in other comprehensive income and accumulated in a separate reserve within equity. Amounts were reclassified to profit or loss when the associated assets are sold or impaired, see accounting policy Note 3.13 for details.

26 RETAINED EARNINGS

	RMB'000
At 1 January 2017	14,138,422
Profit for the year	3,520,644
Dividends of the Company *(Note 43)*	(968,008)
Appropriation to statutory reserves *(Note 25)*	(105,788)
Others	(6,983)
At 31 December 2017	16,578,287
Change in accounting policy – HKFRS 9	126,776
At 1 January 2018	**16,705,063**
Profit for the year	**3,881,063**
Dividends of the Company *(Note 43)*	**(1,079,994)**
Appropriation to statutory reserves *(Note 25)*	**(166,527)**
Others	**(8,961)**
At 31 December 2018	**19,330,644**

27 TRADE AND OTHER PAYABLES AND OTHER CURRENT LIABILITIES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Accounts payable to third parties	**30,662,733**	22,988,973
Notes payable	**4,173,257**	3,948,914
Advances received from customers	—	1,032,090
Payables for purchase of PP&E and land use rights	**336,206**	311,819
Staff welfare and salary payables	**900,338**	700,846
Tax liabilities other than income tax	**309,297**	418,990
Amounts due to related parties *(Note 49(c))*	**562,986**	1,078,140
Accrued expenses	**3,289,313**	2,036,150
Deposits	**1,989,351**	1,004,471
Payables arising from acquisition of subsidiaries	**974,195**	281,291
Dividends payable	**139,873**	43,636
Others	**1,250,366**	1,269,974
	44,587,915	35,115,294

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

(a) As at 31 December 2018 and 2017, aging analysis of the accounts payables to third parties and notes payable is as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Less than 3 months	**25,450,302**	20,515,509
3 months to 6 months	**4,299,834**	2,986,086
6 months to 12 months	**3,226,129**	2,258,213
1 year to 2 years	**1,261,949**	733,867
Over 2 years	**597,776**	444,212
	34,835,990	26,937,887

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
RMB	**43,177,340**	33,921,988
USD	**1,148,054**	954,415
EUR	**17,590**	60,959
HKD	**101,736**	40,714
AUD	**74,267**	96,817
NZD	**59,364**	37,415
Other currencies	**9,564**	2,986
	44,587,915	35,115,294

(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.

28 BORROWINGS

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Non-current		
Long-term bank borrowings		
– guaranteed *(a)*	**–**	–
– secured *(b)*	**143,485**	147,143
– unsecured	**6,479,507**	812,399
Debentures *(c)*	**2,997,306**	1,999,257
	9,620,298	2,958,799
Current		
Short-term bank borrowings		
– guaranteed *(a)*	**465,584**	288,251
– secured *(b)*	**1,454,534**	740,850
– unsecured	**17,236,097**	12,701,138
Other borrowings	**184,083**	15,686
	19,340,298	13,745,925
Current portion of long-term bank borrowings		
– guaranteed *(a)*	**–**	700
– secured *(b)*	**132,754**	45,052
– unsecured *(b)*	**558,367**	–
Debentures to mature within 1 year	**1,999,942**	–
	22,031,361	13,791,677
Total borrowings	**31,651,659**	16,750,476

28 BORROWINGS (continued)

(a) As at 31 December 2018, the bank borrowings as guaranteed by the non-controlling interests of the Group's subsidiaries amounted to approximately RMB136,284,000 (2017: RMB48,451,000).

As at 31 December 2018, the bank borrowings as jointly guaranteed by the Group's subsidiary and one of the Group's non-controlling interests amounted to approximately RMB329,300,000 (2017: RMB239,800,000).

As at 31 December 2018, no bank borrowings were guaranteed by a related party.(2017: RMB700,000) (Note 49(d)).

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Secured by:		
– PP&E and land use rights *(Notes 8, 10)*	**540,019**	572,656
– Other Long-term receivables *(Note 17)*	**163,309**	157,239
– Trade receivables *(Note 19)*	**1,027,445**	203,150
	1,730,773	933,045

(c) Debentures

On 28 January 2016, the Company issued 3-year-maturity-debentures, with an aggregate amount of RMB2,000,000,000 at a rate of 2.98% per annum. Net proceeds received was RMB1,998,000,000.

On 7 November 2018, the Company issued 3-year-maturity-debentures, with an aggregate amount of RMB3,000,000,000 at a rate of 4.10% per annum. Net proceeds received was RMB2,997,000,000.

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
RMB	**25,754,378**	16,470,739
USD	**5,631,256**	–
NZD	**266,025**	279,737
	31,651,659	16,750,476

28 BORROWINGS (continued)

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Borrowings		
– RMB	**4.06%**	3.94%
– USD	**3.61%**	NA
– NZD	**3.11%**	3.24%

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

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 1 year	**22,031,361**	13,791,677
Between 1 and 2 years	**885,865**	2,683,736
Between 2 and 5 years	**8,719,658**	263,521
Wholly repayable within 5 years	**31,636,884**	16,738,934
Over 5 years	**14,775**	11,542
	31,651,659	16,750,476

28 BORROWINGS (continued)

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 6 months	**20,009,455**	11,726,110
Between 6 and 12 months	**5,471,149**	2,027,109
Between 1 – 5 years	**6,156,280**	2,997,257
Over 5 years	**14,775**	–
	31,651,659	16,750,476

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

(i) The carrying amounts of non-current borrowings approximate to 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.

29 PROVISIONS

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Legal claims	**93,361**	75,908

30 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	
	2018	2017
	RMB'000	*RMB'000*
Deferred income tax assets		
– To be recovered after more than 12 months	**307,862**	245,520
– To be recovered within 12 months	**730,063**	320,744
	1,037,925	566,264
Deferred income tax liabilities		
– To be recovered after more than 12 months	**789,170**	591,194
– To be recovered within 12 months	**77,742**	28,956
	866,912	620,150
Deferred income tax assets/(liabilities) – net	**171,013**	(53,886)

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

	For the year ended at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Opening balance	**(53,886)**	(23,745)
Accounting policy change *(Note 3.2(1))*	**5,926**	—
At 1 January	**(47,960)**	(23,745)
Recognised in the consolidated income statements *(Note 41)*	**402,449**	125,154
Disposal of subsidiaries	**–**	17,325
Acquisition of subsidiaries	**(183,512)**	(165,476)
Recognised in equity	**36**	(7,144)
Deferred income tax liabilities – net	**171,013**	(53,886)

30 DEFERRED INCOME TAX (continued)

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 *RMB'000*	Termination Benefit obligations *RMB'000*	Accruals *RMB'000*	Unrealised Profit *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2017	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
Accounting policy change	17,376	–	–	–	–	17,376
At 1 January 2018	**254,216**	**2,999**	**96,964**	**118,555**	**110,906**	**583,640**
Acquisition of subsidiaries	**190,164**	**–**	**78,072**	**1,459**	**14,718**	**284,413**
Recognised in the consolidated income statements	**81,550**	**(12)**	**52,603**	**28,548**	**10,166**	**172,855**
Recognised in equity	**–**	**–**	**–**	**–**	**48**	**48**
Others	**(82)**	**–**	**–**	**–**	**(2,949)**	**(3,031)**
At 31 December 2018	**525,848**	**2,987**	**227,639**	**148,562**	**132,889**	**1,037,925**

30 DEFERRED INCOME TAX (continued)

Deferred income tax liabilities

	Fair value adjustments on assets in relation to business combination *RMB'000*	Deemed disposal *RMB'000*	Fair value gains from FVOCI and FVPL/AFS *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2017	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
Accounting policy change	–	–	11,450	–	11,450
At 1 January 2018	**433,570**	**147,917**	**12,301**	**37,812**	**631,600**
Acquisition of subsidiaries	**463,044**	**–**	**–**	**–**	**463,044**
Disposal of subsidiaries	**–**	**–**	**–**	**–**	**–**
Recognised in the consolidated income statements	**(77,517)**	**(147,917)**	**2,551**	**(6,711)**	**(229,594)**
Recognised in equity	**–**	**–**	**–**	**12**	**12**
Others	**–**	**–**	**–**	**1,850**	**1,850**
At 31 December 2018	**819,097**	**–**	**14,852**	**32,963**	**866,912**

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 RMB527,419,000 (2017: RMB343,935,000) in respect of tax losses amounting to approximately RMB2,109,678,000 (2017: RMB1,375,742,000) that can be carried forward against future taxable income. Tax losses amounting to approximately RMB80,398,000, RMB182,274,000, RMB376,988,000, RMB704,289,000 and RMB765,729,000 will expire in 2019, 2020, 2021, 2022 and 2023 respectively.

31 OTHER NON-CURRENT LIABILITIES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Medical reserve funds *(a)*	**89,465**	90,241
Project research and development funds *(b)*	**179,469**	171,841
Office and plant relocation funds *(c)*	**323,864**	323,981
Others	**39,307**	46,895
	632,105	632,958

(a) During the years ended 31 December 2018 and 2017, 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 2018 and 2017 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.

32 OTHER LONG-TERM PAYABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Finance lease payables	**24,629**	28,605
Long-term payables for land use rights	**27,102**	28,585
Long-term payables for acquisition of subsidiaries *(a)*	**426,695**	645,604
	478,426	702,794
Less: Long-term payables due within 1 year	**(6,752)**	(5,659)
	471,674	697,135

(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.

33 TERMINATION BENEFIT OBLIGATIONS

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Termination benefit	**51,947**	51,866

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.

33 TERMINATION BENEFIT OBLIGATIONS (continued)

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
At beginning of year	**51,866**	61,204
Addition	**19,952**	40,206
Interest expenses	**2,014**	3,377
Benefits paid	**(21,885)**	(52,921)
At end of year	**51,947**	51,866

34 CONTRACT LIABILITIES

Liabilities related to contracts with customers:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Advances received from customers	**1,357,137**	—

35 OTHER INCOME

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Government grants *(a)*	**376,739**	180,470
Dividends *(b)*	**3,467**	17,270
	380,206	197,740

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

(b) Dividends are received from financial assets measured at fair value through profit or loss (FVPL) and at fair value through other comprehensive income (FVOCI) (2017 – from financial assets at FVPL and available-for-sale financial assets).

36 OTHER GAINS – NET

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Gain/(loss) on financial assets at fair value through profit or loss, net	**9,304**	–
Gain/(loss) on disposals of financial assets at fair value through profit or loss	**4,422**	(555)
Gain on fair value change of derivatives	**6,590**	(4,349)
(Loss)/gain on disposals of property, plant and equipment and investment properties	**(12,198)**	111,889
Gain on disposals of available-for-sale financial assets	**–**	35,295
Gain on disposals of intangible assets and land use right	**15,498**	10,569
Foreign exchange (losses)/gains	**(124,212)**	29,899
Relocation gain *(Note 31(c))*	**172,758**	140,812
Provision for impairment of investment in associates	**(3,277)**	–
Others – net	**(30,834)**	(84,366)
	38,051	239,194

37 GAINS ON DISPOSAL OF SUBSIDIARIES AND ASSOCIATES

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Gain on deemed disposal of TECHPOOL Bio-Pharma Co., Ltd. *(Note a)*	**507,068**	–
Disposal of subsidiaries	**53,658**	199,928
Gain on deemed disposal of Liaoning Pharmaceutical Foreign Trade Co.,Ltd. *(Note b)*	**30,343**	–
Gain on deemed disposal of the subsidiary Qingdao Tongdarong Industrial Co. Ltd	**9,162**	–
Disposal of associates	**377**	6,895
	600,608	206,823

37 GAINS ON DISPOSAL OF SUBSIDIARIES AND ASSOCIATES (continued)

(a) On 21 August 2018, the Group purchased 100% equity interests in Takeda Chromo Beteiligungs AG ("Takeda Chromo") who held 26.34% equity interest of Techpool Bio-pharma Co., Ltd. (the "Techpool") at cash consideration of approximately USD143,662,000 (approximately RMB981,917,000)(the "Acquisition"). Before the Acquisition, Techpool was an associate of the Group and accounted for using the equity method accounting. Because of obtaining control over Techpool, the Group began to consolidate it from the date of the Acquisition. Consequently, in recording such transaction, the Group recognised (a) deemed disposal of the 40.80% equity interests previously held by the Group in Techpool at their fair value of USD202,298,000 (approximately RMB1,383,066,000) at the acquisition date, (b) deemed acquisition of 67.14% equity interests in Techpool at a consideration of USD345,960,000 (approximately RMB2,364,983,000) at the acquisition date, and (c) deemed disposal gain of USD74,127,000 (approximately RMB507,068,000) in the income statement.

	RMB'000
Fair value of the 40.80% equity investment previously held in Techpool	1,383,066
Less:	
Carrying amount of net assets of Techpool as an associate at the acquisition date	(876,181)
Amounts recognised previously in comprehensive income	183
Gain on disposal of Techpool	507,068

(b) On 30 April 2018, the Group acquired the additional 17.84% equity interests in Liaoning International Pharmaceutical Trading Co., Ltd. ("Liaoning International Pharmaceutical Trading") at cash consideration of approximately RMB217,629,000 (the "Acquisition"). Before the Acquisition, Liaoning International Pharmaceutical Trading was an associate of the Group and accounted for using the equity method accounting. Because of obtaining control over Liaoning International Pharmaceutical Trading, the Group began to consolidate it from the date of the Acquisition. Consequently, in recording such Acquisition, the Group recognised (a) deemed disposal of the 33.9% equity interests previously held by the Group in Liaoning International Pharmaceutical Trading at their fair value of RMB374,044,000 at the acquisition date, (b) deemed acquisition of 51.74% equity interests in Liaoning International Pharmaceutical Trading at a consideration of RMB591,673,000 at the acquisition date, and (c) deemed disposal gain of RMB30,343,000 in the income statement:

	RMB'000
Fair value of the 33.9% equity investment previously held in Liaoning International Pharmaceutical Trading	374,044
Less:	
Carrying amount of net assets of Liaoning International Pharmaceutical Trading as an associate at the acquisition date	(343,701)
Gain on disposal of Liaoning International Pharmaceutical Trading	30,343

38 EXPENSES BY NATURE

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Raw materials, merchandise and consumables used	**136,136,044**	111,938,838
Changes in inventories of finished goods and work in progress	**(2,377,722)**	(212,763)
Employee benefit expenses *(Note 39)*	**6,555,615**	5,440,361
Promotion and advertising costs	**4,426,087**	1,953,030
Travelling and meeting expenses	**1,936,936**	1,502,169
Depreciation of PP&E *(Note 10)*	**923,416**	709,139
Transportation costs	**1,080,783**	622,652
Real estate tax, stamp duties and other taxes	**509,633**	392,974
Operating lease rentals	**727,550**	497,572
Provision for impairment of property, plant and equipment *(Note 10)*	**4,043**	23,294
Provision for impairment of investment properties *(Note 9)*	**–**	575
Provision for impairment of intangible asset *(Note 11)*	**4,364**	–
Net impairment losses/(gains) on financial assets		
– Trade receivables	**62,744**	(43,803)
– Other receivables	**20,863**	(20,508)
– Long-term receivables	**(255)**	–
– Debt instruments at FVOCI	**1,287**	—
Energy and utilities	**362,145**	299,691
Repair and maintenance fee	**320,879**	331,856
Office expenditures	**197,336**	214,837
Amortisation of intangible assets *(Note 11)*	**325,349**	175,008
Write-down of inventories to net realisable value	**351,461**	68,944
Amortisation of land use rights *(Note 8)*	**40,886**	38,059
Auditor's remuneration		
– Audit services	**24,349**	20,874
– Non – Audit services	**560**	8,260
Depreciation of investment properties *(Note 9)*	**12,554**	12,160
Others	**2,120,531**	2,143,699
Total cost of sales, distribution and selling expenses and general and administrative expenses	**153,767,438**	126,116,918

39 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Wages and salaries	**4,978,406**	4,019,089
Contributions to pension plans *(Note (a))*	**589,621**	503,831
Housing fund, medical insurance and other social insurance *(Note (b))*	**617,115**	542,439
Others	**370,473**	375,002
Total employee benefit expenses including directors' emoluments	**6,555,615**	5,440,361

(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.

39 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 (2017: three) directors whose emoluments for the year have been included in Note 51. The emoluments payable to the five highest individuals for the year are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Salaries and fee	**4,510**	4,998
Bonuses	**13,337**	8,774
Employer's contribution to pension scheme and others	**397**	390
	18,244	14,162

The emoluments fell within the following bands:

	Year ended 31 December	
	2018	2017
	Number	*Number*
Emolument bands (in HKD)		
HKD2,500,001 – HKD3,000,000	**–**	2
HKD3,000,001 – HKD3,500,000	**1**	–
HKD3,500,001 – HKD4,000,000	**1**	3
HKD4,000,001 – HKD4,500,000	**2**	–
HKD4,500,001 – HKD5,000,000	**1**	–

(d) In 2018 and 2017, 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.

40 FINANCE INCOME AND COSTS

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Interest income	**197,402**	161,393
Total finance income	**197,402**	161,393
Interest expenses	**(1,204,433)**	(875,743)
Other (loss)/gain	**(753)**	46,042
Finance costs	**(1,205,186)**	(829,701)
Net finance costs	**(1,007,784)**	(668,308)

41 TAXATION

(a) Income tax expense

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current income tax	**1,289,888**	1,272,183
Deferred income tax *(Note 30)*	**(402,771)**	(125,154)
	887,117	1,147,029

(i) Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the year.

Australia profits tax has been provided at the rate of 30% (2017: 30%) on the estimated assessable profit for the year.

New Zealand profits tax has been provided at the rate of 28% (2017: 28%) on the estimated assessable profit for the year.

41 TAXATION (continued)

(a) Income tax expense (continued)

(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 2018, 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:

Zhejiang Jiuxu Pharmaceutical Co., Ltd., Techpool Bio-Pharma Co., Ltd., Nantong Changyou Pharmaceutical Technology Co., Ltd. and Beijing Health Link Information Technology Ltd., were approved by relevant local tax authorities as the High-technological Enterprise, and enjoyed a preferential CIT rate of 15% for 2018.

Shanghai Sine Pharmaceutical Laboratories Co., Ltd., Shanghai Sine Tianping Pharmaceutical Co., Ltd., Shanghai Sine Jinzhu Pharmaceutical Co., Ltd., Shanghai Sine Wanxiang Pharmaceutical Co., Ltd., Shanghai Sine Yan'an Pharmaceutical Co., Ltd., Shanghai Harvest Pharmaceutical Co., Ltd., Gansu Sine Tiansen Pharmaceutical Co., Ltd., Shanghai No.1 Biochemical Pharmaceutical Co., Ltd., Shanghai Ziyuan Pharmaceutical Co., Ltd., Shanghai Zhongxi Pharmaceutical Co., Ltd., Shanghai Jinhe Bio-tech Co., Ltd., Shanghai SPH New Asiatic Pharmaceutical Co., Ltd., Shanghai New Asiatic Medicine Industry Minhang Co., Ltd., SPH Changzhou Pharmaceutical Factory Co., Ltd., Chifeng Mysun Pharmaceutical Co., Ltd., Chifeng Aike Pharmaceutical Technology Co., Ltd., SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd., SPH Kony (Changzhou) Co., Ltd., Shanghai Huayu Pharmaceutical Co., Ltd., Shanghai Xingling Sci.&Tech. Pharmaceutical Co., Ltd., Shanghai Zhonghua Pharmaceutical Co., Ltd., Zhonghua Nantong Pharmaceutical Co., Ltd., Shanghai Changcheng Pharmaceutical Co., Ltd., Qingdao Shanghai Pharmaceutical Growful Pharmaceutical Co., Ltd., Chiatai Qingchunbao Pharmaceuticals Co., Ltd., Hangzhou HuQingYuTang Pharmaceutical Co., Ltd., Xiamen Traditional Chinese Medicine Co., Ltd., Liaoning SPH Herbapex Pharmaceutical (group) Co., Ltd., Shanghai Haichang Medical Plastic Plant, were approved by relevant local tax authorities as the High-technological Enterprise, and enjoyed a preferential CIT rate of 15% for 2017 and 2018.

SPH Kyuan Xinhai Pharmaceutical Enshi Co., Ltd., SPH Cardinal Health (Sichuan) Pharmaceutical Co., Ltd., SPH Cardinal Health (Chongqing) Pharmaceutical Co., Ltd. were recognised by relevant local tax authorities as Encouraging Enterprises in the western region, and enjoyed a preferential CIT rate of 15% for 2018.

41 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 2018 RMB'000	2017 RMB'000
Profit before income tax	**5,343,378**	5,204,808
Tax calculated at the domestic CIT rate applicable	**1,335,845**	1,301,202
Income not subject to taxation	**(298,515)**	(143,333)
Cost not deductible for taxation purposes	**78,687**	96,828
Preferential tax rate of certain subsidiaries	**(220,106)**	(220,662)
Reversal of deferred tax liabilities previously recognized upon deemed disposal of Techpool and Beijing Xinhaifengyuan Biological Co., Ltd.	**(147,918)**	–
Utilisation of tax losses for which no deferred income tax asset was recognised	**(52,308)**	(46,478)
Tax losses for which no deferred income tax asset was recognised	**191,432**	159,472
Income tax expenses	**887,117**	1,147,029
Effective tax rate	**16.60%**	22.04%

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

	2018 Before tax RMB'000	2018 Tax charge RMB'000	2018 After tax RMB'000	2017 Before tax RMB'000	2017 Tax charge RMB'000	2017 After tax RMB'000
Financial assets at fair value through other comprehensive income	**(57,978)**	**(322)**	**(58,300)**	—	—	—
Available-for-sale financial assets	—	—	—	(80,784)	10,181	(70,603)
Currency translation differences, net	**(413,906)**	–	**(413,906)**	(21,506)	–	(21,506)
Others	**(2,942)**	–	**(2,942)**	(426)	–	(426)
	(474,826)	**(322)**	**(475,148)**	(102,716)	10,181	(92,535)
Current tax		–			–	
Deferred tax *(Note 30)*		**(322)**			10,181	
		(322)			10,181	

41 TAXATION (continued)

(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%, 11%, 13%, 16% 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.

42 EARNINGS PER SHARE

For years ended 31 December 2018 and 2017, 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	
	2018	2017
Profit attributable to equity holders of the Company *(RMB'000)*	**3,881,063**	3,520,644
Weighted average number of ordinary shares *(thousands)*	**2,829,324**	2,688,910
Basic earnings per share *(RMB)*	**1.37**	1.31

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.

43 DIVIDENDS

The dividends paid in 2018 and 2017 were approximately RMB1,079,994,000 (RMB0.38 per share) and RMB968,008,000 (RMB0.36 per share) respectively. A dividend in respect of the year ended 31 December 2018 of RMB0.41 per share, amounting to a total dividend of approximately RMB1,165,257,000, 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	
	2018	2017
	RMB'000	*RMB'000*
Proposed final dividend of RMB0.41 (2017: RMB0.38) per share	**1,165,257**	1,079,994

44 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(i) Cash generated from operations

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit before income tax	**5,343,378**	5,204,808
Adjustments for:		
– Share of profit from associates	**(416,106)**	(339,353)
– Share of profit from jointly controlled entities	**(231,605)**	(212,439)
– Depreciation of PP&E and investment properties	**935,970**	721,299
– Amortisation of land use rights and intangible assets	**366,235**	213,067
– Financial assets at fair value through profit or loss	**(9,304)**	–
– Gain/(Loss) on fair value change of derivatives	**(6,590)**	4,349
– Gain on disposals of		
– PP&E and investment properties	**12,198**	(111,889)
– land use rights and intangible assets	**(15,498)**	(10,569)
– investment in subsidiaries and associates	**(600,608)**	(206,823)
– available-for-sale financial assets	**—**	(35,295)
– Gain/(Loss) on disposals of financial assets at fair value through profit or loss	**(4,422)**	555
– Provisions for impairment of		
– inventories	**351,461**	68,944
– investment in associate	**3,277**	–
– PP&E	**4,043**	23,294
– investment properties	**–**	575
– intangible asset	**4,364**	–
– Impairment losses of goodwill	**632,373**	52,694
– Net impairment losses/(gains) on financial assets	**84,639**	(64,311)
– Dividend income	**(3,467)**	(17,270)
– Financial cost – net	**1,027,805**	714,350
– Foreign exchange loss – net	**37,185**	18,778
– Other gains/(losses) – others, net	**30,834**	(86,346)
	7,546,162	5,938,418
Changes in working capital:		
– Inventories	**(2,842,902)**	(422,992)
– Trade and other receivables and other current assets	**(2,053,630)**	(2,776,644)
– Trade and other payables and other current liabilities	**1,784,597**	656,185
– Restricted cash	**(129,529)**	(3,266)
Cash generated from operations	**4,304,698**	3,391,701

44 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	
	2018	2017
	RMB'000	*RMB'000*
Net book amount *(Note 9 and 10)*	**46,750**	36,188
(Loss)/gain on disposal *(Note 36)*	**(12,198)**	111,889
	34,552	148,077
Cash receipt in prior year in respect of disposal of PP&E in current year	**–**	(71,863)
Receipt of proceeds from disposal of PP&E and investment properties in prior year	**–**	32,516
Advance of disposal of investment properties&PPE	**57,664**	–
Receivable in respect of disposal of PPE	**(51,660)**	–
Proceeds from disposal	**40,556**	108,730

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Net book amount *(Note 8 and 11)*	**8,120**	62,536
Gain on disposal *(Note 36)*	**15,498**	10,569
	23,618	73,105
Cash receipt in prior year in respect of land use right and intangible assets	**–**	(62,051)
Proceeds from disposal	**23,618**	11,054

44 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	
	2018	2017
	RMB'000	*RMB'000*
Net book amount *(Note 15)*	—	65,971
Gain on disposal	—	10,778
	—	76,749

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Net book amount *(Note 14)*	**1,254,680**	202,656
Gain on disposal *(Note 37)*	**600,608**	206,823
Less: transfer from associates to subsidiaries	**(15,037)**	–
transfer from a subsidiary to an associate	**(1,757,294)**	–
	82,957	409,479
Cash receipt in respect of disposal of a subsidiary in prior year	**24,920**	–
Cash and cash equivalents in subsidiaries disposed	**(3,320)**	(144,071)
Receivable in respect of disposal of a subsidiary	**–**	(24,920)
Proceeds from disposal	**104,557**	240,488

44 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	
	2018	2017
	RMB'000	*RMB'000*
Other payables – Borrowings from other companies	**–**	653,420
Borrowings – repayable within one year	**22,031,361**	13,791,677
Borrowings – repayable after one year	**9,620,298**	2,958,799
Total borrowings	**31,651,659**	17,403,896
Total borrowings as at 31 December 2017		17,403,896
Cash flows		7,760,711
Other non-cash movements		6,487,052
Total borrowings as at 31 December 2018		31,651,659

45 CONTINGENCIES AND GUARANTEES

(a) As of 31 December 2018, the Group has no significant legal claims.

(b) Outstanding loan guarantees

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Outstanding loan guarantees provided to related parties	**3,374**	5,463

As of 31 December 2018, outstanding loan guarantees of approximately RMB3,374,000 (2017: RMB5,463,000) are provided by the Group to certain related parties of the Group.(Note 49 (d)).

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

46 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	
	2018	2017
	RMB'000	*RMB'000*
PP&E	**392,755**	520,097

(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	
	2018	2017
	RMB'000	*RMB'000*
No later than 1 year	**525,919**	293,565
Later than 1 year and no later than 2 years	**375,014**	217,335
Later than 2 years and no later than 5 years	**586,163**	266,043
Later than 5 years	**374,274**	172,652
	1,861,370	949,595

(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	
	2018	2017
	RMB'000	*RMB'000*
No later than 1 year	**54,583**	57,239
Later than 1 year and no later than 2 years	**36,564**	43,565
Later than 2 years and no later than 5 years	**65,174**	73,452
Later than 5 years	**53,701**	72,861
	210,022	247,117

46 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 2018, the Company has already paid Fudan Zhangjiang research and development cost of approximately RMB172,703,000.

47 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:

Acquisition of additional interest in Liaoning Meiya Pharmaceutical Co., Ltd. (遼寧美亞製藥有限公司, "Meiya Pharmaceuticals")

During this period, the Group acquired additional 30% equity interests of Meiya Pharmaceuticals at a purchase consideration of approximately RMB50,368,000 ("the Acquisition"). The carrying amount of the non-controlling interests in Meiya Pharmaceuticals of the Acquisition was approximately RMB18,900,000. The Group recognised a decrease in noncontrolling interests of approximately RMB18,900,000 and a decrease in equity attributable to owners of the Company of approximately RMB31,468,000. The effect of changes in ownership interests of Meiya Pharmaceuticals on the equity attributable to owners of the Company during the year is summarised as follows:

	2018 ***RMB'000***
Carrying amount of non-controlling interests acquired	**18,900**
Consideration paid to non-controlling interests	**(50,368)**
Excess of consideration paid recognised within equity	**(31,468)**

48 BUSINESS COMBINATION

Significant business combinations not under common control

(a) In 2018, the Group acquired 100% equity interests in Cardinal Health (L) Co., Ltd. ("Cardinal Malaysia"), 51% equity interests in SPH Anhui Pharmacy Co., Ltd. ("SPH Anhui") and 100% equity interests in Jiangsu Dazhong Pharmaceutical Logistics Co., Ltd. ("Jiangsu Dazhong") from independent third parties, on which 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 presence in these markets. The goodwill of approximately RMB3,000,566,000 arising from the acquisitions is attributable to the acquired noncontractual customer relationship and economics of scale expected from combining the operations of the Group and Cardinal Malaysia, SPH Anhui and Jiangsu Dazhong. 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 RMB4,118,683,000, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

48 BUSINESS COMBINATION (continued)

Significant business combinations not under common control (continued)

(a) (continued)

Consideration	Cardinal Malaysia, SPH Anhui, & Jiangsu Dazhong *RMB'000*
Cash	3,837,061
Other payable	281,622
Total consideration	4,118,683
Recognised amounts of identifiable assets acquired and liabilities assumed	
Land use right	12,730
PP&E	183,195
Intangible assets	794,473
Long-term investment	6,619
Deferred income tax assets	247,480
Other non-current prepayments	209
Inventories	4,203,295
Trade and other receivables and other current assets	7,848,844
Cash and cash equivalents	431,410
Deferred income tax liabilities	(179,146)
Trade and other payables and other current liabilities	(9,969,410)
Current income tax liabilities	(45,804)
Short-term borrowings	(2,221,139)
Total identifiable net assets	1,312,756
Non-controlling interests	(194,639)
Goodwill	3,000,566
	4,118,683

48 BUSINESS COMBINATION (continued)

Significant business combinations not under common control (continued)

(a) (continued)

The following table summarized the cash outflows from the Acquisition for the year ended 31 December 2018:

	RMB'000
Total cash consideration	**3,837,061**
Less: cash and cash equivalents in the subsidiaries acquired	**(431,410)**
Cash outflows from the acquisitions	**3,405,651**

The revenue and gains for the year included in the consolidated income statement since the acquisition date contributed by the above mentioned entities was approximately RMB21,899,391,000 and RMB8,266,000 respectively. Had the acquisitions occurred on 1 January 2018, the Group's revenue and profit for the year would have been increased by approximately RMB2,449,861,000 and decreased by RMB116,762,000 respectively.

(b) In August 2018, the Group acquired 26.34% equity interests in TECHPOOL Bio-Pharma Co., Ltd. ("Techpool") from an independent third party, on which the Group effectively obtained the right to control its pharmaceutical business together with the previously held 40.8% equity interests in Techpool and consolidated it into the consolidated financial statements.

Before the acquisition, the Group held 40.8% equity interests in Techpool. The Group accounted for the investment using the equity accounting. In August 2018, the Group obtained control over Techpool through acquiring the additional 26.34% equity interests. Hence, Techpool was consolidated by the Group subsequently.

As a result of the acquisition, the Group is expected to increase its presence in these markets. The goodwill of RMB1,399,889,000 arising from the acquisition is attributable to the acquired patent rights and economics of scale expected from combining the operations of the Group and Techpool. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration of approximately RMB2,364,982,000, out of which RMB959,841,000 was paid in cash and RMB1,383,066,000 represented fair value of equity interests transferred from investment in associates for the acquisition of the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

48 BUSINESS COMBINATION(continued)

Significant business combinations not under common control (continued)

(b) (continued)

Consideration	**Techpool** *RMB'000*
Cash	959,841
Other payable	22,075
Fair value of the previously held 40.8% equity investment in Techpool	1,383,066
Total consideration	2,364,982
Recognised amounts of identifiable assets acquired and liabilities assumed	
Land use right	46,708
PP&E	244,742
Intangible assets	282,911
Financial assets at fair value through profit or loss	3,108
Other non-current prepayments	105,111
Deferred income tax assets	29,783
Inventories	214,859
Trade and other receivables and other current assets	626,657
Cash and cash equivalents	248,902
Deferred income tax liabilities	(117,737)
Provision	(63,361)
Trade and other payables and other current liabilities	(179,239)
Total identifiable net assets	1,442,444
Non-controlling interests	(477,351)
Goodwill	1,399,889
	2,364,982

48 BUSINESS COMBINATION(continued)

Significant business combinations not under common control (continued)

(b) (continued)

The following table summarized the cash outflows from the above Acquisition for the year ended 31 December 2018:

	RMB'000
Total cash consideration	**959,841**
Less: cash and cash equivalents in the subsidiary acquired	**(248,902)**
Cash outflows from the acquisitions	**710,939**

The revenue and profit for the year included in the consolidated income statement since the acquisition date contributed by the above mentioned entity was approximately RMB462,873,000 and RMB57,319,000 respectively. Had the acquisitions occurred on 1 January 2018, the Group's revenue and profit for the year would have been increased by approximately RMB703,917,000 and decreased by RMB55,563,000 respectively.

(c) In April 2018, the Group acquired 17.84% equity interests in Liaoning International Pharmaceutical Trading Co., Ltd. ("Liaoning International Pharmaceutical Trading") from an independent third party, on which the Group effectively obtained the right to control its pharmaceutical business together with the previously held 33.90% equity interests in Liaoning International Pharmaceutical Trading and consolidated it into the consolidated financial statements.

Before the acquisition, the Group held 33.90% equity interests in Liaoning International Pharmaceutical Trading. The Group accounted for the investment using the equity accounting. In May 2018, the Group obtained control over Liaoning International Pharmaceutical Trading through acquiring the additional 17.84% equity interests. Hence, Liaoning International Pharmaceutical Trading was consolidated by the Group subsequently.

As a result of the acquisition, the Group is expected to increase its presence in these markets. It also expects to reduce costs through economics of scale. The goodwill of RMB236,242,000 arising from the acquisition is attributable to the acquired noncontractual customer relationship and economies of scale expected from combining the operations of the Group and the above entity. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration of approximately RMB591,673,000, out of which RMB217,629,000 was paid in cash and RMB374,044,000 represented fair value of equity interests transferred from investment in associates for the acquisition of the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

48 BUSINESS COMBINATION (continued)

Significant business combinations not under common control (continued)

(c) (continued)

Consideration	Liaoning International Pharmaceutical Trading *RMB'000*
Cash	217,629
Fair value of the previously held 33.9% equity investment in Liaoning International Pharmaceutical Trading	374,044
Total consideration	591,673
Recognised amounts of identifiable assets acquired and liabilities assumed	
PP&E	68,508
Intangible assets	291,639
Deferred income tax assets	4,887
Inventories	298,830
Trade and other receivables and other current assets	1,750,707
Cash and cash equivalents	246,452
Deferred income tax liabilities	(73,459)
Trade and other payables and other current liabilities	(1,067,116)
Current income tax liabilities	(4,038)
Short-term borrowings	(829,455)
Total identifiable net assets	686,955
Non-controlling interests	(331,524)
Goodwill	236,242
	591,673

48 BUSINESS COMBINATION (continued)

Significant business combinations not under common control (continued)

(c) (continued)

The following table summarized the cash outflows from the Acquisition for the year ended 31 December 2018:

	RMB'000
Total cash consideration	**217,629**
Less: cash and cash equivalents in the subsidiary acquired	**(246,452)**
Cash inflows from the acquisitions	**(28,823)**

The revenue and profit for the year included in the consolidated income statement since the acquisition date contributed by the above mentioned entity was approximately RMB2,783,030,000 and RMB61,454,000 respectively. Had the acquisitions occurred on 1 January 2018, the Group's revenue and profit for the year would have been increased by approximately RMB1,285,593,000 and increased by RMB14,385,000 respectively.

(d) In March 2018, the Group acquired 51% equity interests in Zhejiang Jiuxu Pharmaceutical Co., Ltd. ("Zhejiang Jiuxu") from an independent third party, on which 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 presence in these markets. The goodwill of RMB149,247,000 arising from the acquisition is attributable to the acquired trademark and patent rights expected from combining the operations of the Group and Zhejiang Jiuxu. None of the goodwill recognised is expected to be deductible for income tax purposes.

48 BUSINESS COMBINATION (continued)

Significant business combinations not under common control (continued)

(d) (continued)

The following table summarises the consideration paid for the acquisition of approximately RMB272,165,000, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

Consideration	**Zhejiang Jiuxu** *RMB'000*
Cash	196,350
Other payable	75,815
Total consideration	272,165
Recognised amounts of identifiable assets acquired and liabilities assumed	
Land use right	29,403
PP&E	87,947
Intangible assets	74,047
Deferred income tax assets	135
Inventories	47,043
Trade and other receivables and other current assets	31,691
Cash and cash equivalents	14,012
Deferred income tax liabilities	(22,938)
Trade and other payables and other current liabilities	(19,875)
Current income tax liabilities	(451)
Total identifiable net assets	241,014
Non-controlling interests	(118,096)
Goodwill	149,247
	272,165

48 BUSINESS COMBINATION (continued)

Significant business combinations not under common control (continued)

(d) (continued)

The following table summarized the cash outflows from the Acquisition for the year ended 31 December 2018:

	RMB'000
Total cash consideration	**196,350**
Less: cash and cash equivalents in the subsidiary acquired	**(14,012)**
Cash outflows from the acquisitions	**182,338**

The revenue and profit for the year included in the consolidated income statement since the acquisition date contributed by the above mentioned entity was approximately RMB183,982,000 and RMB30,494,000 respectively. Had the acquisitions occurred on 1 January 2018, the Group's revenue and profit for the year would have been increased by approximately RMB30,490,000 and decreased by RMB690,000 respectively.

49 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.

49 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 Yingdalai Property Co., Ltd. (上海英達萊置業有限公司)	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 lvyuan 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
Sph KDL Health (Shanghai Luoda) Pharmaceutical Co., Ltd. (上藥康德樂羅達(上海)醫藥有限公司)	Former 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)	Former associate
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd. (杭州胡慶餘堂國藥號有限公司)	Associate

49 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

Name of related party	Nature of relationship
Hangzhou Huqingyutang Medicinal Planting Co., Ltd. (杭州胡慶餘堂藥材種植有限公司)	Associate
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
Shanghai Jianer Pharmacy Co., Ltd. (上海健爾醫藥有限公司)	Associate
Shanghai Tsumura Pharmaceuticals Co., Ltd. (上海津村製藥有限公司)	Associate
Liaoning International Pharmaceutical Trading Co., Ltd. (遼寧省醫藥對外貿易有限公司)	Former associate
Guangzhou Ruixun Medicine Co., Ltd. (廣州鋭訊醫藥有限公司)	Associate
Shanghai Huayu Saffron Planting Professional Cooperative (上海華宇西紅花種植專業合作社)	Associate
Shangshi Commercial Factoring Co., Ltd. (上實商業保理有限公司)	Associate

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.

49 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

In 2018 and 2017, 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	
	2018	2017
	RMB'000	*RMB'000*
Sales of goods and vender of services		
Jiangxi Nanhua Medicines Co., Ltd.	**2,061,761**	2,121,350
Shanghai Hutchison Pharmaceutical Co., Ltd.	**79,842**	90,338
Liaoning International Pharmaceutical Trading Co., Ltd.	**51,402**	80,033
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	**48,539**	91,679
Shanghai lvyuan Pharmacy Co., Ltd.	**35,791**	24,389
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	**14,901**	14,871
Shanghai Roche Pharmaceutical Co., Ltd.	**8,336**	2,960
Shanghai Jianer Pharmacy Co., Ltd.	**5,359**	6,385
Sph KDL Health (Shanghai Luoda) Pharmaceutical Co., Ltd	**1,005**	61,425
Others	**14,748**	15,053
	2,321,684	2,508,483

	Year end 31 December	
	2018	2017
	RMB'000	*RMB'000*
Purchase of goods and services		
Shanghai Roche Pharmaceutical Co., Ltd.	**1,895,501**	2,797,568
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	**541,158**	557,569
Guangzhou Ruixun Medicine Co., Ltd.	**322,214**	–
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	**161,479**	126,617
TECHPOOL Bio-Pharma Co., Ltd.	**141,335**	139,085
Shanghai Hutchison Pharmaceutical Co., Ltd.	**75,699**	69,756
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	**43,087**	5,414
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	**27,418**	13,037
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	**22,451**	25,667
Hangzhou Huqingyutang Medicinal Planting Co., Ltd.	**17,437**	13,905
Sph KDL Health (Shanghai Luoda) Pharmaceutical Co., Ltd	**–**	31,630
Shanghai Huaren Pharmaceutical Co., Ltd.	**–**	25,337
Others	**9,992**	1,911
	3,257,771	3,807,496

49 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Rental income		
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	**9,736**	8,656
Shanghai Yingdalai Property Co., Ltd.	**4,256**	4,152
Shanghai Hutchison Pharmaceutical Co., Ltd.	**2,126**	2,034
Shanghai Pharma Group	**2,107**	2,028
	18,225	16,870

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Rental expense		
Shanghai Pharma Group	**21,284**	20,507
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	**12,585**	13,346
Shanghai Indu-Land Property Co., Ltd.	**8,346**	7,283
	42,215	41,136

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
R&D expenditure		
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	**2,090**	13,609

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 2018, the Company has paid Fudan Zhangjiang research and development cost of approximately RMB2,090,000. Up to 31 December 2018, the Group has cumulatively paid approximately RMB172,703,000 to Fudan Zhangjiang with respect to the Agreements.

49 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Interest income		
Shanghai Industrial Group Finance Co., Ltd.	**2,919**	3,811
Interest expense		
Shanghai Industrial Group Finance Co., Ltd.	**77,420**	61,157
Shanghai Industrial Group	**8,922**	2,409
	86,342	63,566

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Net (Decrease)/Increase of the deposit balance		
Shanghai Industrial Group Finance Co., Ltd.	**(113,044)**	8,424
Loan received from related parties		
Shanghai Industrial Group Finance Co., Ltd.	**2,224,500**	1,706,749
Shanghai Industrial Group	**–**	663,970
	2,224,500	2,370,719

49 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Loan repayment to related parties		
Shanghai Industrial Group Finance Co., Ltd.	**(2,353,500)**	(1,798,749)
Shanghai Industrial Group	**(633,450)**	–
	(2,986,950)	(1,798,749)
Discount of bank acceptance Notes		
Shanghai Industrial Group Finance Co., Ltd.	**989,075**	392,627
Discount of trade acceptance Notes		
Shanghai Industrial Group Finance Co., Ltd.	**19,890**	–
Factoring of trade receivables		
Shanghai Industrial Group Finance Co., Ltd.	**1,800,000**	101,751
Shangshi Commercial Factoring Co., Ltd.	**20,024**	–
	1,820,024	101,751

49 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Loan to related parties		
Shanghai Huaren Pharmaceutical Co., Ltd.	**10,700**	1,500
Repayment received from related parties		
Shanghai Huaren Pharmaceutical Co., Ltd.	**4,700**	1,500

(b) Key management compensation

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Salaries	**7,150**	6,942
Bonuses	**18,069**	12,653
Pensions and others	**882**	856
	26,101	20,451

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

Amount due from related parties:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**564,493**	694,530
Other receivables	**46,312**	46,477
Dividends receivable	**41,640**	94,748
Prepayments	**27,427**	4,279
	679,872	840,034

49 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

Amount due from related parties: (continued)

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables due from		
Jiangxi Nanhua Medicines Co., Ltd.	**525,626**	603,008
Shanghai Hutchison Pharmaceutical Co., Ltd.	**22,056**	21,727
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	**4,240**	8,788
Shanghai lvyuan Pharmacy Co., Ltd.	**3,625**	2,989
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	**2,705**	27,530
Shanghai Roche Pharmaceutical Co., Ltd.	**1,071**	520
Sino-American Shanghai Squibb Pharmaceuticals Ltd	**636**	478
Shanghai Huaren Pharmaceutical Co., Ltd.	**8**	1,433
Liaoning International Pharmaceutical Trading Co., Ltd.	**–**	18,838
Sph KDL Health (Shanghai Luoda) Pharmaceutical Co., Ltd	**–**	3,702
Others	**4,526**	5,517
	564,493	694,530
Less: Provision for impairment	**(7,002)**	(7,461)
	557,491	687,069

49 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

Amount due from related parties: (continued)

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Other receivables due from		
Shanghai Overseas United Investment Co., Ltd.	**13,297**	13,297
Shanghai Huayu Saffron Planting Professional Cooperative	**11,472**	–
Shanghai Huaren Pharmaceutical Co., Ltd.	**7,687**	1,500
Shanghai Roche Pharmaceutical Co., Ltd.	**4,870**	23,689
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd.	**1,461**	1,461
Others	**7,525**	6,530
	46,312	46,477
Less: Provision for impairment	**(7,496)**	(7,392)
	38,816	39,085

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.

Aging analysis of the trade and other receivables due from related parties are as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Less than 3 months	**570,677**	703,852
3 months to 6 months	**8,965**	12,564
6 months to 12 months	**7,295**	13,317
1 year to 2 years	**13,311**	9
Over 2 years	**10,557**	11,265
	610,805	741,007

49 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

Amount due from related parties: (continued)

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Prepayments due from		
Shanghai Roche Pharmaceutical Co., Ltd.	**16,077**	1,019
Shanghai Huayu Saffron Planting Professional Cooperative	**9,880**	–
Jiangxi Nanhua Medicines Co., Ltd.	**–**	2,318
Others	**1,470**	942
	27,427	4,279

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Dividends receivable		
Sino-American Shanghai Squibb Pharmaceuticals Ltd	**40,190**	93,298
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	**1,450**	1,450
	41,640	94,748
Less: Provision for impairment	**(104)**	–
	41,536	94,748

49 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

Amount due to related parties:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade Payables	**311,977**	357,307
Other Payables	**241,704**	708,495
Dividends Payable	**8,079**	8,079
Advances	**–**	379
Contract Liabilities	**1,500**	—
Interests Payable	**1,226**	3,880
	564,486	1,078,140

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade payables due to		
Shanghai Roche Pharmaceutical Co., Ltd.	**222,002**	248,572
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	**37,663**	36,255
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	**15,976**	5,317
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	**10,556**	6,643
Hangzhou Huqingyutang Medicinal Planting Co.,Ltd.	**7,817**	–
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	**5,392**	8,035
Guangzhou Ruixun Medicine Co., Ltd.	**4,826**	–
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	**4,227**	2,614
Shanghai Tsumura Pharmaceuticals Co., Ltd.	**1,867**	–
Shanghai Hutchison Pharmaceutical Co., Ltd.	**258**	255
TECHPOOL Bio-Pharma Co., Ltd.	**–**	45,741
Sph KDL Health (Shanghai Luoda) Pharmaceutical Co., Ltd	**–**	1,186
Others	**1,393**	2,689
	311,977	357,307

49 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

Amount due to related parties: (continued)

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Other payables due to		
Shanghai Shangshi (Group) Co., Ltd.	**225,000**	39,200
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	**9,066**	9,324
Shanghai Pharma Group.	**4,685**	4,000
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd.	**2,135**	2,135
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	**388**	287
Shanghai Industrial Group	**–**	653,420
Others	**430**	129
	241,704	708,495

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.

Aging analysis of the trade and other payables due to related parties are as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Less than 3 months	**485,132**	1,004,777
3 months to 6 months	**9,694**	701
6 months to 12 months	**2,853**	42,222
1 year to 2 years	**39,293**	3,925
Over 2 years	**16,709**	14,177
	553,681	1,065,802

49 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

Amount due to related parties: (continued)

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Advances due to		
Liaoning International Pharmaceutical Trading Co., Ltd.	–	241
Jilin Yatai Huashi Pharmaceutical Co. Ltd.	–	99
Others	–	39
	–	379

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Contract Liabilities		
Jiangxi Nanhua Medicines Co., Ltd.	**785**	—
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	**374**	—
Jilin Yatai Huashi Pharmaceutical Co. Ltd.	**302**	—
Liaoning International Pharmaceutical Trading Co., Ltd.	**–**	—
Others	**39**	—
	1,500	—

	As at 31 December	
	2018	2017
	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

49 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

Amount due to related parties: (continued)

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Interests payable		
Shanghai Industrial Group	**–**	2,384
Shanghai Industrial Group Finance Co., Ltd	**1,226**	1,496
	1,226	3,880

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current borrowings		
Shanghai Industrial Group Finance Co., Ltd	**929,500**	1,058,500
Deposit		
Shanghai Industrial Group Finance Co., Ltd	**11,404**	–
Cash at bank		
Shanghai Industrial Group Finance Co., Ltd	**1,878,890**	1,991,934

49 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Outstanding loan guarantees provided by the Group to Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	**3,374**	5,463

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Outstanding loan guarantees given to the Group by		
Shanghai Industrial Group Finance Co., Ltd	**–**	12,000
Shanghai Pharma Group	**–**	700
	–	12,700

(e) Other transactions with related party

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Subsidiary disposed by the Group to		
Shanghai Pharma Group	**–**	218,100
Subsidiaries acquired by the Group from		
Shanghai Pharma Group	**280,793**	–

50 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

COMPANY BALANCE SHEET

	Note	As at 31 December	
		2018	2017
		RMB'000	*RMB'000*
Assets			
Non-current assets			
Land use rights		**24,995**	25,730
Property, plant and equipment		**87,364**	88,154
Intangible assets		**61,270**	56,949
Investments in subsidiaries		**19,397,787**	17,873,094
Investments in associates		**1,183,484**	1,542,009
Available-for-sale financial assets		**—**	213
Financial assets at fair value through profit or loss		**24,890**	–
		20,779,790	19,586,149
Current assets			
Trade and other receivables and other current assets		**10,613,424**	7,339,806
Cash and cash equivalents		**1,617,375**	1,667,209
		12,230,799	9,007,015
Total assets		**33,010,589**	28,593,164
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		**2,842,089**	2,688,910
Share premium	*Note (a)*	**18,782,879**	16,406,754
Other reserves	*Note (a)*	**1,127,578**	960,759
Retained earnings	*Note (a)*	**1,749,651**	1,325,652
Total equity		**24,502,197**	21,382,075

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

COMPANY BALANCE SHEET (continued)

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
Liabilities			
Non-current liabilities			
Borrowings		**2,997,306**	1,999,257
Deferred income tax liabilities		**5,860**	5,860
Other non-current liabilities		**34,245**	43,551
		3,037,411	2,048,668
Current liabilities			
Trade and other payables and other current liabilities		**2,866,832**	3,062,421
Contract Liabilities		**4,207**	—
Borrowings		**2,599,942**	2,100,000
		5,470,981	5,162,421
Total liabilities		**8,508,392**	7,211,089
Total equity and liabilities		**33,010,589**	28,593,164

50 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 2017	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
Change in accounting policy	–	292	(2,771)	2,771	2,622
Balance at 1 January 2018	16,406,754	940,701	—	20,350	1,328,274
Issue of new H shares	**2,376,125**	**–**	**—**	**–**	**–**
Comprehensive income					
Profit for the year	**–**	**–**	**—**	**–**	**1,667,898**
Other comprehensive income					
Appropriation to statutory reserves	**–**	**166,527**	**—**	**–**	**(166,527)**
Dividends	**–**	**–**	**—**	**–**	**(1,079,994)**
At 31 December 2018	**18,782,879**	**1,107,228**	**—**	**20,350**	**1,749,651**

51 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors, supervisors and chief executives' emoluments

The remuneration of every director and the chief executive director ("the president") of the Company for the year ended 31 December 2018 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 president)	**1,100**	**2,870**	**3**	**3,973**
Mr. Li Yongzhong	**950**	**2,885**	**108**	**3,943**
Mr. Shen Bo	**800**	**2,579**	**110**	**3,489**
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**
	3,760	**8,334**	**221**	**12,315**

The remuneration of every director and the chief executive director ("the president") 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 president)	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
	3,760	5,444	211	9,415

52 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

As at 31 December 2018, 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	4,598,668	100	–	Distribution of pharmaceutical products in the PRC
SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	PRC, 14 June 1993	1,300,000	–	100	Distribution of pharmaceutical products in the PRC
China International Pharmaceutical (Holdings) Limited (中國國際醫藥(控股)有限公司)	HK, 31 October 2003	22,508	100	–	Distribution of pharmaceutical products in the HK
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	–	Pharmaceutical products manufacture and trading in the PRC
Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd. (上海中西三維藥業有限公司)	PRC, 01 December 1995	545,800	65	35	Pharmaceutical products manufacture and trading 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	97	–	Pharmaceutical products 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, 01 November 1993	78,790	57	19	Pharmaceutical products manufacture and trading in the PRC
SPH Dong Ying (Jiangsu) Pharmaceutical Co., Ltd. (上藥東英(江蘇)藥業有限公司)	PRC, 01 January 1975	141,322	–	90	Pharmaceutical products manufacture and trading in the PRC

52 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 Traditional Chinese Medicine Co., Ltd. (上海市藥材有限公司)	PRC, 28 April 1992	1,008,470	100	–	Pharmaceutical products manufacture and trading in the PRC
Shanghai Zhonghua Pharmaceutical Co., Ltd. (上海中華藥業有限公司)	PRC, 10 March 2009	93,642	100	–	Pharmaceutical products manufacture and trading in the PRC
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	68	–	Pharmaceutical products manufacture and trading in the PRC
Chiatai Qingchunbao Pharmaceutical Co., Ltd. (正大青春寶藥業有限公司)	PRC, 06 November 1992	128,500	20	55	Pharmaceutical products manufacture and trading in the PRC
Hangzhou Huqingyutang Pharmaceutical Co., Ltd. (杭州胡慶餘堂藥業有限公司)	PRC, 01 January 1999	53,160	–	51	Pharmaceutical products manufacture and trading in the PRC
Xiamen Tradiitonal Chinese Medicine Co., Ltd. (廈門中藥廠有限公司)	PRC, 11 September 2002	84,030	–	61	Pharmaceutical products 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	Pharmaceutical products manufacture and trading in the PRC
SPH TSUMURA PHARMACEUTICALS CO., LTD. (上海上藥津村製藥科技有限公司)	PRC, 13 July 2016	600,000	–	51	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	Pharmaceutical products manufacture and trading in the PRC

52 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
Zeus Investment Limited	Hongkong, 24 August 2016	AUD 316,920	–	60	Investment holding practices in Australia
SHANGHAI SUNVE BIO-TECH CO LTD. (上海三維生物技術有限公司)	PRC, 29 December 1995	USD15,343	–	100	Pharmaceutical products 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	1	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 Sine Tianping Pharmaceutical Company Ltd. (上海信誼天平藥業有限公司)	PRC, 07 May 1998	154,700	–	100	Pharmaceutical products manufacture and trading in the PRC
SHANGHAI SINE JINZHU PHARMACY CO., LTD.;Shanghai Sine Jinzhu Pharmacy Co., Ltd. (上海信誼金朱藥業有限公司)	PRC, 01 December 1993	9,072	–	100	Pharmaceutical products manufacture and trading in the PRC
Shanghai Sine Wanxiang Pharmaceutical Co., Ltd. (上海信誼萬象藥業股份有限公司)	PRC, 25 January 1999	100,000	–	100	Pharmaceutical products manufacture and trading in the PRC
SHANDONG SINE PHARMACEUTICAL CO LTD (山東信誼製藥有限公司)	PRC, 09 April 2013	65,170	–	55	Pharmaceutical products manufacture and trading in the PRC
Shanghai New Asiatic Medicine Industry Minhang Co., Ltd. (上海新亞藥業閔行有限公司)	PRC, 06 July 1989	57,500	–	100	Pharmaceutical products manufacture and trading in the PRC

52 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
Liaoning Meiya Pharmaceutical Co.,Ltd. (遼寧美亞製藥有限公司)	PRC, 27 March 1996	130,000	–	100	Pharmaceutical products manufacture and trading in the PRC
Shanghai Zhongxi Pharmaceutical Co., Ltd. (上海上藥中西製藥有限公司)	PRC, 18 October 1989	148,200	–	90	Pharmaceutical products manufacture and trading in the PRC
Shanghai Huayu Pharmaceutical Co., Ltd. (上海上藥華宇藥業有限公司)	PRC, 17 December 1998	270,060	–	100	Pharmaceutical products manufacture and trading in the PRC
Shanghai Lei Yun Shang Pharmaceutical Co., Ltd. (上海雷允上藥業有限公司)	PRC, 13 November 1998	465,070	–	100	Pharmaceutical products manufacture and trading in the PRC
SPH Shenxiang Health Pharmaceutical Co., Ltd. (上海上藥神象健康藥業有限公司)	PRC, 10 March 2017	150,000	–	100	Pharmaceutical products manufacture and trading in the PRC
SPH Xing Ling Sci.&Tech. Pharmaceutical Co., Ltd. (上海上藥杏靈科技藥業股份有限公司)	PRC, 21 September 1998	80,000	–	86	Pharmaceutical products manufacture and trading in the PRC
Zhejiang Jiuxu Pharmaceutical Co., Ltd. (浙江九旭藥業有限公司)	PRC, 27 March 2003	25,000	–	51	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	–	78	Pharmaceutical products manufacture and trading in the PRC
Chifeng Aike Pharmaceutical Technology Co., Ltd. (赤峰艾克製藥科技股份有限公司)	PRC, 27 July 2001	40,900	–	58	Pharmaceutical products manufacture and trading in the PRC

52 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 (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	380,000	100	–	Development, manufacture and distribution of medicine in the PRC
Shanghai Huiyong Medicine Research Co., Ltd. (上海惠永藥物研究有限公司)	PRC, 10 May 2018	100,000	70	–	Development of medicine in the PRC
Zhejiang Shanghai Xinxin Pharma Co., Ltd. (浙江上藥新欣醫藥有限公司)	PRC, 12 January 2005	37,880	–	67	Distribution of pharmaceutical products in the PRC
Ningbo Pharmaceutical Co., Ltd. (上藥控股寧波醫藥股份有限公司)	PRC, 05 July 1994	250,000	–	64	Distribution of pharmaceutical products in the PRC
Shanghai Pharmaceutical Shanhe Wuxi Co., Ltd. (上藥控股江蘇股份有限公司)	PRC, 26 April 1993	62,720	–	80	Distribution of pharmaceutical products in the PRC
Guang Zhou Z.S.Y Pharmaceutical Co., Ltd. (上藥控股廣東有限公司)	PRC, 08 January 1998	76,880	–	83	Distribution of pharmaceutical products in the PRC
SPH Shan Dong Pharmaceutical Co., Ltd. (上藥控股山東有限公司)	PRC, 18 April 2014	80,000	–	75	Distribution of pharmaceutical products in the PRC
Fujian Pharmaceutical Co.,Ltd. (福建省醫藥有限責任公司)	PRC, 27 December 1984	109,716	–	49 *(note)*	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.

52 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
Cardinal Health (Shanghai) Pharmaceutical Co., Ltd. (上藥康得樂(上海)醫藥有限公司)	PRC, 13 August 2004	98,634	–	100	Distribution of pharmaceutical products in the PRC
SHANGHAI HUASHI PHARMACEUTICAL CO., LTD. (上海華氏大藥房有限公司)	PRC, 27 October 1994	250,000	–	100	Retailing of pharmaceutical products in the PRC
Shanghai Pharma Health Commerce Co., Ltd (上海醫藥大健康雲商股份有限公司)	PRC, 18 March 2015	1,333,375	5	93	Distribution of pharmaceutical products in the PRC
SPH Keyuan Xinhai Pharmaceutical Hubei Co. Ltd. (上藥科園信海醫藥湖北有限公司)	PRC, 16 November 2010	100,000	–	60	Distribution of pharmaceutical products in the PRC
SPH Keyuan Xinhai Pharmaceutical Shanxi Co., Ltd. (上藥科園信海陝西醫藥有限公司)	PRC, 26 October 1996	100,000	–	85	Distribution of pharmaceutical products in the PRC
Henan Kangxin Medical Co., Ltd. (河南省康信醫藥有限公司)	PRC, 07 September 1999	100,000	–	70	Distribution of pharmaceutical products in the PRC
China Medical Foreign Trading Liao Ning Co.Ltd. (遼寧省醫藥對外貿易有限公司)	PRC, 18 June 1994	282,013	52	–	Distribution of pharmaceutical products in the PRC
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, 06 May 1994	USD134,697	–	30	Pharmaceutical products manufacture and trading 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

www.sphchina.com

SPH 上海医药
SHANGHAI PHARMA

Shanghai Pharmaceuticals Holding Co., Ltd.*